

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

Türkiye Halk Bankası Anonim Şirketi

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

1 August 2016

*This report contains “Limited Review Report”
comprising 2 pages and; “Unconsolidated Financial
Statements and Related Disclosures and Footnotes”
comprising 91 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 unconsolidated statements of financial position of Türkiye Halk Bankası AŞ (the "Bank") as at 30 June 2016 and the related unconsolidated statement of income, unconsolidated statement of income and expense items accounted under shareholders' equity, unconsolidated statement of changes in shareholders' equity and unconsolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes to the unconsolidated financial information 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 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 unconsolidated 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 unconsolidated 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

1 August 2016
Istanbul, Türkiye

Additional paragraph for convenience translation to English:

As explained in Section 3.1, the accompanying unconsolidated 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 UNCONSOLIDATED FINANCIAL REPORT
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 and E-mail Address:
Website: www.halkbank.com.tr
E-mail Address: halkbank.ir@halkbank.com.tr

The unconsolidated 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 BANK
- Section Two** : UNCONSOLIDATED FINANCIAL STATEMENTS
- Section Three** : EXPLANATIONS ON ACCOUNTING POLICIES OF THE BANK
- Section Four** : INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- Section Five** : EXPLANATIONS AND NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- Section Six** : LIMITED REVIEW REPORT
- Section Seven** : INTERIM ACTIVITY REPORT

Unless otherwise indicated, these unconsolidated financial statements and explanatory footnotes and disclosures as of 30 June 2016 are prepared in thousand Turkish Lira and they have been independently audited and presented below in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Banking Regulation and Supervision Agency regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and related communiqués and interpretations including the Banks' records.

İstanbul, 1 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 Chariman 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 Officer</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 : Arman Acar / Senior Specialist
Tel No : 0216 503 57 59
Fax No : 0212 340 09 90

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

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

SECTION I: GENERAL INFORMATION ABOUT THE BANK

I. ESTABLISHMENT DATE OF THE BANK, INITIAL ARTICLES OF ASSOCIATION, HISTORY OF THE BANK INCLUDING THE CHANGES OF THESE ARTICLES

Türkiye Halk Bankası Anonim Şirketi (the “Bank” or “Halkbank”) was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank.

II. CAPITAL STRUCTURE OF THE BANK, SHAREHOLDERS THAT RETAIN DIRECT OR INDIRECT CONTROL AND MANAGEMENT OF THE BANK SOLELY OR TOGETHER, CHANGES ABOUT THESE ISSUES DURING THE YEAR AND DISCLOSURES ABOUT THE GROUP

The capital of the Bank is controlled directly by the Republic of Turkey Prime Ministry Privatization Administration.

As of 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 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 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.

⁽²⁾ The shares of the Prime Ministry Privatization Administration amounting TRY 550 have been included in Public shares. With that shares, the total shares amounting TRY 638.826 that held by the Privatization Administration is the 51,11% of the total shares.

⁽³⁾ TRY 83 of the shares which are among the “Other Shareholders” group belong to our shareholders whose shares do not trade on the exchange (though these shareholders have been dematerialized them in their own accounts) while TRY 2 of which belong to our shareholders whose shares are monitored under the DESA in the presence of MKK due to the ongoing legal action.

According to Turkish Commercial Code, 3rd Sub-article added to Article 2nd of the Law No: 6327 and 4603 dated 13 June 2012, The Privatization High Council public shares are controlled and represented by the Minister until the sales completion of these shares.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 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 BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE BANK, IF ANY ⁽¹⁾

Name	Title
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors/Independent Member of the Board of Director/ Chairman of the Audit Committee/ 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 ATILLA	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 UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 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 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 BANK, IF ANY (continued)

- a) The professionals to the Bank's top management who have assigned to their position in 2016 are listed with titles and dates of assignment.

Name	Title	Assignment Date
Cenap AŞCI	Member of the Board of Directors	31 March 2016
Mehmet Ali GÖKÇE	Member of the Board of Directors	31 March 2016
Mehmet AYTEKİN	Member of the Board of Directors	31 March 2016
Doç.Dr.Ömer AÇIKGÖZ	Member of the Board of Directors	31 March 2016
Yahya BAYRAKTAR	Member of the Board of Directors	31 March 2016
Zekeriya KAYA	Member of the Board of Directors	31 March 2016

- b) The professionals from the Bank's top management who have left their position in 2016 are listed with titles and dates of leaving.

Name	Title	Unassignment Date
Süleyman KALKAN	Vice President of the Board of Director/ Independent Member of the Board of 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 Director	31 March 2016
Dr.Nurzahit KESKİN	Member of the Board of Director	31 March 2016
Dr.Ahmet YARIZ	Member of the Board of Director	31 March 2016
Ali ARSLAN	Member of the Board of Director	31 March 2016
Murat Uysal	Vice President	9 June 2016

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

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

SECTION I: GENERAL INFORMATION ABOUT THE BANK (continued)

IV. INFORMATION ABOUT THE PERSONS AND INSTITUTIONS THAT HAVE QUALIFIED SHARES ATTRIBUTABLE TO THE BANK

Except for the Prime Ministry Privatization Administration, no person or institute has any qualified shares attributable to the Bank.

V. SUMMARY ON THE BANK'S FUNCTIONS AND LINES OF ACTIVITY

a) General information about the Bank:

Türkiye Halk Bankası Anonim Şirketi was established in Turkey in accordance with the Law No: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank.

b) Law numbered 4603 regarding the "Law on Türkiye Cumhuriyeti Ziraat Bankası, Türkiye Halk Bankası Anonim Şirketi and Türkiye Emlak Bankası Anonim Şirketi", was prepared within the framework of the macro-economic program for the period 2000-2002. The purpose of the law is to modernize the operations of the banks to arrive at a point where the requirements of the international norms and international competition can both be reached and it also aims to sell the majority of the banks' shares to individuals or legal entities in the private sector. The Bank revised its charter of establishment, elected a new board of directors and increased its nominal capital from TRY 250.000 to TRY 1.250.000 in the extraordinary general assembly held on 14 April 2001. Within the scope of the restructuring process, the Bank received government bonds in settlement of the accumulated specific duty losses and the Bank's whole specific duty loss receivable was thus eliminated as at 30 April 2001. In addition, a significant number of personnel were encouraged to sign new contracts and transferred to other government institutions.

c) According to Article 2.2 of Law No: 4603, subsequent to the completion of the restructuring procedures, the procedures involved in sale of the shares of the Bank were to be concluded under the provisions of Law No: 4046 based on the "Regulation of Privatization Applications and Amendment of Some Laws and Decrees with the Force of Law". The procedures relating to restructuring and sale of the shares were to be completed within three years (until 25 November 2003) as of the effective date of the related law. However, by Law No: 5230 dated 31 July 2004, the term "3 years" in Article 2.2 of Law numbered 4603 was previously amended to "5 years" and subsequently by Law No: 5572 dated 10 January 2007 the related term was amended to "10 years". As a result of this amendment, the privatization period of the Bank was extended. The Council of Ministers has the authority to extend this period by the half of that period for one time only. The Council of Ministers extended by the half of that "10 years" period published in the Official Gazette by the Decree numbered 2010/964 and dated 6 November 2010.

c.1 When the related Decree numbered 2006/69 and dated 11 August 2006 was in force, the Privatization High Council public shares were transferred to the Privatization Administration and 99.9% of the Bank shares were decided to be sold before 25 May 2008 using the block sale method. By the Privatization High Council's decree numbered 2006/4258 and dated 29 November 2006, 13th Department of Council of State decided to cease the execution of the Decree numbered 2006/69 dated 11 August 2006. Thereupon, legal regulation numbered 5572 was executed and as per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration on 11 August 2006, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the Bank corresponding to 24.98% was completed in the first week of May 2007 and Halkbank shares were traded on Borsa İstanbul AŞ as of 10 May 2007 with the base price of TRY full 8,00. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

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

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

SECTION I: GENERAL INFORMATION ABOUT THE BANK (continued)

V. SUMMARY ON THE 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 Bank. Insolvent Pamukbank TAŞ was a private sector deposit bank established by Çukurova İthalat ve İhracat TAO, Karamehmetler Scrip Company and more than 500 shareholders. Pamukbank started its private banking operations as an incorporated company in accordance with the decision of the Council of Ministers numbered 4/4573 and dated 5 March 1955. According to the decision of the Banking Regulation and Supervision Agency numbered 742 published in the Official Gazette numbered 24790 and dated 19 June 2002 including 3rd and 4th Sub-articles in Article 14 of the Banking Law No: 4389, the shareholders rights excluding dividends, management and supervision of Pamukbank were transferred to the Saving Deposit Insurance Fund as of 18 June 2002.
- e) The Bank's service activities and operating areas: The Bank's operating areas include, commercial financing and corporate banking, fund management operations, retail banking and credit card operations.

As of 30 June 2016, the Bank operates with a total of 961 branches consisting of 956 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic branches include 35 satellite branches. The Bank has also 3 representative office in England, Iran and Singapore.

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

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiary, Bileşim Alternatif Dağ. Kan. AŞ, is not accounted in the consolidated financial statements. In the financial statements prepared in accordance with International Financial Reporting Standarts, Bileşim Alternatif Dağ. Kan. AŞ is included in the scope of consolidation by-line by-line method.

The Bank's subsidiaries Halk Sigorta AŞ, Halk Hayat Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD Skopje, Halk Faktoring AŞ, Halkbank A.D. Beograd are included in the scope of consolidation by line-by-line method.

Demir-Halkbank NV ("Demir Halk Bank"), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Turk P and I Sigorta A.Ş which are qualified as investments in associates, are presented in the financial statements based on equity method of accounting.

There is no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

Kredi Kayıt Bürosu AŞ and Bankalararası Kart Merkezi AŞ are not consolidated in the financial statements because the other banks' shares are equal and thus, the Bank has no control and has no important activity.

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

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

SECTION I: GENERAL INFORMATION ABOUT THE BANK (continued)

VII. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDER'S EQUITY BETWEEN THE BANK AND ITS SUBSIDIARIES OR THE REIMBURSEMENT OF LIABILITIES

Immediately transfer of the shareholder's equity between the Bank and its subsidiaries is not in question. Dividend distribution from shareholders equity is done according to related regulations.

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Bank and its subsidiaries. The Bank charge or pay cost of the services according to the service agreements done between the Bank and its subsidiaries.

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

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

SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The unconsolidated financial statements, related notes and explanations in this report are prepared in accordance with the Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards (“TFRS”), Communiqué on “Banks’ Accounting Practice and Maintaining Documents” and other communiqués and interpretations of Banking Regulation and Supervision Agency (“BRSA”) on accounting and financial reporting.

The accounting policies applied and the valuation methods used in the preparation of the financial statements are expressed in detail below.

Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards (“IFRS”), may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

II. EXPLANATIONS ON THE STRATEGY OF USE OF FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

a) The Bank’s strategy on financial instruments:

Due to its historical mission, the Bank focuses on granting loans to Small and Medium Size Enterprises (SMEs) and craftsmen besides corporate, commercial and individual segmented firms. In addition to the main fund source deposits, the Bank can raise funds from foreign borrowing and money market borrowing.

The Bank follows the developments in the markets and uses funds raised in most yielding areas. The strategies of the Bank are evaluated in the weekly Asset and Liability Committee meetings.

b) The Bank’s explanations on foreign currency transactions:

In the statutory records of the Bank, transactions accounted in foreign currencies (currencies except for TRY) are converted into TRY by using the prevailing exchange rates at the transaction dates. Foreign currency monetary asset and liability items are converted into TRY by using the prevailing exchange rate at the balance sheet date. Non-monetary items in foreign currencies carried at fair value are converted into TRY by using the exchange rates at the date of which the fair value is determined. Exchange differences arising from the conversions of monetary foreign currency items and collections of foreign currency transactions are reflected to the income statement.

The financial statements of the foreign branches of the Bank are prepared in the currency of the primary economic environment in which the entity operates (functional currency). The financial statements of foreign branches are expressed in TRY which is the functional currency of the Bank and the presentation currency of the financial statements.

Assets and liabilities of the foreign branches of the Bank are converted into TRY by using the prevailing exchange rates at the balance sheet date. Income and expenses are converted by at exchange rates at the dates of the transactions.

The Bank started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank A.D. Beograd, Halk Banka AD, Skopje, Demirhalkbank NV are foreign investments that are recognized under fair value accounting as hedged item, in compliance with “TAS 39 Financial Instruments: Recognition and Measurement”. Accordingly, the effective portion of the foreign exchange differences is recorded under income statement in the current period.

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

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

SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

III. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

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

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.

IV. INTEREST INCOME AND EXPENSES

Interest income and expenses are recognized on an accrual basis using the effective interest method (the rate that equals the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 “Financial Instruments: Recognition and Measurement”.

In accordance with the related legislation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as an interest income only when they are collected.

V. FEES AND COMMISSION INCOME AND EXPENSES

Banking service income is recorded in the income in the period when they are collected. Prepaid fees and commission income obtained from cash and non-cash loans are recorded in the related period by using discounting method with internal rate of return according to the loan maturity within the matching principle.

Fees and commission expenses on borrowings that are paid to other institutions and incorporations for financial liabilities comprise operational costs. This fees and commission expenses are booked under prepaid expenses and transferred to expense accounts in the related periods by using the straight accrual method according to the financial borrowing maturity within the matching principle.

VI. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS

Financial instruments comprise financial assets, financial liabilities and derivative instruments. The financial assets are included in the balance sheet of the Bank, if the Bank is a legal party of these financial assets.

Financial assets mainly constitute the majority of the commercial activities and operations of the Bank. These instruments have the ability to expose, affect and diminish the risks of liquidity, credit and interest in the financial statements.

Fair value is the amount for which an asset could be exchanged or a liability could be settled, between knowledgeable willing parties in an arm’s length transaction. Market value is the amount obtainable from the sale or payable on the acquisition of a financial instrument in an active market, if one exists.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VI. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS (continued)

The estimated fair values of financial assets have been determined by the Bank using the available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Hence, estimations presented in this report may not be same with the prices in the current market conditions in the case of assets disposals. Book values of some financial assets (which equals to their costs) are assumed to approximate to their fair values due to their short term nature.

The financial instruments and their valuations methods based on their classification on the financial statements are set out below.

1. Cash and banks

Cash and bank balances in foreign currencies are valued by using the Bank's current period end exchange rates. The presented values of cash in TRY, foreign currency cash and banks at balance sheet are the estimated fair values of these assets.

2. Financial assets at fair value through profit and loss

2.1. Financial assets held for trading

Financial assets held for trading are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are financial assets included in a portfolio with a pattern of short-term profit taking.

Financial Assets Held for Trading are presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. Valuation gains or losses are recognized in the profit/loss accounts. Interests gained from the retention of held for trading financial assets are recognized under the interest income and dividends gained are recognized under the dividend income in the income statement. If these assets are disposed of prior to their maturity periods, loss or gain from the disposal is recognized in the income statement by using interest income/expense accounts under profit/loss from the capital market operations.

2.2. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represent the financial assets at fair value through profit and loss at the initial recognition and those are not obtained for trading purposes. Recognition of fair value differences of those assets are similar to the financial asset held for trading.

The Bank has not any financial assets at fair value through profit and loss as of 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 Bank as investments held to maturity; however, they cannot be classified under this classification for two years for not satisfying the requirements of the related classification.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VI. 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 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: 29267 dated last 14 February 2015 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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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VI. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS (continued)

6. Associates and subsidiaries:

Turkish Lira denominated associates and subsidiaries have been valued based on deducted additions of funds such as revaluation funds, permitted additions to capital under statutory purposes, from the cost of the indexed remaining balances of associate and subsidiary based on the capital increase payment dates until 31 December 2004. Cost of foreign currency associates purchased before 1 January 2005 included their restated values by the occurred indexes at transaction dates until 31 December 2004.

As of 1 January 2012, the Bank changed its accounting policy of Turkish Lira denominated subsidiaries, as of 18 June 2015 the Bank changed its accounting policy of foreign currency denominated subsidiaries and associates, and started to measure related subsidiaries and associates with their fair values. Foreign currency denominated associates and subsidiaries are converted into TRY by using the exchange rates at the date of which the fair value is determined. Fair values of the subsidiaries, whose shares are unquoted on the active market (stock exchange) are determined with the valuation reports that are prepared by the independent valuation company and fair values of the subsidiaries, whose shares are quoted in on active market (stock exchange) are determined by taking into account of book values at stock exchange, valuation differences are added to the subsidiaries values and correspondingly recorded in the “Marketable securities revaluation fund” under the shareholders’ equity.

VII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Bank reviews the carrying amounts of its financial asset or group of financial assets whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Bank determines the related impairment amount.

A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event (“loss event”) subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of their high probability of incurrence, future expected losses are not recognized.

Impairment losses attributable to the investments held to maturity are measured as the difference between the present values of estimated future cash flows discounted using the original interest rate of financial asset and the book value of asset. The related difference is recognized as a loss and it decreases the book value of the financial asset. At subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

When a decline occurs in the fair values of the “financial assets available for sale” of which value decreases and increases are recognized in equity, the accumulated profit/loss that had been recognized directly in equity is transferred from equity to period profit or loss. If, in a subsequent period, the fair value of the related asset increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS (continued)

For loans and receivables; the Bank's management performs consistent loan portfolio reviews and if any doubts on the collectability of the loans arise, the related loans are classified in accordance with legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions ("Communiqué")" published in the Official Gazette numbered 26333 and dated 1 November 2006. The Bank does not limit the provision amount for the non-performing loans recognized before 1 January 2008 with the minimum rates defined in the related regulation and allocates specific provision for such loan amounts in full and they are recognized in the statement of income. Bank sets specific provision for non-performing loans recognized after 1 January 2008 through deducting the collateral amount, calculated in accordance with the related coefficient rates defined in the Article 10 of the related legislation, from the follow-up amount and setting provision between 20% and 100% by taking the minimum rates in the Communiqué into consideration for the outstanding follow-up risk amount excluding the surety ship type of collaterals defined in the Article 9 of the related legislation. Indemnified non-cash loans extended to follow-up entities are added to the follow-up risk amount after conversion by credit conversion rates defined in the Communiqué. The Bank sets provision between 20% and 100% by taking the minimum rates in the Communiqué into consideration for the outstanding follow-up risk amount that are calculated by deducting the collateral amount, and calculated in accordance with the related coefficient rates defined in the Article 10 of the related legislation. Collections made related to those loans are offset against the capital and interest collections are recognized under the "Interest Received from Non-performing Loans" item of the income statement.

The Bank is providing 1% general allowance for cash loans and other receivables; 0,2% general allowances for non-cash loans; %2 general allowance for cash loans under close monitoring and %0,4 general allowance for loans. 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 made 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 in 2015, the Bank has begun to allocate 1% and 2% rate of general allowances for all consumer loans except for real estate loans instead of 4% and 8%. In accordance with the communiqué "The Change in the Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" published on 8 October 2013 No: 28789 Official Gazette, as of the recent month end prior to the effective date of the Communiqué, the Bank cancelled the differences in general allowances for all consumer loans except for real estate loans in both groups with the rates stated.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VIII. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability shall be offset and the net amount shall be presented in the balance sheet only when a party currently has a legally enforceable right to set off the recognized amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

IX. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS (REPOS) AND TRANSACTIONS ON SECURITIES LOANED

Marketable securities subject to repurchase agreements are classified under “Available for Sale Financial Assets” or “Held to Maturity Investments” in the Bank’s portfolio and they are valued according to the valuation principles of the related portfolios.

Funds obtained from the repurchase agreements are recognized under “Funds from Repurchase Transactions” account in liabilities. For the difference between the sale and repurchase prices determined by the repo agreements for the period; expense accrual is calculated using the internal rate of return method.

Reverse repo transactions are recognized under the “Receivables from Reverse Repo Transactions” account. For the difference between the purchase and resale prices determined by the reverse repo agreements for the period; income accrual is calculated using the internal rate of return method.

X. EXPLANATIONS ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets that meet the criteria to be classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Depreciation of such assets is ceased and they are presented separately in the balance sheet. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active programme to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year.

Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of a bank that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

XI. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, there is no goodwill recorded in the unconsolidated balance sheet of the Bank.

Intangible assets that are purchased prior to 1 January 2005 are carried at their restated historical costs and intangible assets that are purchased in the subsequent periods are carried at their historical cost, less any accumulated amortization and any impairment losses. Intangible assets are amortized by using the straight line method based on their useful lives. Amortization method and period are assessed periodically at the end of each year. Intangible assets consist of software expenses and they are amortized by using the straight line method over 3 years. There is no significant change in the accounting estimates expected or to be expected having a significant effect on the amortization method, amortization period or residual value.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XII. EXPLANATIONS ON PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment except buildings that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property, plant and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Property, plant and equipment are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

As of 1 April 2015, the Bank adopted the revaluation method for buildings in tangible assets in accordance with Turkish Accounting Standard No: 16 “Property, Plant and Equipment” (TAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in “Tangible assets revaluation reserves” under the shareholders’ equity.

Ordinary maintenance and repair expenses of property, plant and equipment items are recognized as expenses.

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.

XIII. EXPLANATIONS ON INVESTMENT PROPERTIES

Investment properties are kind of property which is held by the Group to earn rent.

Investment properties in the attached consolidated financial statements that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property, plant and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Investment properties are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Assets acquired under financial leases are carried at the lower of their fair values or amortized value of the lease payments. Leasing payables are recognized as liabilities in the balance sheet while the interest payable portions of the payables are recognized as a deferred amount of interest. Assets held under financial leases are recognized under the property, plant and equipment (movable properties) account and are depreciated by using the straight line method.

The Bank does not participate in the financial leasing transactions as a “lessor”.

Operational lease transactions are recognized in line with the related agreement on an accrual basis.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XV. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

Provision and contingent liabilities are accounted in conformity with TAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

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

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XVI. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES

Employee benefits liabilities are recognized in accordance with the Turkish Accounting Standard No: 19 “Employee Benefits”. According to related legislation and union contracts, the Bank is required to make lump sum retirement payments to employees who has completed one year of service, is called up for military service, dies, resigns, retires or whose employment is terminated without due cause, or for female employees; who resigns subsequent to her marriage within one year. The Bank provides provision by estimating the present value of the future retirement pay liability.

The retirement pay provision of the Bank has been determined by the actuarial report of an independent valuation company. As of 1 January 2013, actuarial gains and losses are recorded under the shareholders’ equity according to the revised TAS 19.

T. Halk Bankası Employee Pension Fund, T. Ziraat Bankası and T. Halk Bankası Employee Pension Fund Foundations were founded in accordance with the provisional article 20 of the Social Insurance Act (SIA) No: 506 and their members include employees of the Bank as well. Provisional article 23 of the Banking Act No: 5411 requires the Bank’s pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution (SII) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers’ decision dated 30 November 2006 and numbered 2006/11345 and accordingly, both pension fund foundations would have been transferred to SSI. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Turkish Grand National Assembly started to work on establishing new legal regulations, and after it was approved at the General Assembly of the TGNA, the Law numbered 5754 “Emendating Social Security and General Health Insurance Act and Certain Laws and Decree Laws”, which was published on the Official Gazette dated 8 May 2008 and numbered 26870, came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three year transfer period can be prolonged for maximum 2 years by the Cabinet decision. However related transfer period has been prolonged for 2 years by the Cabinet decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 “Emendating Social Security and General Health Insurance Act”, which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

The statement “The Cabinet have entitled to determine transfer period” has taken place in the scope of In Article 51 of the Law No: 6645 which was published on the Gazette on 23 April 2015 and numbered 29335.

In accordance with the related legislation, as of the transfer date, the income and expenses of the transferred funds will be considered by the insurance branches and the cash value of the liabilities will be calculated with the actuarial interest rate 9,8%. Moreover, after the transfer to SII, the unfulfilled other social rights and payments existed in the settlement deeds of the subjected pension funds of the transferred participants, members or the rightful owners will be continued to be fulfilled by the employer entities of the funds and its participants. Based on the results of the actuarial report prepared as of 31 December 2015 no technical deficit has been reported.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XVII. EXPLANATIONS ON TAXATION

In accordance with the Article 32 of the Corporate Tax Law No: 5520, the corporate tax rate is calculated at the rate of 20%. The tax legislation requires advance tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the corporate tax liability for the year.

Calculated corporate tax as of 31 December 2015 has been paid in February 2016 thereby setting off calculated advanced taxes in previous periods. And also, first advance tax for the 01 January 2016 – 31 March 2016 is accrued from corporate tax amount. Accrued advance tax as of 01 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. Deferred tax assets and liabilities are also offset.

Tax practices in the countries that foreign branches operate:

Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are subject to 10% of corporate tax and this taxed amount is subject to 15% of income tax. The tax bases for corporate are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in June, and corporate tax payment is made in two installments, in May and in October. On the other hand, withholding tax is paid in TRNC over interest income and similar gains of corporations. The relevant withholding tax payments are deducted from the corporate tax-payable. In the case the amount of the withholding tax collections is higher than the corporate tax payable, the difference is deducted from income tax payable.

Bahrain

Banks in Bahrain are not subject to tax according to the regulations of the country.

XVIII. ADDITIONAL EXPLANATIONS ON BORROWINGS

The Bank borrows funds from domestic and foreign institutions and issues marketable securities when needed. These borrowing activities are recognized at fair value including the acquisition costs at the transaction date and they are valued at amortized costs by using the internal rate of return method.

Interest rate and liquidity risks are reduced by having assets with shorter or equal maturity terms than borrowing instruments such as syndication, securitization and borrowing with collateral and bears higher interest than costs of those instruments.

Also, asset composition is designed in accordance with the fixed/variable cost nature of borrowing instruments.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XIX. EXPLANATIONS ON SHARES AND SHARE ISSUE

Share issuances related to costs are recognized as expenses. Dividend income related with the equity shares are determined by the General Assembly of the Bank.

The Bank has not issued any shares in the current and prior period. In accordance with the decree of the Privatization High Council dated 5 February 2007 and numbered 2007/8, the process of public offering for the 25% of shares pertaining to the Privatization Administration was completed and the Bank shares were registered to the Board with the decree of the Capital Markets Board dated 26 April 2007 and numbered 16/471, and the shares were traded on the Borsa İstanbul AŞ as of 10 May 2007.

As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

XX. EXPLANATIONS ON BILL GUARANTEES AND ACCEPTANCES

Bill guarantees and acceptances are realized simultaneously with the customer payments and they are presented as possible liabilities and commitments in the off-balance sheet accounts.

XXI. EXPLANATIONS ON GOVERNMENT INCENTIVES

There are no government incentives utilized by the Bank.

XXII. EXPLANATIONS ON SEGMENT REPORTING

Segment reporting focuses on business segment considering the main source and nature of the risks and returns of the Bank. The Bank operates mainly in corporate, commercial, entrepreneur banking and investment banking.

The report concerning parts of Bank's business segmentation and related information is explained in section four, disclosure numbered VII.

XXIII EXPLANATION ON OTHER MATTERS

None.

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

I. EXPLANATIONS ON EQUITY

Calculating the amount of equity according to the "Regulation on Equities of Banks" and the calculation of capital adequacy standard ratio according to "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy" is performed. As of 30 June 2016, the Group's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 13,52% (31 December 2015: 13,83%), Equity is calculated the amount of TL 21.953.508 in accordance with the principles of "Regulation on Equities of Banks" (31 December 2015: TL 20.428.844).

	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	-	
Reserves	14.682.228	
Gains recognized in equity as per Turkish Accounting Standards (TAS)	2.253.899	
Profit	1.565.680	
Current Period Profit	1.565.680	
Prior Period Profit	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	8.711	
Common Equity Tier 1 Capital Before Deductions	20.980.969	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	-	
Improvement costs for operating leasing	72.562	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	49.649	82.749
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	122.211	
Total Common Equity Tier 1 Capital	20.858.758	

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

I. EXPLANATIONS ON EQUITY (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)	-
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	33.100
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 (-)	33.100
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)	20.825.658
TIER II CAPITAL	
Debt instruments and share issue premiums deemed suitable by the BRSA	
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	1.226.907
Tier II Capital Before Deductions	1.226.907
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	1.226.907
Total Capital (The sum of Tier I Capital and Tier II Capital)	22.052.565
Deductions from Total Capital	21.953.508
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 BANK (continued)

I. EXPLANATIONS ON EQUITY (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	21.953.508
Total risk weighted amounts	162.345.356
Capital Adequacy Ratios	
Tier 1 Capital Adequacy Ratio	12,85
Core Capital Adequacy Ratio	12,83
Capital Adequacy Ratio	13,52
BUFFERS	
Total buffer requirement	5,381
Capital conservation buffer requirement (%)	0,875
Bank specific counter-cyclical buffer requirement(%)	0,006
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets(%)	5,523
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	41.333
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	223.184
Other intangibles other than mortgage-servicing rights	-
Amount arising from deferred tax assets based on temporary differences	213.204
Limits related to provisions considered in Tier II calculation	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	1.226.907
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	1.226.907
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Excess amount of total provision amount to %0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)	
Upper limit for Additional Tier I Capital subjected to temporary Article 4	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-

*Amounts in this column represents the amounts of items that are subject to transition provisions in accordance with the temporary

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

I. EXPLANATIONS ON EQUITY (continued)

The equity is calculated on the capital adequacy ratio calculation basis having reduced deductible assets on equity from the sum of core capital and supplementary capital within the scope of "Regulation on Equities of Banks" (Regulation). The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovables that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

	Prior Period
TIER I CAPITAL	
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451
Share premium	-
Share Cancellation Profits	-
Reserves	12.552.860
Other Comprehensive Income according to Turkish Accounting Standards (TAS)	2.077.008
Profit	2.315.313
Net Current Period Profit	2.315.313
Prior Period Profit	-
Provisions for Possible Losses	123.500
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	8.711
Tier I Capital Before Deductions	19.547.843
Deductions from Tier I Capital	
Current and Prior Period's Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	-
Leasehold Improvements on Operational Leases (-)	67.250
Goodwill and Other Intangible Assets and Related Deferred Tax Liabilities (-)	30.780
Net Deferred Tax / Liability(-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-
Amount Exceeding the %15 Threshold of Tier I Capital as per the Article 2, Clause 2 of Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier Capital (-)	-
Mortgage Servicing Rights not Deducted (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Other items to be Defined by the BRSA (-)	-
Deductions from Tier I Capital in cases where there are no adequate Additional Core Capital (-)	-
Total Deductions from Tier I Capital	98.030
Total Tier I Capital	19.449.813
ADDITIONAL CORE CAPITAL	
Preferred Stock not Included in Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Additional Core Capital before Deductions	-
Deductions from Additional Core Capital	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks of Financial Institutions where the Bank Owns more than 10% of Issued Share Capital (-)	-
Other Items to be Defined by the BRSA (-)	-
Deductions from Additional Core Capital in cases where there are no adequate Tier II Capital (-)	-

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

I. EXPLANATIONS ON EQUITY (continued)

	Prior Period
Total Deductions from Additional Core Capital	-
Total Additional Core Capital	-
Deductions from Core Capital	46.171
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	46.171
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Total Core Capital	19.403.642
TIER II CAPITAL	
Debt Instruments and Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-
General Provisions	1.123.838
Tier II Capital before Deductions	1.123.838
Deductions from Tier II Capital	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be Defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	1.123.838
CAPITAL	20.527.480
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	69.325
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	-
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by BRSA (-)	29.301
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in equity Items of Unconsolidated Banks and Financial Institutions where the Banks Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
EQUITY	20.428.844
Amounts Below the Thresholds for Deduction	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	15.635
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Tier I Capital	221.000
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	163.984

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

II. EXPLANATIONS ON CURRENCY RISK

Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration. Net short term and long term positions of each currency are calculated in terms of the Turkish Lira.

In accordance with “Regulation on Measurement and Evaluation of Capital Adequacy of Banks”, the foreign currency position risk of the Bank is measured by “standard method” and is calculated daily and is reported monthly. Also VAR based values and limits are reported to the Executives on a daily basis by using internal model methods. The currency risks have been closely followed. The Bank makes derivative transactions against the currency risk, in case of need.

Announced current foreign exchange buying rates of the Bank as at financial statement date and the previous five working days in full TRY are as follows:

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

The simple arithmetic averages of the major current foreign exchange buying rates of the Bank for the thirty days before financial statement date 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 BANK (continued)**

II. EXPLANATIONS ON CURRENCY RISK (continued)

Information related to currency risk:

Current Period	EURO	USD	OTHER FC	TOTAL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	4.106.984	13.700.854	3.484.352	21.292.190
Banks	510.189	234.347	76.425	820.961
Financial assets at fair value through profit and loss ⁽³⁾	86.398	193.895	174	280.467
Money market placements	-	-	-	-
Financial assets available-for-sale ⁽⁵⁾	679.073	3.363.965	-	4.043.038
Loans ⁽²⁾	19.160.030	25.566.018	387.020	45.113.068
Subsidiaries, associates and entities under common control ⁽⁵⁾	210.421	-	278.550	488.971
Held-to-maturity investments	-	1.912.770	-	1.912.770
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	98	98
Intangible assets	-	-	-	-
Other assets ⁽³⁾	89.414	207.406	56	296.876
Total assets	24.842.509	45.179.255	4.226.675	74.248.439
Liabilities				
Bank deposits	4.242.664	2.644.148	1.137.361	8.024.173
Foreign currency deposits	14.406.634	22.468.040	1.130.297	38.004.971
Money market balances	-	1.314.877	-	1.314.877
Funds provided from other financial institutions	7.436.917	10.756.931	15.534	18.209.382
Bonds issued	-	7.280.045	-	7.280.045
Sundry creditors	16.888	77.683	225	94.796
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	249.383	343.896	44.549	637.828
Total liabilities	26.352.486	44.885.620	2.327.966	73.566.072
Net balance sheet position	(1.509.977)	293.635	1.898.709	682.367
Net off-balance sheet position				
Financial derivative assets⁽⁴⁾	1.420.770	(262.306)	(1.645.573)	(487.109)
Financial derivative assets ⁽⁴⁾	2.300.159	4.738.294	1.337.462	8.375.915
Financial derivative liabilities ⁽⁴⁾	879.389	5.000.600	2.983.035	8.863.024
Non-cash loans ⁽¹⁾	7.630.953	15.788.526	1.236.695	24.656.174
Prior period				
Total assets	22.735.529	42.869.184	3.571.159	69.175.872
Total liabilities	24.257.962	43.951.013	2.376.388	70.585.363
Net balance sheet position	(1.522.433)	(1.081.829)	1.194.771	(1.409.491)
Net off-balance sheet position				
Financial derivative assets	1.435.185	1.211.257	(937.169)	1.709.273
Financial derivative assets	2.200.012	4.269.475	1.299.172	7.768.659
Financial derivative liabilities	764.827	3.058.218	2.236.341	6.059.386
Non-cash loans ⁽¹⁾	6.333.113	16.007.174	786.284	23.126.571

⁽¹⁾ Non-cash loans are not included in the off-balance sheet position items.

⁽²⁾ Includes TRY 1.744.474 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; and derivative financial instruments foreign currency expense accruals (TRY 89.002) and shareholders' equity (TRY 129.610) in liabilities are not taken into consideration in the currency risk measurement.

⁽⁴⁾ Financial derivative assets include forward precious metal purchase transactions amounted to TRY 35.119. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 2.467.826. Besides, derivative transactions under forward foreign currency purchase and sale commitments are included.

⁽⁵⁾ Foreign currency subsidiaries Halkbank A.D. Beograd (TRY 66.167) and Halk Banka AD Skopje (TRY 212.383), and foreign currency associate Demir-Halk Bank NV (TRY 210.421) are included.

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

III. EXPLANATIONS ON INTEREST RATE RISK

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Bank. The Bank's interest rate risk is calculated using the general and specific interest rate risk tables in the standard method including the assets and liabilities and is considered as a part of the general market risk in the calculation of the capital adequacy standard ratio.

The priority of the Bank's risk management department is to avoid the effects of the interest rate volatility. Sensitivity analysis performed within this context is calculated by the risk management department and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budgeting process of the Bank. The effects of the fluctuations in the market interest rates on the financial position and on the cash flows are minimized by revising budget targets. The Bank's funding costs of TRY and foreign exchange deposits, repurchase agreements are determined by the Treasury Vice Presidency.

The Bank assesses the probability of any significant losses can be caused by interest rate risk exposures as low.

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

III. EXPLANATIONS ON INTEREST RATE RISK (continued)

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	-	-	-	1.178.101	24.236.050
Banks and financial institutions	417.674	-	2.041	-	-	432.681	852.396
Financial assets at fair value through profit and loss	357.601	14.844	8.221	529	8	-	381.203
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	1.338.043	1.324.508	2.901.466	2.009.577	4.881.852	91.558	12.547.004
Loans	53.661.372	13.936.244	36.733.612	25.070.942	5.253.062	3.224.455	137.879.687
Held-to-maturity investments	1.661.729	3.016.166	4.163.385	1.938.721	5.017.094	-	15.797.095
Other assets	4.337.718	3.814	16.485	49.633	14.899	4.261.193	8.683.742
Total assets	84.672.676	18.454.986	43.825.210	29.069.402	15.166.915	9.187.988	200.377.177
Liabilities							
Bank deposits	11.442.709	1.959.493	695.003	-	-	3.646.378	17.743.583
Other deposits	60.561.995	25.946.118	6.908.392	304.981	3.732	19.001.372	112.726.590
Money market balances	10.208.652	738.605	433.382	-	-	-	11.380.639
Sundry creditors	1.249.904	2.690	47.801	1.127.017	1.635	417	2.429.464
Bonds issued	246.550	653.762	854.523	7.167.419	-	-	8.922.254
Funds provided from other financial institutions ⁽³⁾	3.566.804	4.899.620	6.568.098	1.970.693	1.706.251	-	18.711.466
Other liabilities ^{(1),(2)}	2.737.211	25.550	716.825	1.663.835	2.294.071	21.025.689	28.463.181
Total liabilities	90.013.825	34.225.838	16.224.024	12.233.945	4.005.689	43.673.856	200.377.177
Balance sheet long position	-	-	27.601.186	16.835.457	11.161.226	-	55.597.869
Balance sheet short position	(5.341.149)	(15.770.852)	-	-	-	(34.485.868)	(55.597.869)
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	(5.341.149)	(15.485.499)	27.741.792	16.809.322	10.767.031	(34.462.650)	28.847

⁽¹⁾ TRY 61.916 of deferred tax liability is disclosed under the non-interest bearing column in other assets.

⁽²⁾ Shareholders' equity balance is disclosed under the non-interest bearing column in other liabilities line.

⁽³⁾ Funds provided from other financial institutions include borrowings.

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

III. EXPLANATIONS ON INTEREST RATE RISK (continued)

1. Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items based on re-pricing 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	16.747.037	-	-	-	-	6.577.934	23.324.971
Banks and financial institutions	859.293	-	-	-	-	1.653.992	2.513.285
Financial assets at fair value through profit and loss	247.364	754	21.194	27	2	-	269.341
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	2.358.685	502.968	1.545.281	2.376.793	4.264.518	160.748	11.208.993
Loans	44.599.622	17.767.705	33.658.375	23.031.167	4.700.737	2.041.518	125.799.124
Held-to-maturity investments	7.601.605	745.742	1.298.673	2.142.024	4.888.753	-	16.676.797
Other assets ⁽⁴⁾	953.098	5.652	17.722	57.188	19.101	6.884.078	7.936.839
Total assets	73.366.704	19.022.821	36.541.245	27.607.199	13.873.111	17.318.270	187.729.350
Liabilities							
Bank deposits	8.419.481	2.422.059	479.736	-	-	3.328.282	14.649.558
Other deposits	55.935.917	27.784.868	6.343.983	225.749	-	17.205.890	107.496.407
Money market balances	7.824.493	585.773	-	-	-	-	8.410.266
Sundry creditors	947.799	4.692	953.533	87.342	-	324.222	2.317.588
Bonds issued	47.656	729.233	902.157	5.781.652	1.444.591	-	8.905.289
Funds provided from other financial institutions ⁽³⁾	670.173	4.188.241	11.037.756	3.725.136	640.310	-	20.261.616
Other liabilities ⁽¹⁾⁽²⁾	2.104.236	179.417	217.187	-	-	23.187.786	25.688.626
Total liabilities	75.949.755	35.894.283	19.934.352	9.819.879	2.084.901	44.046.180	187.729.350
Balance sheet long position	-	-	16.606.893	17.787.320	11.788.210	-	46.182.423
Balance sheet short position	(2.583.051)	(16.871.462)	-	-	-	(26.727.910)	(46.182.423)
Off-balance sheet long position	-	764.369	612.369	1.332.390	1.346.914	-	4.056.042
Off-balance sheet short position	-	(619.754)	(627.927)	(1.565.778)	(1.319.421)	-	(4.132.880)
Total position	(2.583.051)	(16.726.847)	16.591.335	17.553.932	11.815.703	(26.727.910)	(76.838)

⁽¹⁾ TRY 69.284 of deferred tax liability is disclosed under the non-interest bearing column in other assets.

⁽²⁾ Shareholders' equity balance is disclosed under the non-interest bearing column.

⁽³⁾ Funds provided from other financial institutions include borrowings.

⁽⁴⁾ TRY 945.853 of non-performing loans with no specific provision is disclosed under the non-interest bearing column in other assets.

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

III. EXPLANATIONS ON 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	-	-	-	-
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 for loans given as of balance sheet date are calculated using weighted average method for client's base.

⁽³⁾ Declared maximum deposits interest rate with a maturity of 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 TRNC.

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

IV. EXPLANATIONS ON THE POSITION RISK OF SHARES

Information about position risk of shares:

Equities	Comparison		Market Value	Capital Requirements
	Balance Sheet Value	Fair Value Change		
Investment in Shares-Grade A	506.051	506.051	506.051	40.484
Quoted Securities ⁽¹⁾	506.051	506.051	506.051	40.484
Investment in Shares-Grade B	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares-Grade C	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares- Grade D ⁽²⁾	346.980	346.980	-	27.758
Other	2.036.375	2.020.558	-	189.691

⁽¹⁾ The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

⁽²⁾ In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Free Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

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

Portfolio	Revaluated appreciation in the fair value			Unrealized gains and losses		
	Realized gains (losses) in the current period	Total	Included to supplementary capital	Total	Included to total core capital	Included to supplementary capital
1. Private equity investments	-	-	-	-	-	-
2. Share Certificates quoted in a stock exchange ^{(1) (2)}	-	266.527	266.527	-	-	-
3. Other share certificates	-	799.829	799.829	-	-	-
Total	-	1.066.356	1.066.356	-	-	-

⁽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⁾ 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.

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

V. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO

The liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows fully and timely. Liquidity risk may also occur when the market penetration is not adequate, when the open position cannot be closed immediately at the suitable prices in sufficient amounts due to barriers and break-ups in the markets.

To detect liquidity risk, Bank Liquidity Emergency Action Plan (LAEP) has been formed. Cash flow analysis methods include commission totals and tax totals, besides initial capital interest totals. The sections that are in the balance sheet are monitored by Risk Management Department Head and include the days until maturity which are canalized to the maturity bands that are predetermined; the liquidity availability are then detected and liquidity analysis performed. Thus, quantification of liquidity risk gets established.

Purpose is to have the level of liquidity to meet its obligations and commitments, which are due under the bank liquidity planning program and aim to reach a reasonable cost with necessary liquidity. The liquidity risk measurement made under this purpose contains days that are left for maturity made on the basis of liquidity gap as well as the analysis of "Liquidity Emergency Plan (LAEP)" – projected ratios that are also followed in the former phrase. Short-term liquidity needs of the bank are satisfied via BIST Repo Market, Interbank Money Market, Interbank Money Market securities sales, TCMB Repo Market, the Central Bank Interbank, currency swaps, the use of reserve and reserve option coefficients (YP) .

The top limits of the 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 It was determined.

The extension of the maturity structure of term deposits reflects the primary funding source for the Bank; the development of new products that encourage saving and the protection of core deposit levels have been implemented as a strategic objective. Limits have been determined for exportation of bonds based on Turkish Liras to provide long term resource allocation; besides deposit, maturity structure extension of passives was established.

To benefit from new borrowing opportunities to meet the needs of the Bank, in this context, is sourced from the price in the international capital markets / costs to be closely monitored and for the circumstances to be parallel to evaluation of alternative sources of funds.

Effective collateral management structure is provided by the reduction of liquidity risk. Our Bank participates in the organized markets (CBT, BIST and TAKASBANK). Debt upper limits are determined under certain criteria and balance sheet size by the relevant authorities. Open are the current limits to use our bank's current and anticipated liquidity needs to deposit additional collateral. Treasury Management Middle Office Operations are managed by the Treasury Department and monitored continuously.

Effects of macro size balance sheet changes or important changes of market data on bank liquidity; based on legal liquidity ratio and according to liquidity emergency action plan, analysis is made on the effects of the ratios that are being followed. Whether originated from the bank or the market, under the condition that the potential stress tests are applied, the legal and internal changes on liquidity ratio and their effects of bank liquidity is quantified.

To show the ratio of withdrawal of interest-bearing deposits in the bank, deposit section of each foreign currency is analyzed through Deposit Analysis.

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

V. EXPLANATIONS ON LIQUIDITY RISK 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	24.06.2016 01.07.2016	97,6	11.04.2016 15.04.2016	134,79
Minimum	24.06.2016 01.07.2016	74	11.04.2016 15.04.2016	86,63

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

V. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (continued)

Current Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			34.985.209	20.884.106
Cash Outflows				
Retail and Small Business Customers, of which;	63.438.669	22.574.890	5.259.316	2.257.489
Stable Deposits	21.691.017	-	1.084.551	-
Less Stable Deposits	41.747.652	22.574.890	4.174.765	2.257.489
Unsecured wholesale funding , of which;	70.308.331	24.964.541	40.507.086	16.075.732
Operational Deposits	44.282	-	11.071	-
Non-operational Deposits	65.150.685	23.087.447	36.482.344	14.232.279
Other Unsecured Funding	5.113.364	1.877.094	4.013.671	1.843.453
Secured Funding			-	-
Other cash outflows, of which;	3.783.514	2.168.376	1.744.646	1.164.280
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	76.813	349.136	76.813	349.136
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	3.706.701	1.819.240	1.667.833	815.144
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	60.324.528	22.711.801	4.444.757	1.763.596
Total Cash Outflows			51.955.805	21.261.097
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	11.398.286	4.288.123	6.556.565	3.072.403
Other Cash Inflows	41.858	41.677	41.858	41.677
Total Cash Inflows	11.440.144	4.329.800	6.598.423	3.114.080
			Total Adjusted Value	
Total HQLA Stock			34.985.209	20.884.106
Total Net Cash Outflows			45.357.382	18.147.017
Liquidity Coverage Ratio(%)			77,20	115,95

⁽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 BANK (continued)

V. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (continued)

Prior Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			35.026.978	22.127.033
Cash Outflows				
Retail and Small Business Customers, of which;	59.362.360	21.625.683	4.637.110	1.857.940
Stable Deposits	25.982.532	6.092.567	1.299.127	304.628
Less Stable Deposits	33.379.828	15.533.116	3.337.983	1.553.312
Unsecured wholesale funding , of which;	56.730.152	20.091.323	31.781.484	12.565.557
Operational Deposits	-	-	-	-
Non-operational Deposits	51.714.487	18.620.375	27.723.839	11.166.810
Other Unsecured Funding	5.015.665	1.470.948	4.057.645	1.398.747
Secured Funding			-	-
Other cash outflows, of which;	5.255.525	1.381.398	3.937.302	1.259.442
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	3.058.487	1.178.138	3.058.487	1.178.138
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	2.197.038	203.260	878.815	81.304
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	51.250.823	22.348.887	4.542.382	2.166.642
Total Cash Outflows			44.898.278	17.849.581
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	11.166.176	4.615.170	6.889.357	3.588.158
Other Cash Inflows	3.089.617	3.089.617	3.089.617	3.089.617
Total Cash Inflows	14.255.793	7.704.787	9.978.974	6.677.775
			Total Adjusted Value	
Total HQLA Stock			35.026.978	22.127.033
Total Net Cash Outflows			34.919.304	11.171.806
Liquidity Coverage Ratio(%)			102,21	209,85

⁽¹⁾ To be calculated by simple arithmetic average, monthly consolidated average calculated for the last three months of the liquidity coverage ratio, also calculated are weekly simple average of the last three months of the liquidity coverage ratio by taking the arithmetic mean.

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

V. EXPLANATIONS ON THE LIQUIDITY RISK AND THE LIQUIDITY COVERAGE RATIO (continued)

1. Presentation of assets and liabilities according to their remaining maturities:

The Bank follows up and measures the consistency of payments comparing its assets and liabilities with the interest rates on a daily and transactional basis.

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
Assets								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	1.211.835	22.845.383	159.410	19.422	-	-	-	24.236.050
Banks	432.681	416.263	-	3.452	-	-	-	852.396
Financial assets at fair value through profit and loss	-	88.625	37.345	211.109	44.116	8	-	381.203
Money market placements	-	-	-	-	-	-	-	-
Financial assets available-for-sale	-	282.655	460.892	1.281.029	4.240.518	6.190.352	91.558	12.547.004
Loans	837.530	8.388.400	9.995.514	45.880.989	56.782.066	15.995.188	-	137.879.687
Held-to-maturity investments	-	385.751	739.522	885.791	4.930.120	8.855.911	-	15.797.095
Other assets ⁽²⁾	1.037.520	7.617	3.814	16.485	49.633	14.899	7.553.774	8.683.742
Total assets	3.519.566	32.414.694	11.396.497	48.298.277	66.046.453	31.056.358	7.645.332	200.377.177
Liabilities								
Bank deposits	3.646.378	11.442.709	1.959.493	695.003	-	-	-	17.743.583
Other deposits	19.001.372	60.561.864	25.946.101	6.907.870	305.651	3.732	-	112.726.590
Funds provided from other financial institutions ⁽³⁾	-	3.566.804	1.984.217	5.796.351	3.165.896	4.198.198	-	18.711.466
Money market balances	-	10.208.652	738.605	145.882	287.500	-	-	11.380.639
Bonds issued	-	246.550	653.762	854.523	7.167.419	-	-	8.922.254
Sundry creditors	417	1.249.904	2.690	47.801	1.127.017	1.635	-	2.429.464
Other liabilities ⁽¹⁾	44.718	2.456.978	109.323	872.171	1.704.949	2.294.071	20.980.971	28.463.181
Total liabilities	22.692.885	89.733.461	31.394.191	15.319.601	13.758.432	6.497.636	20.980.971	200.377.177
Liquidity gap	(19.173.319)	(57.318.767)	(19.997.694)	32.978.676	52.288.021	24.558.722	(13.335.639)	-
Net off balance sheet position	-	(37.271)	(65.147)	1.814	4.470	-	-	(96.134)
Derivative financial assets	-	3.705.128	3.941.886	1.382.138	2.129.260	2.606.898	-	13.765.310
Derivative financial liabilities	-	3.742.399	4.007.033	1.380.324	2.124.790	2.606.898	-	13.861.444
Non-cash loans	16.178.959	1.542.833	3.766.690	14.713.146	6.875.754	1.455.204	-	44.532.586
Prior Period								
Total Assets	10.952.283	13.446.565	18.011.448	46.480.370	62.254.003	30.075.793	6.508.888	187.729.350
Total Liabilities	25.087.424	74.174.467	33.827.394	18.860.080	12.613.983	3.741.659	19.424.343	187.729.350
Liquidity Gap	(14.135.141)	(60.727.902)	(15.815.946)	27.620.290	49.640.020	26.334.134	(12.915.455)	-
Net off balance sheet position	-	(23.649)	37.878	(7.792)	(17.973)	28.160	-	16.624
Derivative financial assets	-	3.902.170	2.737.927	976.386	737.405	322.701	-	8.676.589
Derivative financial liabilities	-	3.925.819	2.700.049	984.178	755.378	294.541	-	8.659.965
Non-cash loans	14.600.770	1.117.523	3.715.349	13.212.258	6.067.227	1.068.123	-	39.781.250

⁽¹⁾ Shareholders' equity is disclosed in other liabilities line under the undistributed column.

⁽²⁾ Other asset items which are not expected to be converted into cash in short term but required for continuity of banking operations like tangible and intangible assets, office supply inventory, associates and subsidiaries, prepaid expenses, deferred tax assets and receivables from NPL are disclosed in other assets under the undistributed column.

⁽³⁾ Funds provided from other financial institutions include borrowings.

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

VI. EXPLANATIONS ON LEVERAGE RATIO

The article "Regulation Regarding the Measurement and Evaluation of Bank's leverage level" published on November 5, 2013 and containing No: 28812 includes the table for the calculation of the leverage ratio below.

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	198.549.510	185.282.357
Assets that are deducted from core capital	(154.964)	(141.014)
Total on balance sheet exposures	198.394.546	185.141.343
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	304.000	328.635
The potential amount of credit risk with derivative financial instruments and credit derivatives	170.295	160.677
The total amount of risk on derivative financial instruments and credit derivatives	474.295	489.312
Investment securities or commodity collateral financing transactions		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	435.349	314.623
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	435.349	314.623
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	67.437.121	59.890.202
Adjustments for conversion to credit equivalent amounts	-	-
The total risk of off-balance sheet items	67.437.121	59.890.202
Capital and Total Exposures		
Tier 1 Capital	20.457.795	19.016.499
Total Exposures	266.741.311	245.835.480
Leverage Ratio		
Leverage Ratio	7,67	7,74

⁽¹⁾ The amounts in the table, represents three-month average.

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VII. EXPLANATIONS RELATED TO BUSINESS SEGMENTATION

The Bank's operations are grouped under the corporate, commercial, integrated and treasury/investment banking categories. Branches are grouped considering the information above and are scaled according to the classification shown in the table below, with the classification reflected to the head office and branches.

The Bank is rendering services to a wide range of companies in all sectors, especially to Small and Medium Size Enterprises (SME) as well as individuals having consumer status. In this context, the Bank has no restrictions on the area in which it operates.

The Bank categorizes its real and legal entities that it renders services into three groups as; firms, individual customers and other customers.

Firms are composed of traders and small-scale retailers having real and legal entity status. Within the Bank's application, firms are segmented as corporate firms, commercial firms, enterprising business firms, small size enterprises and small-scale retailers.

Individual customers are real entities without having any commercial or professional purposes other than their individual demands in the Bank's application.

Other customers are referred to as associations, organizations, trade unions, foundations, societies, building managements, parent-teacher associations and similar institutions that are not included in the afore-mentioned classification.

The following are the services provided by the Bank to all of its customers:

- Accepting deposits,
- Issuance of cash, noncash loans,
- All kinds of reimbursements and cash receipt operations, including cash and deposit reimbursements, fund transfers, correspondent banking transactions and use of checking accounts,
- Purchasing cheques and bank bills,
- Performing custody services,
- Issuing payment instruments such as; credit cards, cash cards and travel cheques, and performing related transactions,
- Including spot transactions, foreign exchange transactions, trading of money market securities, bullion trading and/or performing the related custody services,
- Trading of forward transaction agreements, option agreements and financial instruments with more than one derivative instrument and performing the related intermediary services based on the economic and financial indicators, capital markets instruments, commodities, precious metals and exchange rates,
- Assuming guarantee transactions such as; warranties and other liabilities in favor of others,
- Having intermediary transactions on Interbank money transfer, insurance agency services,
- Rendering insurance agency transactions and individual pension services,
- Acting as a market maker in trade operations in accordance with liabilities assumed within the context of the agreement composed by the Turkish Treasury and/or Central Bank and associations,
- Trading capital market instruments and performing repurchase and reverse repo transactions,
- Acting as an intermediary in the sale process of capital market instruments by means of issuing instruments or through a public offering,
- Trading the capital market instruments issued for the purpose of performing intermediary services,
- Acting as an operator in order to provide risk management systems related to technical support and consulting services,
- 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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VII. EXPLANATIONS RELATED TO 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.

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

VII. EXPLANATIONS RELATED TO BUSINESS SEGMENTATION (continued)

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	Total
OPERATING INCOME / EXPENSES					
Interest income	715.100	991.902	4.872.296	1.386.779	7.966.077
<i>Interest on loans</i>	715.074	991.740	4.807.960	164.182	6.678.956
<i>Interest income on marketable securities</i>	-	-	58.710	1.153.291	1.212.001
<i>Interest received from banks</i>	-	-	1.412	39.434	40.846
<i>Other interest income</i>	26	162	4.214	29.872	34.274
Interest expense	418.336	214.377	3.015.180	1.220.503	4.868.396
<i>Interest on deposits</i>	412.818	204.832	2.958.328	429.459	4.005.437
<i>Interest on borrowings</i>	447	3.492	11.843	158.275	174.057
<i>Interest on money market borrowings</i>	-	-	10.089	381.171	391.260
<i>Interest on marketable bonds issued</i>	-	-	-	251.288	251.288
<i>Other interest expense</i>	5.071	6.053	34.920	310	46.354
Net interest income	296.764	777.525	1.857.116	166.276	3.097.681
Net fees and commissions income	88.387	98.569	332.775	96.725	616.456
Net trading profit / (loss)	445	2.740	3.500	30.437	37.122
Dividend income	-	-	-	196.162	196.162
Other income	4.128	16.463	153.277	228.909	402.777
Loans and other receivables' impairment loss	45.885	94.025	271.382	128.456	539.748
Other expenses	8.123	32.675	868.977	982.896	1.892.671
Income before taxes	335.716	768.597	1.206.309	(392.843)	1.917.779
Income tax provision	-	-	(1.580)	(350.519)	(352.099)
Net profit for the period	335.716	768.597	1.204.729	(743.362)	1.565.680
SEGMENT ASSETS					
Marketable securities	-	-	-	28.433.155	28.433.155
Derivative financial assets held for trading	-	-	-	292.147	292.147
Banks and money market receivables	-	-	-	852.396	852.396
Associates and subsidiaries (net)	-	-	-	2.873.589	2.873.589
Loans	20.534.346	26.530.618	88.196.933	3.655.310	138.917.207
Other assets ⁽¹⁾	81.303	421.637	1.596.105	26.909.638	29.008.683
TOTAL ASSETS	20.615.649	26.952.255	89.793.038	63.016.235	200.377.177
SEGMENT LIABILITIES					
Deposits	16.545.305	7.647.817	92.507.602	13.769.449	130.470.173
Derivative financial liabilities held for trading	-	-	97.420	241.198	338.618
Money market balances	-	-	1.314.877	10.065.762	11.380.639
Borrowing funding loans	1.367	198.624	717.541	17.793.934	18.711.466
Bonds issued	-	-	-	8.922.254	8.922.254
Other liabilities	246.582	314.110	4.512.220	1.786.849	6.859.761
Provisions and tax payable	52.163	52.893	175.479	2.432.762	2.713.297
Shareholders' equity	-	-	-	20.980.969	20.980.969
TOTAL LIABILITIES	16.845.417	8.213.444	99.325.139	75.993.177	200.377.177
OFF BALANCE SHEET ITEMS					
Guarantees and surety ships	13.686.098	9.587.970	12.245.557	9.012.961	44.532.586
Commitments	56.349	862.511	10.223.345	13.481.987	24.624.192
Derivative financial instruments	-	-	5.287.233	22.339.521	27.626.754

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VII. EXPLANATIONS RELATED TO BUSINESS SEGMENTATION (continued)

Prior Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment	Total
OPERATING INCOME / EXPENSES					
Interest income	584.545	680.858	3.664.370	1.469.279	6.399.052
<i>Interest on loans</i>	584.531	680.772	3.661.162	262.994	5.189.459
<i>Interest income on marketable securities</i>	-	-	-	1.191.697	1.191.697
<i>Interest received from banks</i>	-	-	-	12.051	12.051
<i>Other interest income</i>	14	86	3.208	2.537	5.845
Interest expense	422.241	127.697	2.114.592	931.350	3.595.880
<i>Interest on deposits</i>	411.857	122.065	2.080.967	280.677	2.895.566
<i>Interest on borrowings</i>	824	5.286	8.269	121.986	136.365
<i>Interest on money market borrowings</i>	-	-	-	309.922	309.922
<i>Interest on marketable securities issued</i>	-	-	-	214.129	214.129
<i>Other interest expense⁽²⁾</i>	9.560	346	25.356	4.636	39.898
Net interest income	162.304	553.161	1.549.778	537.929	2.803.172
Net fees and commissions income	89.322	126.924	317.705	81.101	615.052
Net trading profit / (loss)	-	-	-	(27.253)	(27.253)
Dividend income	-	-	-	188.625	188.625
Other income	4.413	38.592	153.584	509.919	706.508
Loans and other receivables' impairment loss	361.601	33.002	206.918	491.614	1.093.135
Other expenses	11.139	31.492	824.755	822.073	1.689.459
Income before taxes	(116.701)	654.183	989.394	(23.366)	1.503.510
Income tax provision	-	-	-	(274.120)	(274.120)
Net profit for the period	(116.701)	654.183	989.394	(297.486)	1.229.390
SEGMENT ASSETS					
Marketable securities	-	-	-	27.908.076	27.908.076
Derivative financial assets held for trading	-	-	-	247.055	247.055
Banks and money market receivables	-	-	-	2.513.285	2.513.285
Associates and subsidiaries (net)	-	-	-	2.913.254	2.913.254
Loans	20.160.448	23.941.048	73.389.277	9.254.204	126.744.977
Other assets ⁽¹⁾	411	219.166	994.260	26.188.866	27.402.703
TOTAL ASSETS	20.160.859	24.160.214	74.383.537	69.024.740	187.729.350
SEGMENT LIABILITIES					
Deposits	15.516.346	7.832.679	84.745.717	14.051.223	122.145.965
Derivative financial liabilities held for trading	-	-	-	150.706	150.706
Money market balances	-	-	-	8.410.266	8.410.266
Borrowing funding loans	2.623	178.763	524.629	19.555.601	20.261.616
Bonds issued	-	-	-	8.905.289	8.905.289
Other liabilities	182.692	227.718	3.890.413	1.573.957	5.874.780
Provisions and tax payable	44.141	35.196	165.682	2.311.366	2.556.385
Shareholders' equity	-	-	-	19.424.343	19.424.343
TOTAL LIABILITIES	15.745.802	8.274.356	89.326.441	74.382.751	187.729.350
OFF BALANCE SHEET ITEMS					
Guarantees and surety ships	11.598.690	8.607.657	9.653.785	9.921.118	39.781.250
Commitments	42.388	761.495	8.566.394	12.013.488	21.383.765
Derivative financial instruments	-	-	-	24.373.923	24.373.923

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VIII. EXPLANATIONS ON 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 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 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 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 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)	144.861.561	131.035.534	11.588.925
2 Standardised approach (SA)	144.861.561	131.035.534	11.588.925
3 Internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	509.925	278.641	40.794
5 Standardised approach for counterparty credit risk (SA-CCR)	509.925	278.641	40.794
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	5.118.437	4.870.728	409.475
17 Standardised approach (SA)	5.118.437	4.870.728	409.475
18 Internal model approaches (IMM)	-	-	-
19 Operational Risk	11.297.473	10.978.221	903.798
20 Basic Indicator Approach	11.297.473	10.978.221	903.798
21 Standart Approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amount of the discount threshold under the equity (subject to a 250% risk weight)	557.960	552.500	44.637
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	162.345.356	147.715.623	12.987.629

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

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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)	97.571	181.157		1,4	278.728	192.683
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)					405.438	108.215
VaR for SFTs					-	-
Total					-	470.614

(*) 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	278.728	192.683
Total subject to the CVA capital charge	39.311	39.311

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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	-	-	-	-	-	-	351.098
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	516.105	-	840	-	-	1.156.395
Corporate	-	31.549	-	-	-	157.091	-	-	188.640
Regulatory retail portfolios	-	27.621	-	-	962	-	-	-	28.583
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	516.105	962	157.931	-	-	1.733.387

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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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	4.330.101	137.879.687	3.292.581	138.917.207
2	Debt Securities	-	28.467.806	34.651	28.433.155
3	Off-balance exposure	-	69.156.778	-	69.156.778
4	Total	4.330.101	235.504.271	3.327.232	236.507.140

* 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	3.973.738
2	Loans and debt securities that have defaulted since the last reporting period	591.787
3	Returned to non-defaulted status	(29.944)
4	Amounts written off	-
5	Other changes	(205.480)
	Defaulted loans and debt securities at end of the reporting period	
6	(1+2-3-4+5)	4.330.101

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	98.146.505	40.770.702	33.588.245	390.169	390.169	-
2	Debt Securities	28.433.155	-	-	-	-	-
3	Total	126.579.660	40.770.702	33.588.245	390.169	390.169	-
4	Of which defaulted	284.597	752.923	304.042	8.842	8.842	-

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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	51.477.311	80.810	51.477.311	40.405	12.529.221	8,59
Non-central government public sector entities	1.300.626	38.993	1.300.626	19.496	650.051	0,45
Regional governments or local authorities	490.215	430.862	490.215	211.662	665.938	0,46
Multilateral development banks	-	-	-	-	-	-
International organizations	-	-	-	-	-	-
Banks and intermediary institutions	2.775.822	2.518.759	2.775.822	1.266.137	1.136.236	0,78
Corporates	50.496.614	38.575.522	50.496.614	21.500.859	68.941.278	47,23
Regulatory retail portfolios	49.029.703	24.988.611	49.029.703	6.461.258	40.287.025	27,61
Secured by residential property	15.862.158	150.811	15.862.158	79.924	5.695.355	3,90
Secured by commercial real estate	16.513.113	878.070	16.513.113	514.400	8.513.756	5,83
Past-due loans	1.020.592	7.565	1.020.592	3.783	996.426	0,68
Higher-risk categories	17.598	113.408	17.598	56.713	111.468	0,08
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	7.656.869	-	7.656.869	-	3.178.508	2,18
Investment on securities	2.889.407	-	2.889.407	-	3.224.183	2,21
Total	199.530.028	67.783.411	199.530.028	30.154.637	145.929.445	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	26.326.925	162.090	4.460	-	25.024.241	-	-	-	-	-	51.517.716
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	1.213	-	-	-	665.179	-	-	-	701.877
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-	-	-
Banks and intermediary institutions	699.389	576.632	1.689.696	-	671.216	-	405.026	-	-	-	4.041.959
Corporates	1.924.572	31.231	975.141	-	646.807	-	68.419.722	-	-	-	71.997.473
Regulatory retail portfolios	1.634.418	27.621	158.963	-	-	53.669.959	-	-	-	-	55.490.961
Secured by residential property	24.030	-	3.785	15.604.771	-	306.270	3.226	-	-	-	15.942.082
Secured by commercial real estate	-	-	-	-	17.027.513	-	-	-	-	-	17.027.513
Past-due loans	10.169	-	-	-	35.560	-	978.646	-	-	-	1.024.375
Higher-risk categories	-	-	-	-	-	-	-	74.311	-	-	74.311
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	-	-	-	-	-	-	2.666.223	-	-	223.184	2.889.407
Other Recievables	3.563.240	-	1.028.230	-	-	370.149	2.695.250	-	-	-	7.656.869
Total	34.230.278	806.245	3.861.488	15.604.771	44.704.738	54.346.378	75.833.272	74.311	-	223.184	229.684.665

*Secured by mortgages

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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)

Market risk under standardised approach

	RWA
Outright products	
Interest rate risk (general and specific)	4.538.875
Equity risk (general and specific)	151.475
Foreign exchange risk	384.775
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	43.312
Scenario approach	-
Securitisation	-
Total	5.118.437

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO THE ASSETS

(1) Cash and Central Bank of Turkey:

a) Information on balances with the Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	854.117	323.648	924.441	285.614
Central Bank of Turkey	2.089.743	20.968.530	3.414.818	18.700.084
Other	-	12	-	14
Total	2.943.860	21.292.190	4.339.259	18.985.712

Information on balances with the 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.

As per the Communiqué no. 2013/15 “Reserve Deposits” of the Central Bank of Turkey (CBT), banks keep reserve deposits at the CBT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 5%-11.5% for TL deposits and other liabilities, between 5%-25% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 by the Central Bank what is held in banks are of certain conditions: Turkish Lira required reserve amount, the Central Bank website published the weighted average funding cost (AOFM) ratio of 300 or 500 basis points missing from the rate.

With the change in press release dated 23 January 2015, it has been decided to apply a 20 basis point annual commission, to be charged on daily account balances and collected on a monthly basis, on required reserves and two days notice account denominated in Euro held by banks and these are going to be collected as of 1 February 2015.

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 0,49% for the reporting period.

With the Board of Minutes No.872 dated 30 January 2014 of TRNC Central Bank’s, required reserve ratio is between 5% and 8% for TRY liabilities and for foreign currency liabilities.

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

I. EXPLANATIONS AND NOTES RELATED TO THE 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:

None.

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

None.

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	95.970	-	131.503
Swap transactions	-	196.145	-	115.474
Futures transactions	-	-	-	-
Options	31	1	7	71
Other	-	-	-	-
Total	31	292.116	7	247.048

(3) Information on banks and other financial institutions:

Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	2.061	14.176	10.080	526.985
Foreign banks	29.374	806.785	55.258	1.920.962
Branches and offices abroad	-	-	-	-
Total	31.435	820.961	65.338	2.447.947

(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	-	253.965	-	700.441
Total	-	253.965	-	700.441

a.2. Information on financial assets available-for-sale subject to repurchase agreements:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	4.315.758	898.705	1.269.031	355.458
Total	4.315.758	898.705	1.269.031	355.458

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

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

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

	Current period	Prior period
Debt securities	12.457.423	11.232.896
<i>Quoted on a stock exchange</i>	12.457.423	11.232.896
<i>Not quoted</i>	-	-
Share certificates	124.232	185.673
<i>Quoted on a stock exchange</i>	89.532	150.973
<i>Not quoted</i>	34.700	34.700
Impairment provision(-)	34.651	209.576
Total	12.547.004	11.208.993

(5) Information on loans:

a) Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	195.601	-	182.849	-
Total	195.601	-	182.849	-

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	Other	Loans and other receivables (Total)	Agreement conditions modified	Other
		Payment plan extensions	Other		Payment plan extensions	Other
Cash loans						
Non-specialized loans	105.855.314	1.190.774	-	3.873.249	1.869.824	-
<i>Corporation loans</i>	68.240.397	913.749	-	3.380.348	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>	3.173.429	-	-	-	-	-
<i>Consumer loans⁽¹⁾</i>	25.610.167	42.687	-	237.472	4.464	-
<i>Credit cards⁽²⁾</i>	3.134.239	41.366	-	79.684	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	1.648.033	15.969	-	49.835	23.342	-
Total	133.743.412	1.296.819	-	4.136.275	1.895.514	-

⁽¹⁾ Includes TRY 149.179 of personnel loans.

⁽²⁾ Includes TRY 46.422 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE 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	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
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	214	-	214
<i>Installment</i>	-	-	-
<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	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
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	77	-	77
<i>Installment</i>	-	-	-
<i>Non-installment</i>	77	-	77
Overdraft accounts-TRY (Retail customer)	631.201	-	631.201
Overdraft accounts-FC (Retail customer)	-	-	-
Total	3.356.290	24.908.562	28.264.852

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

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

I. EXPLANATIONS AND NOTES RELATED TO THE 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	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
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	-	9
<i>Installment</i>	-	-	-
<i>Non-installment</i>	9	-	9
Overdraft accounts-TRY (Commercial customer)	894.986	-	894.986
Overdraft accounts-FC (Commercial customer)	-	-	-
Total	1.698.128	1.103.858	2.801.986

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

e) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	136.653.405	124.605.142
Foreign loans	1.226.282	1.193.982
Total	137.879.687	125.799.124

f) Loans granted to subsidiaries and associates:

	Current period	Prior period
Direct loans granted to subsidiaries and associates	1.022.516	1.040.418
Indirect loans granted to subsidiaries and associates	-	-
Total	1.022.516	1.040.418

g) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	334.068	221.458
Loans and receivables with doubtful collectability	212.608	169.213
Uncollectible loans and receivables	2.745.905	2.637.214
Total	3.292.581	3.027.885

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I. EXPLANATIONS AND NOTES RELATED TO THE 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	21.716	1.344	35.599
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	21.716	1.344	35.599
Prior period	24.231	14.063	153.307
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	24.231	14.063	153.307

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	335.592	206.401	3.431.745
Additions (+)	549.544	6.864	35.379
Transfers from other categories of loans under follow-up (+)	-	313.535	182.349
Transfers to other categories of loans under follow-up (-)	316.902	178.982	-
Collections (-)	73.717	37.606	124.101
Write-offs (-)	-	-	-
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	-
Current period end balance	494.517	310.212	3.525.372
Specific provision (-)	334.068	212.608	2.745.905
Net balance on balance sheet	160.449	97.604	779.467

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	57.039	44.000	1.489.671
Specific provisions(-)	31.980	24.619	960.648
Net balance in the balance sheet	25.059	19.381	529.023
Prior period			
Balance at the end of the period	44.441	17.260	1.450.081
Specific provisions(-)	20.741	15.661	926.704
Net balance in the balance sheet	23.700	1.599	523.377

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

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

(5) Information on loans: (continued)

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)	160.449	97.604	779.467
Loans to granted real persons and legal entities (Gross)	493.926	309.756	3.454.964
Specific provisions (-)	333.477	212.152	2.675.497
Loans to granted real persons and legal entities (Net)	160.449	97.604	779.467
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)	114.134	37.188	794.531
Loans to granted real persons and legal entities (Gross)	335.222	206.058	3.371.949
Specific provisions (-)	221.088	168.870	2.577.418
Loans to granted real persons and legal entities (Net)	114.134	37.188	794.531
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	370	343	59.796
Specific provisions (-)	370	343	59.796
Other loans and receivables (Net)	-	-	-

k) Main guidelines of the liquidation policy of the Bank about the uncollectible loans and receivables:

The Bank liquidates its uncollectible receivables through three methods. These are by signing financial restructuring contract under the Law No: 4743, by making payment protocols and by presenting adequate repayment schedules for the lower amount of receivables. Within the context of this collection policy, non-performing loans are collected in considerable amounts. Collections are firstly offset against lawsuits and expenses, interest and capital receivables from loans.

The Bank recently collects some of its receivables by acquiring debtor properties in consideration of collaterals given to loans granted.

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

I. EXPLANATIONS AND NOTES RELATED TO THE 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	3.390.012	771.973
Total	3.523.930	1.022.233	3.390.012	771.973

a.2. Held-to-maturity investments subject to repurchase agreements:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	5.851.229	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
Government bonds	15.797.095	16.676.797
Treasury bills	-	-
Other public sector debt securities	-	-
Total	15.797.095	16.676.797

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	15.797.095	16.676.797
<i>Quoted on a stock exchange</i>	15.797.095	16.676.797
<i>Not quoted</i>	-	-
Impairment provision (-)	-	-
Total	15.797.095	16.676.797

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

	Current period	Prior period
Beginning balance	16.676.797	17.763.665
Foreign currency differences on monetary assets	(16.359)	386.593
Purchases during the year ⁽¹⁾	314.413	1.006.511
Disposals through sales and redemptions	(1.177.756)	(2.479.972)
Impairment provision (-) / provision reversal (+)	-	-
Balance at the end of the period	15.797.095	16.676.797

⁽¹⁾ Interest income accrual difference between 30 June 2016 amounting to TRY 1.631.757 and 31 December 2015 amounting to TRY 1.679.841 has been included in purchases row.

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

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

(7) Information on associates (Net):

a) Information on associates:

Description	Address (City/ Country)	Bank's share percentage, if different- voting percentage (%)	Bank's risk group share percentage (%)
1. Demirhalkbank NV	Rotterdam/The Netherlands	30,00	30,00
2. Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara/Turkey	31,47	33,12
3. Kredi Kayıt Bürosu AŞ	İstanbul/Turkey	18,18	18,18
4. Bankalararası Kart Merkezi AŞ ⁽²⁾	Istanbul/Turkey	18,95	18,95
5. Türk P ve I Sigorta AŞ	Istanbul/Turkey	16,67	16,67

b) Information related to the associates as sorted in (a): ⁽¹⁾

Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1. 6.027.622	769.737	28.450	47.307	669	12.484	12.584	209.880
2. 47.501	46.898	155	705	-	28	67	-
3. 148.630	106.089	80.099	1.061	-	6.179	9.865	-
4. 68.358	29.660	42.971	985	-	3.869	2.423	-
5. 18.158	3.366	505	105	-	(193)	-	-

⁽¹⁾ The information is presented from companies' financial statements as of 31 March 2016.

⁽²⁾ The financial informations of Bankalararası Kart Merkezi has been obtained from its independent audit report as of 31 December 2015.

c) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	227.320	92.553
Movements during the period	2.184	134.767
Purchases	-	1.245 ⁽¹⁾
Bonus shares obtained profit from current year's share	-	-
Dividends from current year income	-	-
Sales	-	-
Transfers	-	-
Revaluation decrease (-) / increase	2.184	133.522
Provision for impairment (-) / reversals (+)	-	-
Balance at the end of the period	229.504	227.320
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾ Includes purchases of 16,67% share of Türk P&I Sigorta AŞ amounting to TRY 1.245 for the prior period.

d) Sectoral information and related carrying amounts of associates:

	Current period	Prior period
Banks	210.421	208.237
Insurance companies	1.245	1.245
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	11.518	11.518

e) Associates quoted to a stock exchange:

None.

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

(8) Information on subsidiaries (Net):

a) Information on subsidiaries:

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Bank AD, Skopje	Halk Faktorin g AŞ	Halkbank A.D. Beograd
CORE CAPITAL									
Paid in Capital	82.000	94.000	183.000	743.000	272.250	8.000	109.685	46.500	53.667
Effect of Inflation Adjustment on Paid in Capital	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	49.945	-	-	11.633	-	44.552
Reserves	9.517	44.572	30.859	50.023	8.430	412	51.527	1.216	40.486
Other Comprehensive Income according to TAS	287	(301)	(7.413)	3	(98)	(22)	372	(833)	7.541
Profit / Loss	13.151	(250.299)	157.018	68.164	35.887	6.302	40.972	15.705	630
<i>Net Profit</i>	2.858	(230.317)	36.633	10.739	11.409	1.521	3.617	5.491	3.922
<i>Prior Period Profit/Loss</i>	10.293	(19.982)	120.385	57.425	24.478	4.781	37.355	10.214	(3.292)
Bonus Shares from Associates, Subsidiaries and Joint Ventures not Accounted in Current Period's Profit	-	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	171	-	-	-	4.158	292	-
Intangible Assets (-)	1.091	3.611	1.114	477	830	24	1.982	261	551
Total Core Capital	103.864	(115.639)	362.179	910.658	315.639	14.668	208.049	62.035	146.325
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	12.602	-	3.925
CAPITAL	103.864	(115.639)	362.179	910.658	315.639	14.668	220.651	62.035	150.250
DEDUCTIONS FROM CAPITAL	-	-	-	-	-	-	-	-	-
NET AVAILABLE CAPITAL	103.864	(115.639)	362.179	910.658	315.639	14.668	220.651	62.035	150.250

⁽¹⁾ The information is presented from companies' financial statements as of 31 March 2016.

There is no internal capital adequacy assessment approach for the subsidiaries.

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry.

Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items.

Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves.

Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the third clause of first and second paragraph of 466 and 519 articles of Turkish Commercial Code no. 6102.

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

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

(8) Information on subsidiaries (continued)

b) Information on subsidiaries: (Net):

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Halk Yatırım Menkul Değerler AŞ	İstanbul	99,96	99,96
2. Halk Sigorta AŞ ⁽⁴⁾⁽⁵⁾	İstanbul	89,18	93,99
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. Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	İstanbul	100,00	100,00
10. Halkbank A.D. Beograd	Serbia	82,47	82,47

c) Information related to the subsidiaries as sorted in (b): ⁽¹⁾

	Total assets	Shareholders ' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value ⁽²⁾
1.	662.447	103.864	1.832	7.419	485	2.858	1.631	132.810
2.	1.090.731	(115.639)	5.880	17.851	1.805	(230.317)	5.534	346.980
3.	724.084	362.179	2.192	21.032	7.824	36.633	26.890	850.105
4.	1.038.862	910.658	652.883	1.410	-	10.739	10.470	561.498
5.	2.263.246	315.639	1.318	35.933	-	11.409	6.107	413.336
6.	15.904	14.668	326	507	5	1.521	784	16.466
7.	1.566.401	220.651	37.838	20.208	1.826	3.617	2.361	211.838
8.	647.823	62.035	1.098	21.800	-	5.491	2.306	61.758
9.	34.110	20.347	3.090	104	386	449	868	38.029
10.	796.400	150.250	15.782	8.870	943	3.922	-	65.993

⁽¹⁾ The financial data is obtained from 31 March 2016 limited reviewed financial statements.

⁽²⁾ The data for Halkbank AD.Skobje ve Halkbank AD Beograd are obtained from the valuation report for the three-month period ended 31 March 2016, the fair values of non-foreign subsidiaries are obtained from the valuation report for the year end period ended 31 December 2015. Halk Gayimlenkul Yatırım Ortaklığı A.Ş is valued by stock price.

⁽³⁾The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

⁽⁴⁾ In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Free Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

⁽⁵⁾ 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(8) Information on subsidiaries (Net): (continued)

d) Movement of the subsidiaries:

	Current period	Prior period
Balance at the beginning of the period	2.685.934	2.576.816
Movements during the period	(41.849)	109.118
<i>Purchase</i>	-	28.907 ⁽¹⁾
<i>Bonus shares obtained profit from current year's share</i>	140.347	61.035
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfer</i>	-	-
<i>Revaluation increase</i>	(119.661)	19.176
<i>Reversal of provision for impairment (-)</i>	(62.535)	-
Balance at the end of the period	2.644.085	2.685.934
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾In the period of 30 June 2015, Halkbank AD. Beograd's -located in Serbia- 76,76% shares have been bought out by the bank for TRY 28.907. In the current period, the bank paid TRY 30.704 to Halkbank AD. Beograd and its shares has increased to 82,47%.

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

	Current period	Prior period
Banks	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	38.029

f) 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 since Halk Sigorta AŞ does not have transaction depth on the Borsa İstanbul AŞ.

⁽²⁾ The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

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

None.

(10) Information on finance lease receivables (Net):

None.

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

None.

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

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

(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”.

(14) Information on investment property:

	Current Period	Prior Period
Cost:		
Opening Balance	428.525	-
Acquisitions	169	-
Transfer	-	428.525
Disposals	-	-
Impairment Charge/Cancellation(-)	-	-
Ending Balance	428.694	428.525
Accumulated Depreciation		
Opening Balance	63.525	-
Amortization Charge (-)	1.605	-
Transfer	-	63.525
Impairment Charge/Cancellation (-)	-	-
Ending Balance	-	-
Total Accumulated Depreciation	65.130	63.525
Net Book Value	363.564	365.000

⁽⁹⁾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.

(15) Information on tax assets:

Please refer to Section 5, explanations related to the liabilities footnote 10.

(16) Information on non-current assets held for sale:

	Current period	Prior period
Cost	648	1.200
Accumulated Depreciation (-) ⁽¹⁾	(99)	(109)
Net Book Value	549	1.091
Opening Balance	1.091	5.516
Acquisitions (Transfers) (Net)	(552)	(468)
Disposals (Net)	-	(6.193)
Impairment Charge/Cancellation	-	49
Amortization Charge	10	2.187
Net Book Value	549	1.091

⁽¹⁾ The amount of accumulated depreciation belongs to asset held for sale in current period.

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 2.195.770 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.535.243).

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

II. EXPLANATIONS AND NOTES RELATED TO THE LIABILITIES

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	5.394.355	-	434.143	30.142.827	1.152.400	362.553	552.841	109.757	38.148.876
Foreign currency deposits	6.317.446	-	1.601.653	21.914.239	3.329.940	832.924	3.227.055	10.449	37.233.706
<i>Residents in Turkey</i>	4.420.052	-	1.573.871	21.451.363	3.212.615	721.170	2.101.429	10.131	33.490.631
<i>Residents abroad</i>	1.897.394	-	27.782	462.876	117.325	111.754	1.125.626	318	3.743.075
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	3.604.752	-	2.791.418	15.020.356	2.290.570	180.675	32.428	-	23.920.199
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	3.646.378	-	7.799.171	5.140.684	271.914	95.738	789.698	-	17.743.583
<i>Central Bank of Turkey</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	60.651	-	3.833.830	1.881.729	4.079	-	-	-	5.780.289
<i>Foreign banks</i>	3.432.225	-	3.790.215	3.258.955	267.835	95.738	789.698	-	11.634.666
<i>Participation banks</i>	153.502	-	175.126	-	-	-	-	-	328.628
Total	22.647.777	-	14.882.889	76.292.906	8.077.707	3.749.200	4.699.488	120.206	130.470.173

a.2. Prior period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	4.293.296	-	474.007	28.297.921	1.096.767	366.364	581.833	103.000	35.213.188
Foreign currency deposits	5.795.426	-	3.288.740	18.585.006	2.565.435	987.235	3.177.812	10.680	34.410.334
<i>Residents in Turkey</i>	4.689.558	-	3.254.644	18.013.646	2.459.778	709.667	2.100.420	10.508	31.238.221
<i>Residents abroad</i>	1.105.868	-	34.096	571.360	105.657	277.568	1.077.392	172	3.172.113
Public sector deposits	2.446.626	-	3.016.281	2.937.312	272.240	1.773.372	90.299	-	10.536.130
Commercial inst. deposits	3.228.168	-	3.127.098	16.497.782	816.279	33.215	28.447	-	23.730.989
Other inst. deposits	557.371	-	644.038	1.468.290	8.244	38.413	4.407	-	2.720.763
Precious metals	885.003	-	-	-	-	-	-	-	885.003
Interbank deposits	3.328.282	-	5.519.682	4.577.196	290.993	-	933.405	-	14.649.558
<i>Central Bank of Turkey</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	10.335	-	5.298.361	2.767.451	288.091	-	-	-	8.364.238
<i>Foreign banks</i>	2.367.756	-	221.321	1.809.745	2.902	-	933.405	-	5.335.129
<i>Participation banks</i>	950.191	-	-	-	-	-	-	-	950.191
Total	20.534.172	-	16.069.846	72.363.507	5.049.958	3.198.599	4.816.203	113.680	122.145.965

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

II. EXPLANATIONS AND NOTES RELATED TO THE 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	6.570.452	6.441.824	11.759.497	11.014.043
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	2.152	4.771
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26.9.2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

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

II. EXPLANATIONS AND NOTES RELATED TO THE 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	-	126.026	-	84.150
Swap transactions	-	212.170	-	66.184
Future transactions	-	-	-	-
Options	49	373	18	354
Other	-	-	-	-
Total	49	338.569	18	150.688

(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	305.020	1.548.727	327.509	1.316.866
Foreign banks, institutions and funds	197.064	16.660.655	496.699	18.120.542
Total	502.084	18.209.382	824.208	19.437.408

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	306.350	4.975.665	323.748	7.485.324
Medium and long-term	195.734	13.233.717	500.460	11.952.084
Total	502.084	18.209.382	824.208	19.437.408

c) Additional disclosures related to the concentrations of the Bank's major liabilities:

Concentrations, fund providing customers, sector groups and other criteria where risk concentration is observed:

Main liability of the Bank is deposit, which is composed of 29,24% of saving deposits and 28,54% of foreign currency deposits. In order to fulfill the short term liquidity requirements, the Bank borrows loans from interbank money markets. The Bank can borrow loans from overseas institutions especially to be used in the financing of consumer loans. There are funds obtained from the Ministry of Industry and Trade especially for constructing small industrial estates and organized industrial estates.

The Bank's 44,79% of banks deposits and 33,03% of other deposits consist of foreign currency deposits.

TÜRKİYE HALK BANKASI AŞ
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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills ⁽¹⁾	1.642.209	-	1.565.442	-
Bonds ⁽²⁾	-	7.280.045	-	7.339.847
Total	1.642.209	7.280.045	1.565.442	7.339.847

⁽¹⁾As of 20 May 2015, the bonds amounting to TRY 1.000.000 with maturity of 175 days and as of 4 March 2016 the bonds amounting TRY 750.000 with a maturity of 175 days and as of 6 April 2016 the bonds amounting TRY 200.000 with a maturity of 98 days are issued by the Bank.

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

(5) Explanations to the funds:

Funds are granted as loans in conformity with the protocols between the Bank and fund owner ministry or institutions. These funds include funds from the Ministry of Industry and Trade, Treasury Natural Disasters Credit Fund, Under Secretariat of Treasury and Foreign Trade Funds, Turkish Treasury Incentive Certificated SMEs Credit Fund, Housing Development Administration Fund and other funds.

a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	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 2.380.260 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.592.403).

(7) Information on finance lease payables (Net):

a) The general explanations on criteria used in determining installments of financial lease agreements, renewal and purchasing options and restrictions in the agreements that create significant obligations to the Bank:

In the financial lease agreements, installments are based on useful life, usage periods and provisions of the TAS.

b) Explanation on finance lease payables:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	74	71	321	289
Between 1-4 years ⁽¹⁾	165	158	702	622
More than 4 years	128	100	220	179
Total	367	329	1.243	1.090

⁽¹⁾ Finance lease payables are presented with respect to original maturity.

c) Explanations regarding operational leases:

The operational leasing agreements are signed for some branches. The agreements are prepared annually and annual rents are paid in advance and recorded as prepaid expense in "other assets". The Bank does not have any commitments arising on the existing operational lease agreements.

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

II. EXPLANATIONS AND NOTES RELATED TO THE 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	1.226.907	1.123.838
Provisions for first group loans and receivables	970.796	910.447
<i>Additional provisions for the loans with extended payment plan</i>	25.429	33.186
Provisions for second group loans and receivables	137.894	108.328
<i>Additional provisions for the loans with extended payment plan</i>	93.609	66.843
Provisions for non cash loans	118.217	105.063
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 Bank's specific provision for unindemnified non-cash loans balance is TRY 123.456 (31 December 2015: TRY 93.878).

d) Information on other provisions:

Total other provision balance amounting to TRY 271.152 (31 December 2015: TRY 334.442) consists of TRY 123.456 (31 December 2014: TRY 93.878) for specific provisions for unindemnified non cash loans, TRY 64.850 (31 December 2015: TRY 34.100) for legal cases filed against the Bank and TRY 82.846 (31 December 2015: TRY 82.964) of other provisions. There is no general provision for possible risk in current period (31 December 2015: TRY 123.500).

e) Liabilities arising from retirement benefits:

e.1. Liabilities of pension funds founded as per the Social Security Institution:

None.

e.2. Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees:

Based on the results of the actuarial reports prepared as of 31 December 2015, it was determined that no technical deficit for Türkiye Halk Bankası AŞ Emekli Sandığı, T.C. Ziraat Bankası and Türkiye Halk Bankası Çalışanları Emekli Sandığı Vakfı.

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

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

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 30 June 2016, the Bank's corporate tax payable for the 2nd quarter of 2016 is amounting to TRY 234.383 and this amount has been submitted to account of corporate tax provision at the related date.

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	234.383	105.440
Income on securities tax	140.536	143.352
Property income tax	1.541	1.323
Banking and insurance transactions tax (BITT)	68.359	66.010
Foreign exchange transactions tax	12	9
Value added tax payable	-	-
Other	21.352	23.059
Total	466.183	339.193

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	12	17
Social insurance premiums-employer	14	20
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	-	-
Unemployment insurance-employer	-	-
Other	2.364	1.703
Total	25.717	18.785

b) Deferred tax liability:

	Current period	Prior period
Deferred Tax (Asset) /Liability		
Provisions ⁽¹⁾	167.228	162.891
Revaluation of Financial Assets	(220.570)	(224.515)
Other	(8.574)	(7.640)
Deferred Tax Liability:	(61.916)	(69.264)
Deferred tax accounted in shareholders' equity	(70.910)	(22.850)
Fair value differences for available for sale financial assets	(16.099)	31.975
Actuarial gains and losses	4.566	4.566
Subsidiaries Valuation	-	-
Property Revaluation	(59.377)	(59.391)

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

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

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

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

None.

(12) Explanations on the number of subordinated loans the Bank used maturity, interest rate, institutions that the loan was borrowed from, and conversion option, if any:

None.

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

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

(13) Information on shareholders' equity:

a) Presentation of paid-in capital:

	Current period		Prior period	
Common stock	1.250.000		1.250.000	
Preferred stock	-		-	

b) Application of registered capital system and registered capital ceiling amount:

There is an application of registered capital system and registered capital ceiling amount is TRY 7.500.000.

c) Information on share capital increases and their sources; other information on increased capital shares in the current period:

None.

d) Information on additions from capital reserves to capital in the current period:

None.

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 Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The Bank has sustainable profitability structure and equity structure. There are no uncertainties that would impact the current position.

g) Information on preferred shares:

None.

h) Information on marketable securities revaluation fund:

	Current period		Prior period	
	TP	YP	TP	YP
From subsidiaries, associates and jointly controlled entities (joint ventures)	973.101	93.255	1.158.202	92.152
<i>Revaluation difference</i>	973.101	93.255	1.158.202	92.152
<i>Exchange rate difference</i>	-	-	-	-
Valuation differences of financial assets available for sale	41.316	36.355	(188.893)	(94.626)
<i>Revaluation difference</i>	41.316	36.355	(188.893)	(94.626)
<i>Exchange rate difference</i>	-	-	-	-
Total	1.014.417	129.610	969.309	(2.474)

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

III. EXPLANATIONS AND NOTES RELATED TO THE OFF-BALANCE SHEET ITEMS

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

Types of irrevocable commitments	Current period	Prior period
Commitments for credit card expenditure limits	11.908.658	11.157.873
Payment commitments for cheques	5.791.714	5.442.458
Loan granting commitments	3.052.320	2.543.438
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
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	2.547.085	1.691.022
Total	24.624.192	21.383.765

b) Amount and nature of probable losses and commitments from the off-balance sheet items including the below mentioned:

b.1. Non-cash loans including bank bill guarantees and acceptances, guarantees substituting financial guarantees and other letters of credit:

	Current period	Prior period
Bank acceptance loans	4.652.595	5.002.040
Letters of credit	4.171.607	3.273.781
Other guarantees	854.966	879.817
Total	9.679.168	9.155.638

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

	Current period	Prior period
Letters of certain guarantees	14.210.506	13.968.827
Letters of advance guarantees	3.422.897	2.934.392
Letters of tentative guarantees	681.981	789.535
Letters of guarantee given to customs offices	888.537	880.741
Other letters of guarantee	15.649.497	12.052.117
Total	34.853.418	30.625.612

c) Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	1.221.211	939.782
<i>Within one year or less original maturity</i>	61.324	69.452
<i>Within more than one year maturity</i>	1.159.887	870.330
Other non-cash loans	43.311.375	38.841.468
Total	44.532.586	39.781.250

d) Information on contingent liabilities and assets:

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

e) Services supplied on behalf of others:

None.

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

IV. EXPLANATIONS AND NOTES RELATED TO THE INCOME STATEMENT

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on loans⁽¹⁾				
Short term loans	1.830.417	78.775	1.239.526	61.814
Medium and long term loans	3.787.328	950.826	3.118.563	735.417
Interest on non-performing loans	31.610	-	34.139	-
Premiums from resource utilization support fund	-	-	-	-
Total	5.649.355	1.029.601	4.392.228	797.231

⁽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	147	276	830	293
Overseas banks	1.395	967	1.602	731
Head office and branches	-	-	-	-
Total	34.964	5.882	10.674	1.377

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial Assets Held for Trading	2.097	424	1.300	412
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Available-for-Sale Financial Assets	376.660	103.775	295.580	76.934
Held-to-Maturity Investments	674.623	54.422	769.327	48.144
Total	1.053.380	158.621	1.066.207	125.490

d) Interest income from subsidiaries and associates:

	Current period	Prior period
Interest income from subsidiaries and associates	27.119	22.269

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

IV. EXPLANATIONS AND NOTES RELATED TO THE 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	22.243	142.924	32.155	104.203
<i>Domestic banks</i>	10.182	9.899	10.576	4.679
<i>Overseas banks</i>	12.061	133.025	21.579	99.524
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	9	8.881	7	-
Total	22.252	151.805	32.162	104.203

b) Interest expenses to subsidiaries and associates:

	Current period	Prior period
Interest expenses to subsidiaries and associates	62.856	37.290

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	82.211	169.077	65.144	148.985
Total	82.211	169.077	65.144	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	151.902	883.311	42.809	5.827	1.237	-	1.085.094
Other deposits	1	37.998	98.190	11.036	86.253	4.733	-	238.211
7 days call accounts	-	-	-	-	-	-	-	-
Total	213	573.858	2.833.117	130.644	109.189	25.689	4.261	3.676.971
Foreign currency								
Deposits	9	14.584	221.001	18.280	6.892	24.355	-	285.121
Bank deposits	-	43.345	-	-	-	-	-	43.345
7 days call accounts	-	-	-	-	-	-	-	-
Precious metal	-	-	-	-	-	-	-	-
Total	9	57.929	221.001	18.280	6.892	24.355	-	328.466
Grand total	222	631.787	3.054.118	148.924	116.081	50.044	4.261	4.005.437

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

IV. EXPLANATIONS AND NOTES RELATED TO THE 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	6.978.935	10.037.566
Profit from the capital market operations	7.424	27.484
Profit on derivative financial instruments	650.483	1.892.984
Foreign exchange gains	6.321.028	8.117.098
Loss (-)	6.941.813	10.064.819
Loss from the capital market operations	516	381
Loss on derivative financial instruments	1.064.286	2.494.152
Foreign exchange losses	5.877.011	7.570.286

(5) Information on other operating income:

	Current period	Prior period
Adjustments for Prior Period Expenses ⁽¹⁾	262.692	645.804 ⁽²⁾
Receivable from the asset sale on credit terms	106.679	40.785
Provision for communication expenses	4.817	4.035
Rent income	13.472	2.446
Other income	15.117	13.438
Total	402.777	706.508

(1) TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses

(2) Due to fact that the ratio of consumer loans to total loans has been below 25% as of the prior period, general allowances in the amount of 430.333 TRY were reversed.

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	384.600	600.367
<i>Group - III loans and receivables</i>	333.198	181.971
<i>Group - IV loans and receivables</i>	17.295	20.440
<i>Group - V loans and receivables</i>	34.107	397.956
General loan provision expenses	103.343	171.315
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	51.805	48.945
Total	539.748	1.093.135

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

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

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	876.269	746.542
Reserve for employee termination benefits	51.958	46.046
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	-	-
Depreciation expenses of fixed assets	53.728	52.262
Intangible assets impairment expense	-	-
<i>Goodwill impairment expense</i>	-	-
Amortization expenses of intangible assets	13.525	6.603
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	886	686
Amortization expenses of assets that will be disposed of	2.158	5.081
Impairment expense for property and equipment held for sale	-	-
Other operating expenses	561.067	503.353
<i>Operational leasing expenses</i>	102.947	79.814
<i>Maintenance expenses</i>	11.492	12.273
<i>Advertisement expenses</i>	45.812	34.031
<i>Other expenses</i>	400.816	377.235
Loss on sales of assets	609	969
Other	332.471	327.917
Total	1.892.671	1.689.459

(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 352.099 consists of TRY 407.507 of current tax charge and TRY 55.408 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) “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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)

V. EXPLANATION RELATED TO THE RISK GROUP OF THE BANK

(1) Volume of the Bank's transactions with its risk group and outstanding loan and deposit balances as of the period-end, period income and expenses from the risk group:

a) Current period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	1.040.418	198.346	-	-	-	-
Closing balance	1.022.516	195.434	-	-	-	-
Interest and commissions income	27.119	446	-	-	-	-

b) Prior period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	675.395	309.393	-	-	-	-
Closing balance	1.040.418	198.346	-	-	-	-
Interest and commissions income	22.269	728	-	-	-	-

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

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Deposits						
Beginning balance	1.019.114	803.623	-	-	-	-
Closing Balance	1.334.532	1.019.114	-	-	-	-
Interest expense on deposits	61.419	36.130	-	-	-	-

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

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Financial Assets At Fv Through Profit And Loss						
Beginning balance	20.615	430	-	-	-	-
Closing Balance	6.326	20.615	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

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

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

(2) Disclosures for risk group:

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

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

Bank's branches may operate as insurance agencies of Halk Sigorta AŞ and Halk Hayat ve Emeklilik AŞ and business agencies for Halk Yatırım Menkul Değerler AŞ. Besides, Halk Portföy Yönetimi AŞ is engaging in fund management of Bank's funds.

b) Besides the structure of relationship, nature of the transaction, amount and ratio to the total volume of transactions, amount of major items and ratio to all items, pricing policies and other factors:

	Amount	% compared to the amounts in the financial statements
Cash loans	1.022.516	0,75%
Non-cash loans	195.434	0,44%
Deposits	1.334.532	1,03%
Forward and option contracts	6.326	0,02%
Banks and financial institutions	-	-

Pricing of these transactions are in accordance with the general pricing policies of the Bank and are in line with market rates.

c) In cases whereby separate disclosure is not necessary, the total of similar items in order to present the total impact on the financial statements:
Explained in b).

d) Transactions accounted under the equity method:

None.

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel are TRY 4.527 as of 30 June 2016 (30 June 2015: TRY 5.797).

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 REPORT

I. EXPLANATIONS ON THE REVIEWED REPORT

The unconsolidated financial statements as of and for the year 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 Report dated 1 August 2016 is presented in the introduction of this report.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENT 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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SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

I. INTERIM PERIOD ACTIVITY REPORT INCLUDED CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO'S ASSESSMENTS 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 ASSESSMENTS 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 Unconsolidated Financial Information

Summary Balance Sheet (Million TRY)	June 2016	December 2015	Change (%)
Total Assets	200.377	187.729	6,7
Loans	138.917	126.745	9,6
<i>TRY</i>	95.549	87.246	9,5
<i>FC</i>	43.369	39.499	9,8
Marketable Securities	28.433	27.908	1,9
Deposit	130.470	122.146	6,8
<i>TRY</i>	84.441	79.723	5,9
<i>FC</i>	46.029	42.423	8,5
Total Equity	20.981	19.424	8,0

Summary Income Statement (Million TRY)	June 2016	June 2015	Change (%)
Interes Income	7.966	6.399	24,5
<i>On Loan</i>	6.679	5.189	28,7
<i>On Securities</i>	1.212	1.192	1,7
Interest Expense	4.868	3.596	35,4
<i>On Deposit</i>	4.005	2.896	38,3
Net Interest Income	3.098	2.803	10,5
Net Fee and Commission	616	615	0,2
Operating Income	4.350	4.286	1,5
Profit Before Tax	1.918	1.504	27,6
Net Profit	1.566	1.229	27,4

Ratio (%)	June 2016	December 2015
Interst Bearing Assets /Total Assets	82,9	82,9
Loans/Total Asset	69,3	67,5
Non-Performing Loans/Total Loans (Gross)	3,0	3,1
Demand Deposit/Total Deposit	17,4	16,8
Loan/Deposit Ratio	106,5	103,8
Average Return on Asset (ROA)	1,6	1,3
Average Return on Equity (ROE)	15,6	12,9
Net Interest Margin	3,9	4,0
Capital Adequacy Ratio	13,52	13,83

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(continued)

2016 Second quarter Interim Developments

Important Developments

Our bank sold bills with a maturity of 98 days and a nominal value of 200 million Turkish lira to qualified investors on April 5, 2016.

Our bank and the French Development Agency (AFD) signed a €100-million loan facility agreement with a 12-year maturity on April 27, 2016.

Following our bank's book-building process on May 16-18, 2016, bills with a maturity of 175 days and a nominal value of 1,000,000,000 Turkish lira in total public offering were issued. The book-building received a total nominal demand from investors worth 1,074,181,634 Turkish lira. As a result of this process, domestic retail and corporate investor groups were entitled to purchase bills with nominal values of 620,300,000 Turkish lira and 379,700,000 Turkish lira, respectively. The simple interest rate was 9.70 percent and the compound interest rate was 9.94 percent. Accordingly, 0.95558 Turkish lira of selling price was set for a bank bill with a nominal value of 1 Turkish lira.

After operating period, amount of 500 million USD Eurobond were issued in abroad as of July 1, 2016 and amount of 300 million TRY bond were issued in domestic. Besides, amount of 175 million USD and 476,5 million EURO participation loan were obtained as of July 4, 2016.

New Products and Campaigns

In recognition of the National Police Week which began on April 10, we held a consumer loan campaign aimed at all personnel in the service departments of the Turkish National Police.

To commemorate the bank's 78th anniversary, we organized a "Public Day" to offer loans with low interest rates and allocation fees in order to meet the cash needs of our customers.

We also presented "Education Loans" with the capacity to finance the educational expenses of students from primary school to doctorate level.

Social Responsibility Projects

This year, we were the main sponsor of the 27th Ankara International Film Festival that took place between April 28 and May 8, 2016.

We also provided support through our patronage of the "12th SME Summit -Entrepreneurship Ecosystem," held by the Turkish Foundation for Small and Medium Business (TOSYÖV).

In addition, the Bank sponsored the "Business Ideas Competition" of Gazi University and Gazi Teknopark.

We helped facilitate the Ahi Order Week celebrations held by the Ministry of Customs and Trade Directorate General of Craftsmen and Artisans in cooperation with the Çankırı and Erzurum chambers of tradesmen and craftsmen.

The Kırşehir Book Fair organized by the Kırşehir Municipality was one more event that we extended sponsorship to.