

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

# **Türkiye Halk Bankası Anonim Şirketi**

**Consolidated Financial Statements  
As of and For the Year Ended 31 December 2016  
With Independent Auditors' Report Thereon**  
*(Convenience Translation of Consolidated  
Financial Statements and Related Disclosures and Footnotes  
Originally Issued in Turkish)*

13 February 2017

*This report contains "Independent Auditors'  
Report" comprising 3 pages and; "Consolidated  
Financial Statements and Related Disclosures  
and Footnotes" comprising 136 pages.*

Convenience Translation of the Independent Auditors' Report  
Originally Prepared and Issued in Turkish (See Note I in Section Three)

To the Board of Directors of Türkiye Halk Bankası AŞ;

**Report on the Consolidated Financial Statements**

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

**Management's Responsibility for the Consolidated Financial Statements**

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Halk Bankası AŞ and its financial subsidiaries as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation

### **Report on Other Legal and Regulatory Requirements**

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

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

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

Alper Güvenç, SMMM  
Partner

13 February 2017  
Istanbul, Türkiye

### **Additional paragraph for convenience translation to English:**

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

**TÜRKİYE HALK BANKASI AŞ**  
**THE CONSOLIDATED FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016**

1. The Bank's Headquarter Address:  
Barbaros Mahallesi Şebboy Sokak No:4 Ataşehir/İstanbul
2. The Bank's Contact Phone and Facsimile:  
Phone : 0216 503 70 70  
Facsimile : 0212 340 93 99
3. The Bank's Website: [www.halkbank.com.tr](http://www.halkbank.com.tr)  
E-mail: halkbank.ir@halkbank.com.tr

The consolidated year ended financial report designed by the Banking Regulation and Supervision Agency in line with Communiqué on Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures consists of the sections listed below:

- **Section One** : GENERAL INFORMATION ABOUT THE PARENT BANK
- **Section Two** : CONSOLIDATED FINANCIAL STATEMENTS
- **Section Three** : EXPLANATIONS ON ACCOUNTING POLICIES OF THE GROUP
- **Section Four** : INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP
- **Section Five** : EXPLANATIONS AND NOTES TO THE CONSOLIDATED STATEMENTS OF THE PARENT BANK
- **Section Six** : OTHER EXPLANATIONS AND NOTES
- **Section Seven** : INDEPENDENT AUDITORS' REPORT

Subsidiaries, associates, and joint ventures which are consolidated within this financial report are as below:

<b>Subsidiaries</b>		<b>Associates</b>	
1.	Halk Yatırım Menkul Değerler AŞ	1.	Demir-Halkbank NV
2.	Halk Sigorta AŞ	2.	Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ
3.	Halk Hayat ve Emeklilik AŞ	3.	Türk P ve I Sigorta AŞ
4.	Halk Gayrimenkul Yatırım Ortaklığı AŞ		
5.	Halk Finansal Kiralama AŞ		
6.	Halk Portföy Yönetimi AŞ		
7.	Halk Faktoring AŞ		
8.	Halk Banka AD, Skopje		
9.	Halkbank AD, Beograd		

Unless otherwise indicated, these consolidated financial statements and explanatory footnotes and disclosures as of and for the year ended 31 December 2016 are prepared in **thousand Turkish Lira** and they have been independently audited and presented below in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Banking Regulation and Supervision Agency regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and related communiqués and interpretations including the Banks' records.

İstanbul, 13 February 2017

R. Süleyman Özdil	Sadık Tiltak	Yahya Bayraktar	Ali Fuat Taşkesenlioğlu	Mustafa Aydın	Yusuf Duran Ocak
<i>Chairman of the Board of Directors</i>	<i>Vice Chairman of the Board of Directors, Chairman of the Audit Committee</i>	<i>Member of the Board of Directors, Member of the Audit Committee</i>	<i>Member of the Board of Directors, Chief Executive Officer</i>	<i>Financial Management and Planning Vice Chief Executive 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 : Turgay AYIK / Director  
Tel/Fax No : 0216 503 52 14 / 0212 340 09 90

## **SECTION ONE**

### General Information About the Parent Bank

	<b>Page No</b>
I. Establishment Date of the Parent Bank, Initial Articles of Association, History of the Parent Bank Including The Changes of These Articles	3
II. Capital Structure of the Parent Bank, Shareholders That Retain Direct or Indirect Control and Management of the Parent Bank, Solely or Together, Changes About These Issues During the Year and Disclosures About The Group	3
III. Explanations Regarding the Parent Bank's Chairman and Members of Board of Directors, Audit Committee Members, Chief Executive Officer and Executive Vice Presidents and Their Shares Attributable to the Parent Bank, if any	4
IV. Information About the Persons and Institutions that Have Qualified Shares Attributable to the Parent Bank	6
V. Summary on the Parent Bank's Functions and Lines of Activity	6
VI. Explanation About Companies Within The Scope Of Consolidation	7
VII. Differences Between the Communiqué 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	9
VIII. The Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholder's Equity Between the Parent Bank and Its Subsidiaries or the Reimbursement of Liabilities	9

## **SECTION TWO**

### Consolidated Financial Statements

I. Consolidated Balance Sheet (Statement of Financial Position)	11
II. Consolidated Statement of Off-Balance Sheet Items	13
III. Consolidated Statement of Income	14
IV. Consolidated Statement of Income and Expense Items Accounted under Shareholders' Equity	15
V. Consolidated Statement of Changes in Shareholders' Equity	16
VI. Consolidated Statement of Cash Flows	17
VII. Consolidated Statement of Profit Distribution Table	18

## **SECTION THREE**

### Explanations on Consolidated Accounting Policies

I. Basis of Presentation	19
II. Explanations on the Strategy of Use of Financial Instruments and Foreign Currency Transactions	19
III. Information About the Associates and Subsidiaries Subject to Consolidation	20
IV. Explanations on Forward and Option Contracts and Derivative Instruments	23
V. Interest Income and Expenses	23
VI. Fees and Commission Income and Expenses	23
VII. Explanations and Disclosures on Financial Assets	23
VIII. Explanations on Impairment of Financial Assets	26
IX. Offsetting Financial Assets and Liabilities	27
X. Explanations on Sales and Repurchase Agreements (Repos) and Transactions on Securities Loaned	27
XI. Explanations on Assets Held For Sale and Discontinued Operations	28
XII. Explanations on Goodwill and Other Intangible Assets	28
XIII. Explanations on Property, Plant and Equipment	28
XIV. Explanations on Investment Properties	29
XV. Explanations on Leasing Transactions	29
XVI. Explanations on Insurance Technical Income and Expense	29
XVII. Explanations on Insurance Technical Provisions	29
XVIII. Explanations on Provisions and Contingent Liabilities	32
XIX. Explanations on Employee Benefit Liabilities	32
XX. Explanations on Taxation	33
XXI. Additional Explanations on Borrowings	35
XXII. Explanations on Shares and Share Issue	35
XXIII. Explanations on Bill Guarantees and Acceptances	36
XXIV. Explanations on Government Incentives	36
XXV. Explanations on Segment Reporting	36
XXVI. Explanations on Other Matters	36

#### **SECTION FOUR**

##### Information Related to Financial Structure and Risk Management of the Group

I.	Explanations Related to the Consolidated Shareholders Equity	37
II.	Explanations Related to the Consolidated Credit Risk	42
III.	Explanations Related to the Consolidated Currency Risk	53
IV.	Explanations Related to the Consolidated Interest Rate Risk	55
V.	Explanations Related to the Consolidated Position Risk of Shares	59
VI.	Explanations Related to the Consolidated Liquidity Risk Management and Liquidity Coverage Ratio	60
VII.	Explanations on Leverage Ratio	67
VIII.	Explanations Related to Consolidated Business Segmentation	68
IX.	Explanations on Presentation of Consolidated Financial Assets and Liabilities at Fair Value	71
X.	Explanations Related to Transactions Made on Behalf of Others and Transactions Based on Trust	73
XI.	Explanations of Risk Management and Risk Weighted Amounts	74

#### **SECTION FIVE**

##### Explanations and Notes to the Consolidated Financial Statements

I.	Explanations and Notes Related to the Consolidated Assets	88
II.	Explanations and Notes Related to the Consolidated Liabilities	110
III.	Explanations and Notes Related to the Consolidated Off-Balance Sheet Items	121
IV.	Explanations and Notes Related to the Consolidated Income Statement	124
V.	Explanations and Notes Related to the Consolidated Statement of Changes in Shareholders' Equity	129
VI.	Explanations and Notes Related to the Consolidated Cash Flow Statement	130
VII.	Explanation Related to the Risk Group of the Parent Bank	132
VIII.	Explanation On the Parent Bank's Domestic Branches, Agencies/Branches Abroad and Off-Shore Branches	134
IX.	Explanations Related to the Subsequent Events	134

#### **SECTION SIX**

##### Other Explanations and Notes

I.	Other Explanations on the Bank's operations	135
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#### **SECTION SEVEN**

##### Independent Auditors' Report

I.	Explanations on the Independent Auditors' Report	136
II.	Explanations and Notes Prepared by the Independent Auditors	136

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK**

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

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

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

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

As of 31 December 2016 the shareholders’ structure and their respective ownerships are summarized as follows:

<b>Shareholders</b>	<b>31 December 2016</b>	<b>%</b>	<b>31 December 2015</b>	<b>%</b>
Prime Ministry				
Privatization Administration <sup>(1,2)</sup>	638.276	51,06	638.276	51,06
Public shares <sup>(2)</sup>	611.639	48,93	611.640	48,93
Other shareholders <sup>(3)</sup>	85	0,01	84	0,01
<b>Total</b>	<b>1.250.000</b>	<b>100,00</b>	<b>1.250.000</b>	<b>100,00</b>

<sup>(1)</sup> As per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007; 25% of the public shares that were previously held by the Privatization Administration were privatized by a public offering and the Parent Bank’s shares were registered to Capital Market Board records by decision number 16/471 dated 26 April 2007. The shares were traded on the Borsa İstanbul AS as of 10 May 2007. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

The Bank which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.826 after necessary authorization and being taken out from the scope and programme of the Administration by The Privatization High Council

<sup>(2)</sup> 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.

<sup>(3)</sup> “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, 3<sup>rd</sup> Sub-article added to Article 2 of the Law No: 6327 and 4603 dated 13 June 2012, The Privatization High Council public shares of the Parent Bank are controlled and represented by the Parent Bank’s Minister until the sales completion of these shares.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**III. EXPLANATIONS REGARDING THE PARENT BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE PARENT BANK, IF ANY<sup>(1)</sup>**

<b>Name</b>	<b>Title</b>
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors/Independent Member of the Board of Director/ Chairman of the Audit Committee
Ali Fuat TAŞKESEN LİOĞLU	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Independent Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Mehmet AYTEKİN	Member of the Board of Directors
Ömer AÇIKGÖZ	Member of the Board of Directors
Yahya BAYRAKTAR	Member of the Audit Committee, Independent Member of the Board of Directors
Faruk ÖZÇELİK	Member of the Audit Committee
Zekeriya KAYA	Member of the Audit Committee
Selahattin SÜLEYMANOĞLU	Executive Vice President, Banking Operations, Treasury Management (on commission)
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Hakan ATILLA	Executive Vice President, International Banking
Erdal ERDEM	Executive Vice President, Artisans and SME Banking, Human Resources and Organization (on commission)
Salim KÖSE	Executive Vice President, Legal Affairs and Proceedings
Ömer Faruk ŞENEL	Executive Vice President, Deposit Management (on commission)
Murat OKTAY	Executive Vice President, Corporate and Commercial Marketing
Mehmet Sebahattin BULUT	Executive Vice President, Loan Policies and Risk Monitoring
Hasan ÜNAL	Executive Vice President, Retail Banking
Mustafa AYDIN	Executive Vice President, Financial Management and Planning, Information Systems and Technical Services (on commission)

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

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

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

<b>Name</b>	<b>Title</b>	<b>Unassignment Date</b>
Süleyman KALKAN	Vice Chairman of the Board of Directors/ Independent Member of the Board of Director	31 March 2016
İsmail Erol İŞBİLEN	Independent Member of the Board of Director	31 March 2016
Emin Süha ÇAYKÖYLÜ	Member of the Board of Directors	31 March 2016
Dr.Nurzahit KESKİN	Member of the Board of Directors	31 March 2016
Dr.Ahmet YARIZ	Member of the Board of Directors	31 March 2016
Mehmet Ali GÖKÇE	Member of the Board of Directors	23 January 2017
Ali ARSLAN	Member of the Audit Committee	31 March 2016
Murat UYSAL	Executive Vice President	9 June 2016
Erol GÖNCÜ	Executive Vice President	12 August 2016

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

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

a) General information about the Parent Bank:

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

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

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

c.1 When the related Decree numbered 2006/69 and dated 11 August 2006 was in force, the Privatization High Council public shares were transferred to the Privatization Administration and 99.9% of the Parent Bank shares were decided to be sold before 25 May 2008 using the block sale method. By the Privatization High Council's decree numbered 2006/4258 and dated 29 November 2006, 13<sup>th</sup> Department of Council of State decided to cease the execution of the Decree numbered 2006/69 dated 11 August 2006. Thereupon, legal regulation numbered 5572 was executed and as per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration on 11 August 2006, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the Parent Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were traded on Borsa İstanbul AŞ as of 10 May 2007 with the base price of TRY full 8,00. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

d) Under No: 25539 Law regarding the "Act No: 5230 with regards to the transfer of Pamukbank Türk Anonim Şirketi to Türkiye Halk Bankası AŞ and amendments to other acts" which came into force as of 31 July 2004 with the publication of the Official Gazette, Pamukbank (whose shares, management, and control were previously inherited to the Saving Deposit Insurance Fund ("SDIF")) was transferred to the Parent Bank. Insolvent Pamukbank TAŞ was a private sector deposit bank established by Çukurova İthalat ve İhracat TAO, Karamehmetler Scrip Company and more than 500 shareholders. Pamukbank started its private banking operations as an incorporated company in accordance with the decision of the Council of Ministers numbered 4/4573 and dated 5 March 1955. According to the decision of the Banking Regulation and Supervision Agency numbered 742 published in the Official Gazette numbered 24790 and dated 19 June 2002 including 3rd and 4th Sub-articles in Article 14 of the Banking Law No: 4389, the shareholders rights excluding dividends, management and supervision of Pamukbank were transferred to the Saving Deposit Insurance Fund as of 18 June 2002.

e) The Parent Bank's service activities and operating areas: The Parent Bank's operating areas include, commercial financing and corporate banking, fund management operations, retail banking and credit card operations.

As of 31 December 2016, the Bank operates with a total of 964 branches consisting of 959 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 30 satellite branches. The Bank has also 3 representative office in England Iran and Singapore.

**VI. EXPLANATION ABOUT COMPANIES WITHIN THE SCOPE OF CONSOLIDATION**

The Parent Bank and its subsidiaries;

- Halk Yatırım Menkul Değerler AŞ
- Halk Sigorta AŞ
- Halk Hayat ve Emeklilik AŞ
- Halk Gayrimenkul Yatırım Ortaklığı AŞ
- Halk Finansal Kiralama AŞ
- Halk Portföy Yönetimi AŞ
- Halk Faktoring AŞ
- Halk Banka AD, Skopje
- Halkbank A.D. Beograd

are consolidated line by line in the accompanying consolidated financial statements.

The Parent Bank's associates;

- Demir-Halkbank NV
- Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ
- Türk P ve I Sigorta AŞ

is accounted by "equity method" in the accompanying consolidated financial statements.

Halk Gayrimenkul Yatırım Ortaklığı AŞ ("the Company"), a subsidiary of the Parent Bank established in 2010, was registered on 18 October 2010. The Company's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. The Company's main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the investment properties, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates.

As at 15 February 2013 28% shares of Halk GYO has been offered to public. After the collecting the demand the Company's shares started to be traded on Borsa İstanbul AŞ at 22 February 2013.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

Halk Finansal Kiralama A.Ş. was established in Turkey in September 1991 and its principal activity is to make financial leasing and continues its activities in accordance with the Law on 3226 Turkish Leasing.

Halk Bank A.D., Skopje, formerly Export and Credit Bank A.D. Skopje is a subsidiary of the Parent Bank as of 8 April 2011. Halk Bank A.D. continues its activities in Skopje Macedonia and the main activity of the related subsidiary is to collect deposits, to give credit, to carry out domestic and foreign retail banking activities.

Halk Portföy Yönetimi AŞ (“Halk Portföy”), a subsidiary of the Parent Bank established in 2011, was registered on 30 June 2011. Halk Portföy’s main line of business is to provide portfolio and fund management services.

The main activity of Halk Factoring AŞ. is to provide factoring service in a way that is not contrary to the legislation regarding lending business for all kinds of domestic and international commercial transactions.

Halkbank A.D. Beograd is a subsidiary of the Parent Bank as of 28 May 2015. The main activity of the related subsidiary is to collect deposits, to give credit, to carry out domestic and foreign retail banking activities.

Halk Sigorta AŞ (“Halk Sigorta”) was founded in 1958 under the leadership of Halkbank as the first cooperative in Turkey to engage in a full array of insurance activities with the participation of the Artisans and Tradesmen Loan and Guarantee Cooperatives. The company’s business name was changed to Halk Sigorta AŞ from Birlik Sigorta AŞ at the Extraordinary General Assembly Meeting held on 27 December 2010.

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

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

For the purposes of the consolidated financial statements, the Parent Bank and its consolidated subsidiaries are referred to as “the Group”.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

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

Demir-Halkbank NV ("Demir Halk Bank"), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta AŞ which are qualified as investments in associates, are presented in the financial statements based on equity method of accounting. An associate is a partnership in whose capital the Parent Bank participates and over which it has no significant influence and control, established at home and abroad.

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES**

**I. BASIS OF PRESENTATION**

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

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

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

1. The Group’s strategy on financial instruments:

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

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

2. The Group’s explanations on foreign currency transactions:

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

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

Assets and liabilities of the foreign branches and subsidiaries of the Parent Bank are converted into TRY by using the prevailing exchange rates at the balance sheet date. The foreign branches’ income and expenses are converted by at exchange rates at the dates of the transactions. The foreign subsidiaries’ income and expenses are converted by average rate of the exchange of the current year.

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**III. INFORMATION ABOUT THE ASSOCIATES AND SUBSIDIARIES SUBJECT TO CONSOLIDATION**

1. Basis of consolidation:

The accompanying consolidated financial statements are prepared in accordance with the communiqué on “Preparation of Consolidated Financial Statements of Banks” and the Turkish Accounting Standards are applied in the consolidation.

a. Basis of consolidation of subsidiaries:

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

A subsidiary is an entity that is controlled by the Parent Bank. Control is the power of the Parent Bank to appoint or remove from office the decision-taking majority of members of board of directors through direct or indirect possession of the majority of a legal person’s capital irrespective of the requirement of owning minimum fifty-one per cent of its capital; or by having control over the majority of the voting right as a consequence of holding privileged shares or of agreements with other shareholders although not owning the majority of capital.

Under line-by-line method, the assets, liabilities, income and expenses and off-balance sheet items of subsidiaries are combined with the equivalent items of the Parent Bank on a line-by-line basis. The book value of the Parent Bank’s investment in each subsidiary and the Group’s portion of equity of each subsidiary are eliminated. All significant transactions and balances between the Parent Bank and its consolidated subsidiaries are eliminated reciprocally. Minority interests in the net income and in the equity of consolidated subsidiaries are calculated separately from the Group’s net income and the Group’s shareholders’ equity. Minority interests are identified separately in the balance sheet and in the income statement.

In preparing the consolidated financial statements, if a subsidiary uses accounting policies other than those adapted by the Parent Bank, appropriate adjustments are made to subsidiaries’ financial statements. There is no item that a different accounting policy is applied.

b. Basis of consolidation of associates:

Demir-Halkbank NV (“Demir Halk Bank”), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta AŞ, which are qualified as investments in associates, are presented in the accompanying financial statements based on the equity method of accounting. An associate is a partnership in whose capital the Parent Bank participates and over which it has a significant influence but no control, established at home and abroad.

Significant influence is the power to participate in the financial and operating policy of the investee. If the Parent Bank holds ten percent or more of the voting power of the associate, it is presumed that the Parent Bank has significant influence unless otherwise demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

Qualified share is the share that directly or indirectly constitute ten percent of an entity’s capital or voting rights and irrespective of this requirement, possession of privileged shares giving right to appoint members of board of directors.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

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

1. Basis of consolidation (continued):

b. Basis of consolidation of associates (continued):

Equity method is an accounting method of associates by which book value of the associate is increased or decreased due to changes in the Parent Bank's share in the associates' equity and dividends received from associate is deducted from the share of Bank calculated as explained above.

Accounting principles used by Demir Halkbank NV and Kobi Girişim Sermayesi AŞ and Türk P ve I Sigorta AS which is a consolidated associate by the equity method of accounting, has the same accounting principles of the Parent Bank.

c. Basis of consolidation of joint ventures:

The Parent Bank does not have any joint ventures.

d. Principles applied during share transfer, merger and acquisition:

Accounting for business combinations

From 1 January 2010 the Group applies IFRS 3 Business Combinations (2008) in accounting for business combinations. Business Combinations that occurred before 1 January 2010 had not been restated and the accounting policies applicable to those acquisitions are set out below. The new accounting policy in respect of business combinations is as follows.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquire; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, a bargain purchase gain is recognized immediately in profit or loss.

The initial recognition of the business combination is accounted for provisionally if the fair values of the identifiable assets, liabilities and contingent liabilities acquired in a business combination can only be recognized, or the cost of a business combination is measured, only using provisional amounts. The provisional business combination accounting shall be completed in the 12 months following the date of acquisition and the adjustments shall be recognized retrospectively.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

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

1. Basis of consolidation (continued):

d. Principles applied during share transfer, merger and acquisition (continued):

Accounting for business combinations (continued)

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquire. When the excess was negative, a bargain purchase gain was recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of the acquisitions.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**IV. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS**

The Group's derivative transactions predominantly include currency and interest rate swaps, cross currency swaps, option transactions and forward foreign currency purchase and sale transactions. The Group classifies derivative financial instruments as "Held-for-trading" in accordance with TAS 39 - Financial Instruments: Recognition and Measurement.

Commitments arising from derivative transactions are recorded in off-balance sheet accounts at contractual terms. Derivative transactions are carried at fair value in the periods subsequent to their acquisition and if they are positive or negative, derivative financial assets held for trading or derivative financial liabilities held for trading are presented in the balance sheet. Differences arising from the fair value of derivative financial instruments after the valuation are accounted under profit-loss from derivative financial transactions in trading profit-loss item in the income statement. The fair value of derivative instruments is calculated taking into account the fair value of the market or using the discounted cash flow model.

**Explanations related to credit derivatives and its risk exposures:**

The bank has credit termly derivative transactions within the scope of trading transactions. These transactions includes credit default swaps which based on treasury of Turkish Republic's credit risk. As of 31 December 2016, the bank has credit default swap transaction amounting to 150 million USD with 5 years maturity. In this transactions the bank sells protection.

**V. INTEREST INCOME AND EXPENSES**

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

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

**VI. FEES AND COMMISSION INCOME AND EXPENSES**

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

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

**VII. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS**

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**VII. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS (continued)**

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

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

1. Cash and banks

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

2. Financial assets at fair value through profit and loss

2.1. Financial assets held for trading

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

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

2.2. Financial assets at fair value through profit and loss

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

The Group has not any financial assets at fair value through profit and loss as of 31 December 2016 and 31 December 2015.

3. Investments held to maturity

Investments held to maturity are the investments, for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and for which there are fixed or determinable payments with fixed maturity; and which are recognized at fair value at initial recognition. Investments held to maturity with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment, if any. Interest income from investments held to maturity is recognized in the income statement as an interest income. There are no financial assets that are classified by the Group as investments held to maturity; however, they cannot be classified under this classification for two years for not satisfying the requirements of the related classification.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**VII. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS (continued)**

4. Financial assets available for sale

Financial assets available for sale represent non-derivative financial assets other than the bank loans and receivables, investments held to maturity and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through income statement by using the internal rate of return. If a price does not occur in an active market, fair value cannot be reliably determined and “Amortized Value” is determined as the fair value using the internal rate of return. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement, they are recognized in the “Marketable Securities Revaluation Fund” until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

5. Loans and receivables

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with their fair values including settlement costs and carried at their amortized costs calculated using the internal rate of return at the subsequent recognition. Transaction fees, dues and other expenses paid for loan guarantees are recognized under the profit and loss accounts.

Consumer and corporate cash loans are recognized under the accounts specified by the Uniform Chart of Accounts and Explanations with their original balances based on their context.

Foreign currency indexed consumer and corporate loans are followed at TRY accounts after converting into TRY by using the opening exchange rates. At the subsequent periods, increases and decreases in the loan capital are recognized under the foreign currency income and expense accounts in the income statement depending on foreign currency rates being higher or lower than opening date rates. Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

Non-performing loans are classified in accordance with the regulation on “Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette No: 26333 dated 1 November 2006 and amended with the regulation published in the Official Gazette No: 28418 dated last 21 September 2012 and specific provisions are allocated for those loans. Specific provisions are reflected to “820/821 Provisions and Impairment Expenses 82000/82100 Specific Provisions Expenses” account. Provisions released in same year are recognized as a credit movement under the “Provision Expenses”, released portion of the previous period provisions are recognized under the “Other Operating Income” account.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS**

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS (continued)**

Other than specific allowances, The Parent Bank is providing 1% general allowance for cash and non-cash loans and other receivables; 0,2% general allowances for non-cash loans; respectively 2% and 0,4% general allowance for under close monitoring cash and non-cash loans. In addition the Parent Bank is providing 0% general allowances for cash and non-cash transit trade loans which is classified in “Group I” and export loans; 0,5% general allowance for cash loans and 0,1% general allowance for non-cash loans that is provided for small and medium sized enterprises.

**IX. OFFSETTING FINANCIAL ASSETS AND LIABILITIES**

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XI. EXPLANATIONS ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

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

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

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

**XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS**

As at the balance sheet date, there is no goodwill recorded in the consolidated balance sheet of the Group.

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

**XIII. EXPLANATIONS ON PROPERTY, PLANT AND EQUIPMENT**

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

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

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

Estimated useful lives of property, plant and equipment are as follows:

	<b>Estimated useful lives (Year)</b>	<b>Depreciation rate</b>
Buildings	50	2%
Safe-deposit boxes	50	2%
Other movable properties	3-25	4-33,33%
Assets held under financial leases	4-5	20-25%

Leasehold improvements are depreciated over the lower of the periods of the respective leases and useful lives, on a straight-line basis. In any case useful life cannot exceed the lease period. If the duration of lease agreement is not determined or longer than five years, amortization duration is considered as five years.

There is no change in accounting estimates that is expected to have significant effect in current period and subsequent periods.

There are no material mortgages, pledges or similar in cumbrances designated for the property, plant and equipment.

*Classification on investment property:*

If a land or building's intended purpose is changed as investment property when used by the owner. This property is classified as investment property.

When the intended purpose of an immovable is changed and reclassified as an investment property, the fair value of the date on which the usage of the property changed will be the cost for the subsequent recognition process.

**XIV. EXPLANATIONS ON INVESTMENT PROPERTIES**

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

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

**XV. EXPLANATIONS ON LEASING TRANSACTIONS**

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

In the cases of the Group is renter, at the beginning of the lease operation the value of assets held under financial leases are recognized as financial lease receivables in the balance sheet. Interest income obtained by the difference between total financial lease receivables and investment value of assets held under financial leases is recorded in the income statement by distributing the receivables in the related accounting period with the constant interest rate. The interest income which is not accrued in the related period, is recognized in the account of unaccrued interest income. Operational lease transactions are recognized in line with the related agreement on an accrual basis.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XVI. EXPLANATIONS ON INSURANCE TECHNICAL INCOME AND EXPENSE**

Insurance premium income is obtained subsequent the share of reinsurers in policy income is diminished.

Claims are recorded in expense as they are reported. Outstanding loss provisions are recognized for the claims reported but not paid yet and for the claims that incurred but not reported. Reinsurers' share of claims paid and outstanding loss are offset in these provisions.

**XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS**

According to the current insurance regulation, insurance companies should recognize provisions for unearned premium claims, unexpired risk reserves, provision for outstanding claims, life-mathematical provisions and equalization provisions.

The provision for unearned premiums consists of the gross overlapping portion of accrued premiums for insurance contracts that are in effect to the subsequent period or periods of balance sheet date on a daily basis without a commission or any other discount. In case the expected loss premium ratio is over 95%, the unexpired risk reserves are recognized for the branches specified by the Undersecretariat of Treasury. For each branch, the amount found by multiplying the ratio exceeding 95% by the net unearned premium provision is recognized in the financial statements as net unexpired risk reserve; and the amount found by multiplying the ratio exceeding 95% by the gross unearned premium provision is recognized as gross unexpired risk reserve. The difference between the gross and the net amounts is considered as the share of the reinsurer.

Undersecretariat of treasury released "Circular on Outstanding Claims Reserves Arising From Discounting of the Net Cash Flow" No. 2016/22 on 10 June 2016. According to this declaration outstanding claims reserves arising from discounting of the net cash flow is discounted with respect to related insurance legislation by insurance companies.

Mathematical provision is recognized in order to meet the requirements of policyholders and beneficiaries for long-time life, health and personal accident insurance contracts on actuarial bases.

Equalization provision is recognized in order to balance the fluctuations in the claim ratios. Effective 1 January 2005, the Group's insurance subsidiaries adopted TFRS 4, Insurance Contracts ("TFRS 4"). TFRS 4 represents the completion of phase I and is a transitional standard until the recognition and measurement of insurance contracts has more fully addressed. TFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts.

Insurance risk is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. TFRS 4 permits a company to continue with its previously adopted accounting policies with regard to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with TAS 39 revised.

Insurance companies of the Group cede premium and risks in the normal course of business in order to limit the potential for losses arising from risks accepted. Insurance premiums ceded to reinsurers on contracts that are deemed to transfer significant insurance risk are recognized as an expense in a manner that is consistent with the recognition of insurance premium revenue arising from the underlying risks being protected.

Costs which vary and are directly associated with the acquisition of insurance and reinsurance contracts including brokerage, commissions, underwriting expenses and other acquisition costs are deferred and amortized over the period of contract, consistent with the earning of premium.

In conformity with TFRS 4, at each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related Deferred Acquisition Costs (DAC) and premiums receivable. Investment income from the assets backing the liabilities is taken into account in calculating the provision. Any deficiency, if there is, is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests. Any DAC written off as a result of this test cannot subsequently be reinstated.

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS**

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**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XVIII. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES**

Provision and contingent liabilities are accounted in conformity with (TAS37) “Provisions, Contingent Liabilities and Contingent Assets”.

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

**XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES**

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES (continued)**

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

In accordance with the related legislation, as of the transfer date, the income and expenses of the transferred funds will be considered by the insurance branches and the cash value of the liabilities will be calculated with the actuarial interest rate 9,8%. Moreover, after the transfer to SII, the unfulfilled other social rights and payments existed in the settlement deeds of the subjected pension funds of the transferred participants, members or the rightful owners will be continued to be fulfilled by the employer entities of the funds and its participants. Based on the results of the actuarial report prepared as of 31 December 2016, no technical deficit has been reported.

**XX. EXPLANATIONS ON TAXATION**

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

Calculated corporate tax as of 31 December 2015 has been paid in February 2016 thereby setting off calculated advanced taxes in previous periods. First advance tax for the 1 January 2016-31 March 2016 is accrued from corporate tax amount. Accrued advance tax as of 1 January 2016-30 June 2016 period is paid in August 2016. And also the accrued advanced tax as of 1 January 2016-30 September 2016 is paid in November 2016. Accrued advance tax as of 1 January 2016-31 December 2016 will be paid in February 2017.

Tax expense is the sum of the current tax expense and deferred tax charge. Current year tax liability is calculated over taxable profit. Taxable profit is different from the profit in the income statement since taxable income or deductible expenses for the following years and non-taxable and non-deductible items are excluded.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority on each consolidated entity’s non-consolidated financial statements. Deferred tax assets and liabilities are also offset.

**Tax practices in the countries that foreign branches and financial institution operate:**

Turkish Republic of Northern Cyprus (TRNC)

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XX. EXPLANATIONS ON TAXATION (continued)**

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

Bahrain

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

**Tax practices for the subsidiaries which are subject to consolidation**

Halk Gayrimenkul Yatırım Ortaklığı AŞ

The Parent Bank's subsidiary, Halk Gayrimenkul Yatırım Ortaklığı AŞ, is established in the 2010. Income derived from the operations related with the investment properties is exempt from corporate tax in accordance with the Article 5/1(d) (4) of the Corporate Tax Law No: 5520. This exemption is also used for the accrued advanced tax terms.

Halk Banka AD Skopje

The Parent Bank's newly acquired subsidiary in 2011 Halk Banka AD, Skopje is subject to tax regulations in the Republic of Macedonia. A new tax regime had become effective according which the base for income tax computation had been shifted from the profit before taxes to the income "distribution" concept in the Republic of Macedonia.

"Distributions" are split into two components:

- Tax on any dividend distribution – i.e. the tax base is the dividend paid,
- Tax on non deductible items – i.e. the tax base is the non deductible items specified in the tax rulebook less any allowable tax credits. The tax on non deductible items is paid each month in monthly advance installments based on the previous fiscal year computation of such non deductible differences. At year end a final tax computation is prepared with a final tax settlement.

As such, the new income tax regime provokes certain implications on the presentation of the tax in the financial statements which are summarized below:

(i) Tax on dividend distribution:

Tax on dividend distribution is considered to be income tax within scope of Turkish Accounting Standards - Tax on Income ("TAS 12").

The timing of recognition of this type of income tax is to be consistent with the underlining dividend liability recognition (i.e., recognized when the dividend is paid and/or declared). As such no provisions are required for income tax arising from dividend distribution until the dividend is declared and/or paid.

When the tax on dividend distribution arises on interim (advance) dividend paid before the year end, the income tax charge is recognized and presented in the statement of comprehensive income after profit and loss before tax as income tax expense.

When the tax on dividend distribution arises from retained earnings, it is recognized and presented in the Statement of changes in equity.

(ii) Tax on non deductible items:

Tax on non deductible items is not income tax and is out of scope of TAS 12. Accordingly, such tax expense is presented within the operating results, and related tax payable/receivable is presented within the other assets/other liabilities in the statement of financial position.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XX. EXPLANATIONS on TAXATION (continued)**

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

*Halk Bank AD Skopje (continued)*

*Recognition of tax provisions:*

In case of tax contingencies, provisions are made in line with Turkish Accounting Standards – Provisions, Contingent Liabilities and Contingent Assets adopted in the Republic of Macedonia (“TAS 37”).

Such provisions are not presented as deferred tax assets or deferred tax liabilities, but as other assets or other liabilities.

Recognition/reversal of such tax provisions (that is not income taxes) is presented within the other expenses/other income.

*Halk Bank AD Beograd.*

The Parent Bank’s acquired subsidiary in 2015 Halk Bank AD, Beograd is subject to tax regulations in the Republic of Serbia. The annual corporate income tax is payable at the rate of 15% on profit before tax, adjusted for permanent differences that prescribed tax rate adjusted to the effective tax rate.

The Law on Corporate Income Tax in the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax balance up to 2009 may be used to reduce tax base for future periods, but only for a period not longer than ten years. The losses in the tax balance for 2010 and thereafter may be used for reduction of tax base for the following accounting periods, but for maximum 5 years. Such tax losses, up to the amount of assumed future taxable profit that can be offset to tax losses, are recognized in the balance sheet as deferred tax.

**XXI. ADDITIONAL EXPLANATIONS ON BORROWINGS**

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

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

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

**XXII. EXPLANATIONS ON SHARES AND SHARE ISSUE**

Share issuances related to costs are accounted under expense accounts. Dividend income related with the equity shares are determined by the General Assembly of the Parent Bank.

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)**

**XXII. EXPLANATIONS ON SHARES AND SHARE ISSUE (continued)**

Halk GYO has applied to CMB by 29 August 2012 for the purpose of initial public offering of the increasing amount of B group of shares TRY 185.500 notional amount which is increased from TRY 477.000 issued capital of the Halk GYO to TRY 662.500 within TRY 1.500.000 registered capital ceiling. Application was approved in accordance with the decision promulgated by CMB's numbered 4/97 on 8 February 2013. As at 15 February 2013 there has been an initial public offering of B group shares of TRY 185.500 notional amount by restricting the existent shareholders for purchasing the new shares. After the collecting the demand the Company's shares started to be traded on Borsa İstanbul AŞ at 22 February 2013.

It has been decided to increase the paid-in capital of the company, Halk GYO AŞ, as required by the General Assembly Decision dated 6 April 2016, to TRY 790.000 by increasing TRY 47.000 and the registration process was completed on 27 May 2016.

**XXIII. EXPLANATIONS ON BILL GUARANTEES AND ACCEPTANCES**

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

**XXIV. EXPLANATIONS ON GOVERNMENT INCENTIVES**

None.

**XXV. EXPLANATIONS ON SEGMENT REPORTING**

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

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

**XXVI. EXPLANATION ON OTHER MATTERS**

*New and revised standards and comments issued by the International Accounting Standards Board ("IASB") and Public Oversight Accounting and Auditing Standards Authority ("POA")*

With the amendment published in January 2017, the new standard will apply to annual accounting periods beginning on or after 1 January 2018. The first phase of the TFRS 9 Financial Instruments standard introduces new provisions for the measurement and classification of financial assets and liabilities. The amendments to IFRS 9 will mainly affect the classification and measurement of financial assets and the measurement of financial liabilities which classified as measured at fair value through profit or loss and the portion of fair value changes related to credit risk of these kinds liabilities must be presented in other comprehensive income statement. Early adaption is permitted for this standard. The Group assesses the effects of the standard on its financial position and performance.

*New and revised standards and comments issued by the International Accounting Standards Board ("IASB") but not yet by the Public Oversight Accounting and Auditing Standards Authority ("POA")*

The new TFRS 16 Leasing Transactions Standard was issued by the International Accounting Standards Board on 13 January 2016. The IAS17 Leasing Transactions, which govern these standard leases, are subjected to amendments to IFRS Comment 4 Determination of whether a settlement includes a lease and IAS 15 Operating Lease - Incentives standards and interpretations and amendments to IAS 40 Property of Investment Property. IFRS 16 removes the dual accounting model for leaseholders from the existing practice of financial leasing in the balance sheet and the presentation of operational leases on the balance sheet. Instead, a single balance sheet-based accounting model is presented similar to existing leasing accounting. Recognition for leaseholders continues to be similar to existing practices. This change will be effective for annual periods beginning on after 1 January 2019 and early application is permitted for entities applying the Revenue Standard from TFRS 15 Customer Contracts. The Bank assesses the impact of the standard on its financial position and performance.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**I. EXPLANATIONS RELATED TO THE CONSOLIDATED CAPITAL ADEQUACY RATIO**

Total capital and Capital adequacy ratio have been calculated in accordance with the “Regulation on Equity of Banks” and “Regulation on Measurement and Assessment of Capital Adequacy of Banks”. As of 31 December 2016 Group’s total capital has been calculated as TRY 22.857.357 (31 December 2015: TRY 20.099.511), capital adequacy ratio is 12,50% (31 December 2015: 13,04%).

1. Information on Consolidated Capital Items:

	Amount	Amounts related to treatment before 1/1/2014(*)
<b>COMMON EQUITY TIER 1 CAPITAL</b>		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	2.470.451	
Share issue premiums	39.737	
Reserves	14.553.153	
Gains recognized in equity as per TAS	1.387.742	
Profit	2.700.556	
Current Period Profit	2.533.607	
Prior Period Profit	166.949	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	4.723	
Minorities’ Share	16.333	
<b>Common Equity Tier 1 Capital Before Deductions</b>	<b>21.172.695</b>	
<b>Deductions from Common Equity Tier 1 Capital</b>		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	-	
Improvement costs for operating leasing	72.880	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	69.137	110.427
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
<b>Total Deductions From Common Equity Tier 1 Capital</b>	<b>142.017</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>21.030.678</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**I. EXPLANATIONS ON EQUITY (continued)**

**1. Information on Consolidated Capital Items: (continued)**

<b>ADDITIONAL TIER I CAPITAL</b>	-
Preferred Stock not Included in Common Equity and the Related Share Premiums	-
Debt instruments and premiums approved by BRSA	-
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-
Third parties' share in the Additional Tier I capital	-
Third parties' share in the Additional Tier I capital (Temporary Article 3)	-
<b>Additional Tier I Capital before Deductions</b>	-
<b>Deductions from Additional Tier I Capital</b>	-
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	-
<b>Transition from the Core Capital to Continue to deduce Components</b>	<b>46.092</b>
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	46.092
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-
<b>Total Deductions From Additional Tier I Capital</b>	-
<b>Total Additional Tier I Capital</b>	-
<b>Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)</b>	<b>20.984.586</b>
<b>TIER II CAPITAL</b>	
Debt instruments and share issue premiums deemed suitable by the BRSA	-
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-
Third parties' share in the Tier II Capital	-
Third parties' share in the Tier II Capital (Temporary Article 3)	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.049.136
<b>Tier II Capital Before Deductions</b>	<b>2.049.136</b>
<b>Deductions From Tier II Capital</b>	-
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 (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>2.049.136</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>23.033.722</b>
<b>The sum of Tier I Capital and Tier II Capital (Total Capital)</b>	<b>22.857.357</b>
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the	
Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	157.617
Other items to be defined by the BRSA (-)	18.738

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**I. EXPLANATIONS ON EQUITY (continued)**

1. Information on Consolidated Capital Items: (continued)

<b>In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components</b>	
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 (-)	-
<b>TOTAL CAPITAL</b>	
Total capital	22.857.357
Total risk weighted amounts	182.822.490
<b>Capital Adequacy Ratios</b>	
Core Capital Adequacy Ratio	11,50
Tier 1 Capital Adequacy Ratio	11,48
Capital Adequacy Ratio	12,50
<b>BUFFERS</b>	
Total buffer requirement	5,387
Capital conservation buffer requirement	0,625
Bank specific counter-cyclical buffer requirement	0,262
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets	4,502
<b>Amounts below the Excess Limits as per the Deduction Principles</b>	
Portion of the total of net long positions of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	47.469
Portion of the total of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	1.550.920
Portion of mortgage servicing rights	-
Amount arising from deferred tax assets based on temporary differences	283.637
<b>Limits related to provisions considered in Tier II calculation</b>	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	2.049.136
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	2.049.136
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Excess amount of total provision amount to &0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
<b>Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)</b>	
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-

(\*) Amounts in this column represents the amounts of items that are subject to transition provisions in accordance with the temporary Articles of "Regulations regarding to changes on Regulation on Equity of Banks" and taken into consideration at the end of transition process.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**I. EXPLANATIONS ON EQUITY (continued)**

1. Information on Consolidated Capital Items: (continued)

	<b>Prior Period</b>
<b>COMMON EQUITY TIER I CAPITAL</b>	
Paid-in capital following all debts in terms of claim in liquidation of the Bank	2.470.451
Share premium	39.488
Share cancellation profits	-
Reserves	12.600.202
Gains recognized in equity as per TAS	1.368.344
Profit	2.482.790
<i>Current Period Profit</i>	2.317.984
<i>Prior Period Profit</i>	164.806
Provisions for Possible Risks	123.500
Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures that are not recognized in Profit	3.973
Minorities' Share	143.418
<b>Common Equity Before Deductions</b>	<b>19.232.166</b>
<b>Deductions from Common Equity</b>	
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS (-)	-
Leasehold improvements (-)	70.995
Goodwill or other intangible assets and deferred tax liability related to these items (-)	40.926
Net deferred tax asset/liability (-)	-
Shares obtained contrary to the 4th clause of the 56th Article of the Law (-)	-
Direct and indirect investments of the Bank in its own Common Equity (-)	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of mortgage servicing rights exceeding 10% of the Common Equity (-).	-
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity (-)	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks (-)	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital (-)	-
Excess amount arising from mortgage servicing rights (-)	-
Excess amount arising from deferred tax assets based on temporary differences (-)	-
Other items to be defined by the BRSA (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-
<b>Total Deductions From Common Equity</b>	<b>111.921</b>
<b>Total Common Equity Tier I Capital</b>	<b>19.120.245</b>
<b>ADDITIONAL TIER I CAPITAL</b>	
Capital amount and related premiums corresponding to preference shares that are not included in common equity	-
Debt instruments and premiums deemed suitable by BRSA (issued/obtained after 1.1.2014)	-
Debt instruments and premiums deemed suitable by BRSA (issued before 1.1.2014)	-
Third parties' share in the Tier II Capital	-
<b>Additional Tier I Capital before Deductions</b>	-
<b>Deductions from Additional Tier I Capital</b>	
Direct and indirect investments of the Bank in its own Additional Tier I Capital (-)	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in Additional Tier I Capital and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Other items to be defined by the BRSA (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**I. EXPLANATIONS ON EQUITY (continued)**

1. Information on Consolidated Capital Items: (continued)

<b>Total Deductions From Additional Tier I Capital</b>	-
<b>Total Additional Tier I Capital</b>	-
<b>DEDUCTIONS FROM TIER I CAPITAL</b>	<b>61.388</b>
Portion of goodwill and other intangible assets and the related deferred tax liabilities which not deducted from the Common Equity as per the 1st clause of Provisional Article 2 of the Regulation on the Equity of Banks (-)	61.388
Portion of net deferred tax assets/liabilities which is not deducted from the common equity pursuant to Paragraph 1 Provisional Article 2 of the Regulation on the Equity of Banks (-)	-
<b>Total Tier I Capital</b>	<b>19.058.857</b>
<b>TIER II CAPITAL</b>	
Debt instruments and premiums deemed suitable by the BRSA (issued/obtained after 1.1.2014)	-
Debt instruments and premiums deemed suitable by the BRSA (issued/obtained before 1.1.2014)	-
Sources pledged to the Bank by shareholders to be used in capital increases of the Bank	-
General Loan Loss Provisions	1.139.290
Third parties' share in the Tier II Capital	-
<b>Tier II Capital Before Deductions</b>	<b>1.139.290</b>
<b>Deductions From Tier II Capital</b>	
Direct and indirect investments of the Bank in its own Tier II Capital (-)	-
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in Additional Tier I and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Other items to be defined by the BRSA (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>1.139.290</b>
<b>CAPITAL</b>	<b>20.198.147</b>
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	69.325
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	-
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by the regulator (-)	29.301
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
<b>EQUITY</b>	<b>20.099.511</b>
Amounts below the thresholds for deduction	
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	15.635
Remaining total of net long positions of the investments in Tier I capital of Consolidated banks and Financial Institutions where the Bank owns more than 10% Or Less of the Tier I Capital	1.418.085
Remaining mortgage servicing rights	-
Net deferred tax assets arising from temporary differences	213.687

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK**

Credit risk refers to the risks and damage caused by failure to fulfill the obligations of the other party in the contracts of the Group. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation interms of the scope of the legislation.

In accordance with the risk management policies of the Group, the limits are specified in respect of the main and sub-sectors. Those limits are monitored periodically.

The Bank, in the credit allocation process, restricts its risk exposure by working with highly credible banks and entities considering the credit ratings for the purpose of managing its risks. Under the scope of credit risk management, the Bank rates all of its borrowers' credit and requires additional collaterals from whose risk is higher. The Bank has the policy of not granting loans/credits and/or limiting the amount of such loans/credits. The Bank's risk is concentrated in Turkey. In loan procedure, limits are determined based on the type of loans and customers and risk and limit information is controlled periodically.

Loans granted to other banks and risk limits set for the correspondent bank transactions are controlled on a daily basis. Risk concentrations are monitored systematically with the Treasury department, concerning the off-balance sheet operations based on the customers and banks.

Except for the restructured loan follow-up system determined in the related communiqué, such loans are incorporated into the new rating groups or risk weightings under the risk management systems of the banks, and new precautionary measures are taken for these processes. Since long-term commitments are more risky than the short-term commitments, risks are assorted in accordance with the Bank's risk management system.

As prescribed in the Communiqué on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions", the credit worthiness of the debtors of the loans and other receivables is monitored regularly. Credit limits are determined according to the audited statement of accounts. Guarantee factors are developed in accordance with the decision of the credit committee and updated according to the top management's initiatives and changes in the economic conditions. The Bank receives sufficient collaterals in consideration of the loans and other receivables granted. Guarantees are surety ships, immovable mortgages, cash blockages and customer or real person cheques.

When the Bank is exposed to significant credit risks, it has the tendency to cease its forward or similar type of transactions by using rights, fulfilling the requirements of the acquisitions or disposing of the acquisitions to mitigate the risk total.

The receivables of the Group from its top 100 and 200 cash loan customers are respectively 24,52% and 30,14% of its total cash loans.

The receivables of the Group from its top 100 and 200 non-cash loan customers are respectively 46,43% and 57,52% of its total non-cash loans.

Share of cash and non-cash receivables of the Bank from its top 100 and 200 customers are respectively 17,58% and 22,43% of its total balance sheet and off-balance sheet assets.

General loan loss provision related to the credit risk incurred by the Bank in accordance with the legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" is TRY 2.049.136 (31 December 2015: TRY 1.139.290).

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Risk Classifications:	Current Period		Prior Period	
	Current Period Risk Amount <sup>(1)</sup>	Average Risk Amount	Prior Period Risk Amount <sup>(1)</sup>	Average Risk Amount
Claims on sovereigns and Central Banks	68.234.630	53.160.680	47.714.758	44.994.513
Claims on regional governments or local authorities	1.913.131	1.385.766	1.074.473	844.635
Claims on administrative bodies and other non-commercial undertakings	740.264	709.612	619.959	555.877
Claims on multilateral development banks	-	-	-	-
Claims on international organizations	-	-	-	-
Claims on banks and intermediary institutions	6.407.389	5.518.048	4.663.854	5.257.788
Claims on corporates	83.297.300	75.938.784	67.003.874	61.631.983
Claims included in the regulatory retail portfolios	54.433.959	53.350.422	41.549.469	39.969.666
Claims secured by residential property	45.580.377	35.640.519	32.818.466	28.248.340
Overdue loans <sup>(2)</sup>	1.269.390	1.135.435	1.001.856	1.125.496
Higher risk categories decided by the Board	50.578	1.350.442	7.541.693	7.945.993
Secured by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-
Other receivables	10.356.218	9.501.546	8.694.071	7.724.019

<sup>(1)</sup> Includes the risk amounts after credit conversions.

<sup>(2)</sup> As of 31 December 2016, there is an overdue receivable finance lease receivable amounting to TRY 72.332 which is 100% risk weight in the risk class overdue receivables risk class in the consolidated credit risk table (31 December 2015: TRY 193.653 )

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Risk profile according to the geographical concentration:

	Risk Classifications <sup>(1)</sup>										Total
	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	Contingent and Non-Contingent Receivables from Banks and Intermediaries	Contingent and Non-Contingent Corporate Receivables	Contingent and Non-Contingent Retail Receivables	Contingent and Non-Contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables are identified as high risk by the Board	Other Receivables	
<b>Current Period</b>											
1. Domestic	68.234.621	1.913.131	740.208	6.279.382	81.079.482	54.330.563	45.349.383	1.251.604	50.578	10.340.747	269.569.699
2. EU Countries	-	-	56	54.616	664.177	100.032	213.895	17.783	-	15.471	1.066.030
3. OECD Countries	-	-	-	20.552	5.674	1.507	14.148	3	-	-	41.884
4. Off-shore banking regions	-	-	-	-	-	23	-	-	-	-	23
5. USA, Canada	-	-	-	13.139	217.206	96	347	-	-	-	230.788
6. Other Countries	9	-	-	39.700	1.330.761	1.738	2.604	-	-	-	1.374.812
7. Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-
8. Undistributed Assets/Liabilities <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>9. Total</b>	<b>68.234.630</b>	<b>1.913.131</b>	<b>740.264</b>	<b>6.407.389</b>	<b>83.297.300</b>	<b>54.433.959</b>	<b>45.580.377</b>	<b>1.269.390</b>	<b>50.578</b>	<b>10.356.218</b>	<b>272.283.236</b>
<b>Prior Period</b>											
1. Domestic	47.714.749	1.074.473	619.959	2.613.515	64.009.318	41.456.405	32.654.414	1.001.702	7.541.693	8.688.952	207.375.180
2. EU Countries <sup>(2)</sup>	-	-	-	601.156	248.554	89.806	162.573	154	-	5.119	1.107.362
3. OECD Countries	-	-	-	1.207.789	2.204	1.738	171	-	-	-	1.211.902
4. Off-shore banking regions	-	-	-	29	-	-	-	-	-	-	29
5. USA, Canada	-	-	-	65.356	678.889	174	129	-	-	-	744.548
6. Other Countries	9	-	-	31.710	857.580	1.346	1.179	-	-	-	891.824
7. Investment and associates, subsidiaries and joint ventures	-	-	-	144.299	1.207.329	-	-	-	-	-	1.351.628
8. Undistributed Assets/Liabilities <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>9. Total</b>	<b>47.714.758</b>	<b>1.074.473</b>	<b>619.959</b>	<b>4.663.854</b>	<b>67.003.874</b>	<b>41.549.469</b>	<b>32.818.466</b>	<b>1.001.856</b>	<b>7.541.693</b>	<b>8.694.071</b>	<b>212.682.473</b>

<sup>(1)</sup> Risk classifications in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" will be used.

<sup>(2)</sup> Assets and liabilities that are not consistently allocated.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Risk Profile according to sectors:

Current Period	Risk Classifications <sup>(1)</sup>										TRY	FC	Total
	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	Contingent and Non-Contingent Receivables from Regional Government	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	Contingent and Non-Contingent Receivables from Banks and Intermediaries	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Retail Receivables	Contingent and Non-Contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables are identified as high risk by the Board	Other Receivables			
Agricultural	11	14	100	-	308.503	528.610	92.659	24.536	-	12	666.763	287.682	954.445
<i>Farming and raising livestock</i>	11	14	70	-	184.521	478.317	84.136	22.572	-	12	618.615	151.038	769.653
<i>Forestry</i>	-	-	5	-	54.730	23.917	643	759	-	-	12.015	68.039	80.054
<i>Fishing</i>	-	-	25	-	69.252	26.376	7.880	1.205	-	-	36.133	68.605	104.738
Manufacturing	48	55	361.455	-	35.259.454	8.593.342	13.066.982	730.962	-	69.923	25.552.883	32.529.338	58.082.221
<i>Mining</i>	-	-	139.590	-	1.097.764	149.325	168.125	18.997	-	-	406.969	1.166.832	1.573.801
<i>Production</i>	48	28	107.988	-	26.558.330	8.408.488	11.980.103	710.042	-	69.923	23.271.964	24.562.986	47.834.950
<i>Electric, gas and water</i>	-	27	113.877	-	7.603.360	35.529	918.754	1.923	-	-	1.873.950	6.799.520	8.673.470
Construction	13	16	129	-	9.610.201	1.650.379	1.459.239	123.384	-	-	6.544.187	6.299.174	12.843.361
Services	401.823	33.266	288.624	4.984.874	27.156.931	22.598.261	13.253.355	386.604	-	3.497.401	46.308.048	26.293.091	72.601.139
<i>Wholesale and retail trade</i>	17	694	102.093	-	9.655.999	14.283.744	6.507.261	195.895	-	2.075	25.077.068	5.670.710	30.747.778
<i>Hotel, food and beverage services</i>	-	47	13	-	3.899.276	695.392	3.676.091	63.006	-	9.402	1.589.708	6.753.519	8.343.227
<i>Transportation and telecommunication</i>	-	17.250	172.328	-	6.980.709	6.306.663	651.510	17.851	-	184	6.986.634	7.159.861	14.146.495
<i>Financial institutions</i>	202.060	-	1.189	4.984.874	3.249.029	42.636	582.349	583	-	3.483.535	9.875.901	2.670.354	12.546.255
<i>Real estate and renting services</i>	129.739	15.237	-	-	1.963.357	320.073	916.500	73.623	-	12	858.960	2.559.581	3.418.541
<i>Self-employment services</i>	4	6	17	-	10.469	706.050	135.471	2.086	-	-	846.435	7.668	854.103
<i>Education services</i>	25.513	-	238	-	662.189	83.452	248.809	2.374	-	2.193	438.742	586.026	1.024.768
<i>Health and social services</i>	44.490	32	12.746	-	735.903	160.251	535.364	31.186	-	-	634.600	885.372	1.519.972
Other	67.832.735	1.879.780	89.956	1.422.515	10.962.211	21.063.367	17.708.142	3.904	50.578	6.788.882	81.118.393	46.683.677	127.802.070
<b>Total</b>	<b>68.234.630</b>	<b>1.913.131</b>	<b>740.264</b>	<b>6.407.389</b>	<b>83.297.300</b>	<b>54.433.959</b>	<b>45.580.377</b>	<b>1.269.390</b>	<b>50.578</b>	<b>10.356.218</b>	<b>160.190.274</b>	<b>112.092.962</b>	<b>272.283.236</b>

<sup>(1)</sup> Risk classifications in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" will be used.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Risk Profile according to sectors (continued):

Prior Period	Risk Classifications <sup>(1)</sup>											TRY	FC	Total
	Contingent an Non-Contingen Receivables for Central Governments o Central Bank	Contingent an Non-Contingen Receivables for Regional Government o Domesti Governmen	Contingent an Non-Contingen Receivables for Administrativ Units and Non Commerci Enterprise	Contingen and Non Contingen Receivables for Banks an Intermediarie	Contingen and Non Contingen Receivable	Contingen and Non Contingen Retail Receivable	Contingent and Non Contingen Receivables Secure by Residentia Propert	Non Performin Receivable	Receivable are identifie as high ris by the Boar	Othe Receivable				
Agricultural	11	34	110	-	183.244	458.044	65.650	13.861	-	120.920	720.893	120.981	841.874	
<i>Farming and raising livestock</i>	11	34	42	-	138.553	432.362	60.313	13.710	-	120.850	683.404	82.471	765.875	
<i>Forestry</i>	-	-	5	-	1.924	3.015	234	8	-	70	4.866	390	5.256	
<i>Fishing</i>	-	-	63	-	42.767	22.667	5.103	143	-	-	32.623	38.120	70.743	
Manufacturing	42	104	70.863	-	28.792.868	7.028.230	8.551.061	604.864	-	86.607	20.837.078	24.297.561	45.134.639	
<i>Mining</i>	-	-	12.459	-	349.744	118.541	75.698	15.794	-	-	324.689	247.547	572.236	
<i>Production</i>	42	104	49.596	-	22.859.313	6.881.495	7.711.504	589.013	-	86.607	19.166.436	19.011.238	38.177.674	
<i>Electric, gas and water</i>	-	-	8.808	-	5.583.811	28.194	763.859	57	-	-	1.345.953	5.038.776	6.384.729	
Construction	12	15	128	-	6.428.257	1.213.875	1.046.485	96.503	-	148.426	4.789.597	4.144.104	8.933.701	
Services	45.587.842	21.296	442.470	4.587.267	21.697.614	18.903.454	9.170.233	257.021	-	309.951	62.334.240	38.642.908	100.977.148	
<i>Wholesale and retail trade</i>	20	50	326.643	-	8.800.741	11.990.854	4.959.898	141.152	-	31.381	21.981.960	4.268.779	26.250.739	
<i>Hotel, food and beverage services</i>	-	319	1.368	-	2.836.684	505.691	2.064.090	26.054	-	84	1.199.818	4.234.472	5.434.290	
<i>Transportation and telecommunicat</i>	-	6	28.480	-	4.373.219	5.267.251	467.478	7.277	-	25.304	5.778.201	4.390.814	10.169.015	
<i>Financial institutions</i>	45.444.261	2.677	7.926	4.587.267	2.792.349	79.762	269.738	848	-	222.216	31.071.088	22.335.956	53.407.044	
<i>Real estate and renting services</i>	114.199	2.214	-	-	1.795.960	236.064	926.827	72.465	-	23.671	617.017	2.554.383	3.171.400	
<i>Self-employment services</i>	3	5	16	-	198	628.418	101.426	1.511	-	6.019	734.103	3.493	737.596	
<i>Education services</i>	323	5	48.733	-	471.084	82.347	110.380	381	-	1.172	390.848	323.577	714.425	
<i>Health and social services</i>	29.036	16.020	29.304	-	627.379	113.067	270.396	7.333	-	104	561.205	531.434	1.092.639	
Other	2.126.851	1.053.024	106.388	76.587	9.901.891	13.945.866	13.985.037	29.607	7.541.693	8.028.167	47.580.986	9.214.125	56.795.111	
<b>Total</b>	<b>47.714.758</b>	<b>1.074.473</b>	<b>619.959</b>	<b>4.663.854</b>	<b>67.003.874</b>	<b>41.549.469</b>	<b>32.818.466</b>	<b>1.001.856</b>	<b>7.541.693</b>	<b>8.694.071</b>	<b>136.262.794</b>	<b>76.419.679</b>	<b>212.682.473</b>	

<sup>(1)</sup> It refers to the risk classes in the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Distribution of maturity risk factors according to their outstanding maturities<sup>(\*)(\*\*)</sup>:

Current Period Risk Classifications	According to outstanding maturities				1 year and over
	1 month	1-3 month	3-6 month	6-12 month	
1.Claims on sovereigns and Central Banks	431.030	65.939	408.242	923.263	66.406.156
2.Claims on regional governments or local authorities	31.540	590	10.178	45.272	1.825.551
3.Claims on administrative bodies and other non-commercial undertakings	380.080	164.819	8.018	181.329	6.018
4.Claims on banks and intermediary institutions	4.841.217	37.892	64.165	44.613	1.419.502
5.Claims on corporate	12.874.283	5.354.254	8.834.772	14.636.163	59.977.646
6.Claims included in the regulatory retail portfolios	4.750.129	2.346.716	4.694.522	11.378.060	58.515.669
7. Overdue loans	1.196.810	-	-	22	72.558
8. Other receivables	469.233	113.255	-	38	9.773.692
<b>Total</b>	<b>24.974.322</b>	<b>8.083.465</b>	<b>14.019.897</b>	<b>27.208.760</b>	<b>197.996.792</b>

<sup>(\*)</sup> Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

<sup>(\*\*)</sup>Claims secured by residential property and higher risk categories decided by the Board are disclosed in the claims on corporate and claims included in the regulatory retail portfolios.

Prior Period Risk Classifications	According to outstanding maturities				1 year and over
	1 month	1-3 month	3-6 month	6-12 month	
1.Claims on sovereigns and Central Banks	29.040.134	208.857	998.529	163.063	17.304.175
2.Claims on regional governments or local authorities	9.108	1.024	7.734	13.746	1.042.861
3.Claims on administrative bodies and other non-commercial undertakings	139.275	39.343	333.415	29.651	78.275
4.Claims on banks and intermediary institutions	4.403.115	82.004	45.020	13.095	120.620
5.Claims on corporate	9.304.990	4.054.928	7.119.983	12.177.351	46.017.535
6.Claims included in the regulatory retail portfolios	3.902.928	2.081.313	3.923.020	8.587.008	51.744.446
7. Overdue loans	858.370	100.934	256	4.217	38.079
8. Other receivables	393.762	76.478	15.447	69.654	8.138.730
<b>Total</b>	<b>48.051.682</b>	<b>6.644.881</b>	<b>12.443.404</b>	<b>21.057.785</b>	<b>124.484.721</b>

<sup>(\*)</sup> Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

<sup>(\*\*)</sup>Claims secured by residential property and higher risk categories decided by the Board are disclosed in the claims on corporate and claims included in the regulatory retail portfolios.

Information on the risk classifications as per the Article 6 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks:

- Türkiye Halkbank A.Ş. is using the risk ratings of the independent rating firm Fitch Ratings for the calculation of capital adequacy.
- Fitch Ratings' risk ratings are used., for the claims on sovereigns and Central Banks and for the risk groups below on the condition that being settled abroad;

Claims on banks and intermediary institutions  
 Claims on regional governments or local authorities  
 Claims on administrative bodies and other non-commercial undertakings  
 Claims on multilateral development banks  
 Claims on corporates

Additionally, firms which are resident are being accepted as scaleless and are included in the calculation of capital adequacy.

- The relevant risk classification is used in determining the risk weights on a claim that is classified as per the second section, Article 8 of the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks. In the absence of a specific rating, the provisions of paragraph a,b and c of Article 9 of the regulation mentioned should be used.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

- d) The implementation of the risk weights to claims on Regional Governments or local authorities are subjected to the same conditions as claims on banks and intermediary institutions but this privileged implementation could not be applied for the claims on banks and intermediary institutions which have 90 days to maturity.

The implementation of the risk weights to claims on multilateral development banks except those listed in the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks, are subjected to the same conditions as claims on banks and intermediary institutions but this privileged implementation could not be applied for the claims on banks and intermediary institutions which have 90 days to maturity.

The implementation of the risk weight for unrated claims on banks and intermediary institutions can not be lower than the risk weight of claims on sovereigns which they are settled in.

Credit Quality Grade	FITCH	RISK CATEGORIES					
		Claims on sovereigns and Central Banks	Claims on administrative bodies and other non-commercial undertakings		Claims on banks and intermediary institutions		Claims on corporates
			Institutions and Organizations listed in the sections (I), (II), (III) and (IV) of Annex 5018 Public Financial Management and Control Law	Other Public Institutions and organizations	Less than 90 days to maturity	More than 90 days to maturity	
1	AAA						
	AA+						
	AA						
	AA-	0%	0%	20%	20%	20%	20%
2	A+						
	A						
	A-	20%	20%	50%	20%	50%	50%
3	BBB+						
	BBB						
	BBB-	50%	50%	100%	20%	50%	100%
	BB+						
4	BB						
	BB-	100%	100%	100%	50%	100%	100%
	B+						
5	B						
	B-	100%	100%	100%	50%	100%	150%
6	CCC+						
	CCC						
	CC						
	C						
	D	150%	150%	150%	150%	150%	150%

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Receivables from consolidated private sector:

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
TÜRKİYE	146.581.022	63.700	146.644.722
MACEDONIA	1.365.663		1.365.663
SERBIA	1.167.786	28.580	1.196.366
VİRGİN ISLAND(US)	972.192		972.192
CYPRUS	396.157	186	396.343
İRAN	244.103		244.103
SWEEDEN	192.490		192.490
U.K.	182.880		182.880
İTALY	58.805		58.805
GERMANY	45.984		45.984
SWITZERLAND	22.919		22.919
ALBANIA	12.516		12.516
U.S.A.	12.489	31.834	44.323
SAUDI ARABIA	9.554		9.554
BELGIUM	5.166		5.166
OTHER	27.917		27.917

\*Countries having less than fifty thousand Turkish Lira risk weighted amounts are classified in "Other".

Risk balances according to risk weights:

Current Period Risk Weights	0%	10%	20%	%35	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1. Pre-Amount of Credit Risk Mitigation	38.234.691	-	5.150.545	-	37.425.377	83.868.575	107.167.842	50.578	-	385.627	364.474
2. Amount after Credit Risk Mitigation	41.396.138	832.839	5.500.768	25.862.844	56.843.514	52.918.351	88.492.576	50.578	-	385.627	364.474

Prior Period Risk Weights	0%	10%	20%	%35	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1. Pre-Amount of Credit Risk Mitigation	47.071.350	47.071.350	5.142.671	-	18.433.212	51.028.837	83.157.296	2.760.173	4.761.423	327.511	271.945
2. Amount after Credit Risk Mitigation	50.386.042	50.386.042	5.670.530	-	38.513.873	39.592.255	70.670.666	2.760.173	4.761.423	327.511	271.945

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Risk balances according to risk weights (continued):

Information according to sectors and counterparties:

Current Period		Loans			
Sectors / Counterparties	Non-performing loans <sup>(1)</sup>	Overdue <sup>(2)</sup>	Value Adjustments	Provisions	
<b>Agricultural</b>	<b>95.323</b>	<b>14.055</b>	<b>273</b>	<b>72.418</b>	
<i>Farming and raising livestock</i>	86.543	11.087	214	64.851	
<i>Forestry</i>	472	-	-	464	
<i>Fishing</i>	8.308	2.968	59	7.103	
<b>Manufacturing</b>	<b>2.393.501</b>	<b>569.819</b>	<b>11.347</b>	<b>1.615.485</b>	
<i>Mining</i>	133.994	12.674	253	116.630	
<i>Production</i>	2.256.485	556.663	11.084	1.497.335	
<i>Electric, gas and water</i>	3.022	482	10	1.520	
<b>Construction</b>	<b>456.166</b>	<b>118.552</b>	<b>2.355</b>	<b>360.921</b>	
<b>Services</b>	<b>1.417.051</b>	<b>911.304</b>	<b>17.956</b>	<b>1.051.164</b>	
<i>Wholesale and retail trade</i>	982.054	537.187	10.581	790.762	
<i>Hotel, food and beverage services</i>	148.152	84.693	1.599	98.223	
<i>Transportation and telecommunication</i>	64.355	130.222	2.593	42.969	
<i>Financial institutions</i>	11.043	959	19	11.043	
<i>Real estate and renting services</i>	123.450	121.216	2.424	50.005	
<i>Self-employment services</i>	9.808	19.805	396	8.045	
<i>Education services</i>	5.985	12.617	252	3.611	
<i>Health and social services</i>	72.204	4.605	92	46.506	
<b>Other</b>	<b>958.471</b>	<b>213.800</b>	<b>6.242</b>	<b>955.400</b>	
<b>Total</b>	<b>5.320.512</b>	<b>1.827.530</b>	<b>38.173</b>	<b>4.055.388</b>	

<sup>(1)</sup> Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

<sup>(2)</sup> Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

Prior Period		Loans			
Sectors / Counterparties	Non-performing loans <sup>(1)</sup>	Overdue <sup>(2)</sup>	Value Adjustments	Provisions	
<b>Agricultural</b>	<b>82.674</b>	<b>29.001</b>	<b>803</b>	<b>69.072</b>	
<i>Farming and raising livestock</i>	75.043	26.658	733	61.592	
<i>Forestry</i>	482	60	1	474	
<i>Fishing</i>	7.149	2.283	69	7.006	
<b>Manufacturing</b>	<b>1.968.771</b>	<b>1.012.086</b>	<b>35.221</b>	<b>1.363.198</b>	
<i>Mining</i>	132.563	17.825	892	116.770	
<i>Production</i>	1.833.302	678.404	24.340	1.244.890	
<i>Electric, gas and water</i>	2.906	315.857	9.989	1.538	
<b>Construction</b>	<b>354.552</b>	<b>407.911</b>	<b>12.054</b>	<b>255.290</b>	
<b>Services</b>	<b>1.054.435</b>	<b>1.183.229</b>	<b>47.963</b>	<b>825.700</b>	
<i>Wholesale and retail trade</i>	717.866	868.212	34.304	575.296	
<i>Hotel, food and beverage services</i>	112.807	68.391	2.034	87.096	
<i>Transportation and telecommunication</i>	46.794	89.761	2.504	36.405	
<i>Financial institutions</i>	11.258	2.736	118	10.939	
<i>Real estate and renting services</i>	123.143	50.849	5.119	88.494	
<i>Self-employment services</i>	21.166	50.761	1.458	14.001	
<i>Education services</i>	2.862	3.805	119	2.481	
<i>Health and social services</i>	18.539	48.714	2.307	10.988	
<b>Other</b>	<b>729.104</b>	<b>711.386</b>	<b>17.171</b>	<b>659.457</b>	
<b>Total</b>	<b>4.189.536</b>	<b>3.343.613</b>	<b>113.212</b>	<b>3.172.717</b>	

<sup>(1)</sup> Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

<sup>(2)</sup> Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

Information about value adjustments and changes in the loan impairment:

	The opening balance	Provision amounts set aside during the period	The cancellation of the provisions	Other adjustments	Close out balance
<b>Current Period</b>					
1. Specific Provisions	3.172.717	1.161.930	278.227	(1.032)	4.055.388
2. General Provisions	1.139.290	910.121	275	-	2.049.136

	The opening balance	Provision amounts set aside during the period	The cancellation of the provisions	Other adjustments	Close out balance
<b>Prior Period</b>					
1. Specific Provisions	2.433.408	864.690	125.334	(47)	3.172.717
2. General Provisions	1.277.829	291.794	430.333	-	1.139.290

The table below shows the maximum risk exposure to credit risk for the components of the financial statements.

	Current Period	Prior Period
<b>Gross Maximum Exposure</b>		
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	30.211.966	23.500.539
Due from banks	1.964.850	2.617.651
Money Market Receivables	1.072.397	53.874
Financial Assets at Fair Value through profit or loss	445.831	336.189
Financial Assets Available for Sale	15.421.388	11.418.210
Held to maturity Investments	18.344.626	16.904.877
Loans	159.323.159	127.219.551
Receivables from Leasing Transactions	2.311.330	2.204.752
Receivables from Factoring Transactions	1.134.528	486.885
<b>Total</b>	<b>230.230.075</b>	<b>184.742.528</b>
Contingent Liabilities	47.877.719	40.037.226
Commitments	24.754.360	22.041.303
<b>Total</b>	<b>72.632.079</b>	<b>62.078.529</b>
<b>Total Credit Risk Exposure</b>	<b>302.862.154</b>	<b>246.821.057</b>

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, financial assets available for sale and held to maturity investments.

Carrying amount per class of financial assets whose terms have been renegotiated:

	Current Period	Prior Period
<b>Loans</b> <sup>(1)(2)</sup>		
Corporate Loans	33.834	73.375
SME Loans	7.796	12.054
Consumer Loans	10.148	13.824
Other	-	-
<b>Total</b>	<b>51.778</b>	<b>99.253</b>

<sup>(1)</sup>Accruals are not included in the table above.

<sup>(2)</sup>Presents loans accounted under in restructured or rescheduled loan accounts.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (continued)**

The net value and type of collaterals of the loans amounting TRY 4.591.812 followed under loans and other receivables under close monitoring section is below (31 December 2015: TRY 3.460.287):

<b>Collateral Types<sup>(1),(2)</sup></b>	<b>Net Value of Collateral Current Period</b>	<b>Net Value of Collateral Prior Period</b>
Real estate mortgage	3.286.676	1.643.306
Salary pledge, vehicle pledge and pledge of commercial undertaking	107.555	115.919
Financial collaterals (cash, securities pledge, etc.)	2.418	566
Cheque / bills	38.123	61.345
Surety ship	881.394	1.307.826
Other	275.646	331.325
<b>Total</b>	<b>4.591.812</b>	<b>3.460.287</b>

<sup>(1)</sup> The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered on the table above.

<sup>(2)</sup> Income accruals amounting to TRY 62.119 (31 December 2015: TRY 44.463) are not included in the table.

The net value and type of collaterals belongs to loans amounted TRY 5.320.512 followed under non-performing loans section is below (31 December 2015: TRY 4.189.536):

<b>Collateral Types</b>	<b>Net Value of Collateral Current Period<sup>(1)</sup></b>	<b>Net Value of Collateral Prior Period</b>
Cash	475	1.291
Mortgage	1.341.044	947.098
Pledge	225.056	206.789
Cheque / bills	24.561	43.175
Surety ship	1.523.452	2.178.702
Other <sup>(2)</sup>	2.205.924	812.481
<b>Total</b>	<b>5.320.512</b>	<b>4.189.536</b>

<sup>(1)</sup> The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above.

<sup>(2)</sup> Comprised of share certificates, blockage on receivables and salaries, uncollateralized, etc.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**III. EXPLANATIONS RELATED TO THE CONSOLIDATED CURRENCY RISK**

- a) Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into consideration. Net short term and long term positions of each currency are calculated in terms of the Turkish Lira.
- b) In accordance with “Regulation On Measurement and Evaluation of Capital Adequacy of Banks”, the foreign currency position risk of the Group is measured by “standard method” and is calculated daily and is reported monthly. Also VAR based values and limits are reported to the Executives on a daily basis by using internal model methods. The currency risk has been closely followed. The Parent Bank makes derivative transactions against the currency risk, in case of need.
- c) Announced current foreign exchange buying rates of the Parent Bank as at 31 December 2016 and the previous five working days in full TRY are as follows:

	<b>23.12.2016</b>	<b>26.12.2016</b>	<b>27.12.2016</b>	<b>28.12.2016</b>	<b>29.12.2016</b>	<b>30.12.2016</b>
USD	3,4800000	3,4700000	3,4900000	3,5300000	3,5000000	3,5100000
CHF	3,3846000	3,3750000	3,3877000	3,4222000	3,4112000	3,4433000
GBP	4,2552000	4,2577000	4,2697000	4,3074000	4,2757000	4,3345000
JPY	0,0296066	0,0295997	0,0296613	0,0299503	0,0299259	0,0299921
EUR	3,6331000	3,6277000	3,6477000	3,6710000	3,6589000	3,6974000

The simple arithmetic averages of the major current foreign exchange buying rates of the Parent Bank for the thirty days before 31 December 2016 are as follows:

	<b>Monthly average</b>
USD	3,4765909
CHF	3,4031455
GBP	4,3325227
JPY	0,0299034
EUR	3,6636545

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**III. EXPLANATIONS RELATED TO THE CONSOLIDATED CURRENCY RISK**  
**(continued)**

Information related to the consolidated currency risk:

<b>Current Period</b>	<b>EURO</b>	<b>USD</b>	<b>OTHER FC</b>	<b>TOTAL</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	6.821.179	16.034.216	3.822.182	26.677.577
Banks	414.994	800.901	386.429	1.602.324
Financial assets at fair value through profit and loss <sup>(3)</sup>	91.242	138.476	2.489	232.207
Money market placements	-	-	-	-
Financial assets available-for-sale	834.651	3.440.385	290.189	4.565.225
Loans <sup>(2)</sup>	25.426.776	31.447.815	1.194.940	58.069.531
Subsidiaries, associates and entities under common control	270.028	-	-	270.028
Held-to-maturity investments	5.253	2.332.668	131.683	2.469.604
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	74.533	74.533
Intangible assets	-	-	-	-
Other assets <sup>(3)</sup>	1.389.608	1.348.417	47.243	2.785.268
<b>Total assets</b>	<b>35.253.731</b>	<b>55.542.878</b>	<b>5.949.688</b>	<b>96.746.297</b>
<b>Liabilities</b>				
Bank deposits	8.454.425	3.160.761	1.461.712	13.076.898
Foreign currency deposits	17.324.616	30.582.332	2.865.858	50.772.806
Money market balances	-	1.373.871	-	1.373.871
Funds provided from other financial institutions	9.166.425	11.216.600	34.322	20.417.347
Bonds issued	-	10.684.708	-	10.684.708
Sundry creditors	22.013	64.323	37.208	123.544
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities <sup>(3)</sup>	300.774	296.381	143.961	741.116
<b>Total liabilities</b>	<b>35.268.253</b>	<b>57.378.976</b>	<b>4.543.061</b>	<b>97.190.290</b>
<b>Net balance sheet position</b>	<b>(14.522)</b>	<b>(1.836.098)</b>	<b>1.406.627</b>	<b>(443.993)</b>
<b>Net off-balance sheet position</b>				
<b>Financial derivative assets<sup>(4)</sup></b>	<b>1.387.874</b>	<b>4.185.717</b>	<b>1.571.243</b>	<b>7.144.834</b>
<b>Financial derivative liabilities<sup>(4)</sup></b>	<b>1.673.702</b>	<b>2.259.822</b>	<b>2.711.951</b>	<b>6.645.475</b>
<b>Non-cash loans<sup>(1)</sup></b>	<b>8.827.121</b>	<b>16.441.447</b>	<b>1.609.613</b>	<b>26.878.181</b>
<b>Prior period</b>				
Total assets	24.561.805	43.470.986	4.421.528	72.454.319
Total liabilities	25.555.193	44.649.501	3.230.807	73.435.501
<b>Net balance sheet position</b>	<b>(993.388)</b>	<b>(1.178.515)</b>	<b>1.190.721</b>	<b>(981.182)</b>
<b>Net off-balance sheet position</b>				
<b>Financial derivative assets</b>	<b>2.200.997</b>	<b>4.318.311</b>	<b>1.300.229</b>	<b>7.819.537</b>
<b>Financial derivative liabilities</b>	<b>978.442</b>	<b>3.117.172</b>	<b>2.237.326</b>	<b>6.332.940</b>
<b>Non-cash loans<sup>(1)</sup></b>	<b>6.417.859</b>	<b>16.013.743</b>	<b>950.945</b>	<b>23.382.547</b>

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

<sup>(2)</sup> Includes TRY 1.998.635 of foreign currency indexed loans and their accruals (31 December 2015: TRY 1.534.159).

<sup>(3)</sup> In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", derivative financial instruments foreign currency income accruals (TRY 128.468), prepaid expenses (TRY 187) and intangible assets in foreign currency (20.173) in assets; and derivative financial instruments foreign currency expense accruals (TRY 17.465), shareholders' equity (TRY -171.951) and minority share in foreign currency (TRY 29.240) in liabilities are not taken into consideration in the currency risk measurement.

<sup>(4)</sup> Receivables from derivative financial instruments include precious metal purchase transactions which amount to TRY 59.714; and derivative transaction liabilities from financial instruments include precious metal sale transactions which amount to TRY 2.121.975.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**IV. EXPLANATIONS RELATED TO THE CONSOLIDATED INTEREST RATE RISK**

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

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

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

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

1. Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items based on re-pricing dates:

Current period	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Non-interest bearing	Total
<b>Assets</b>							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	20.210.851	-	-	-	-	10.001.115	30.211.966
Banks and financial institutions	785.635	148.477	12.343	-	-	1.018.395	1.964.850
Financial assets at fair value through profit and loss	419.809,00	10.683	9.906	210	107	8.211	448.926
Money market placements	3.475	1.068.922	-	-	-	-	1.072.397
Financial assets available-for-sale	678.903	3.030.194	2.628.760	3.356.766	5.723.381	63.215	15.481.219
Loans	58.808.334	20.957.655	42.095.743	29.171.482	5.547.844	1.476.977	158.058.035
Held-to-maturity investments	490.573	7.595.932	1.882.417	2.518.687	5.857.017	-	18.344.626
Other assets <sup>(1)(2)</sup>	5.200.663	281.671	673.280	1.400.468	287.219	4.300.947	12.144.248
<b>Total assets</b>	<b>86.598.243</b>	<b>33.093.534</b>	<b>47.302.449</b>	<b>36.447.613</b>	<b>17.415.568</b>	<b>16.868.860</b>	<b>237.726.267</b>
<b>Liabilities</b>							
Bank deposits	12.234.540	2.374.878	383.750	-	-	7.867.043	22.860.211
Other deposits	72.782.836	23.195.563	9.436.652	572.900	8.534	21.542.181	127.538.666
Money market balances	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Sundry creditors	1.250.040	97.688	380.694	877.669	29	260.502	2.866.622
Bonds issued	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Funds provided from other financial institutions <sup>(4)</sup>	4.209.850	5.060.030	8.988.390	2.615.467	696.208	19.166	21.589.111
Other liabilities <sup>(3)</sup>	212.335	2.048.286	1.109.721	-	-	27.726.768	31.097.110
<b>Total liabilities</b>	<b>107.665.549</b>	<b>35.315.225</b>	<b>24.683.654</b>	<b>11.941.408</b>	<b>704.771</b>	<b>57.415.660</b>	<b>237.726.267</b>
Balance sheet long position	-	-	22.618.795	24.506.205	16.710.797	-	63.835.797
Balance sheet short position	(21.067.306)	(2.221.691)	-	-	-	(40.546.800)	(63.835.797)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
<b>Total position</b>	<b>(20.716.306)</b>	<b>(2.046.191)</b>	<b>22.618.795</b>	<b>24.076.905</b>	<b>16.710.797</b>	<b>(40.546.800)</b>	<b>97.200</b>

<sup>(1)</sup> TRY 99.525 of deferred tax assets is disclosed under the non interest bearing column in other assets and TRY 288.974 of deferred tax liability is disclosed under the non interest bearing column in other liabilities.

<sup>(2)</sup> TRY 1.265.124 of non-performing loans with no specific provision are disclosed under the non-interest bearing column in other assets.

<sup>(3)</sup> Shareholders' equity balance is disclosed under the non-interest bearing column in other liabilities line.

<sup>(4)</sup> Funds provided from other financial institutions include borrowings.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

Prior period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non-interest bearing	Total
<b>Assets</b>							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	16.755.948	-	-	-	-	6.744.591	23.500.539
Banks and financial institutions	798.714	51.765	-	-	-	1.767.172	2.617.651
Financial assets at fair value through profit and loss	247.364	25.553	33.349	269	5.144	27.828	339.507
Money market placements	33.101	20.773	-	-	-	-	53.874
Financial assets available-for-sale	2.359.097	529.117	1.645.419	2.436.137	4.448.231	117.142	11.535.143
Loans	44.877.032	17.838.272	33.895.040	23.210.103	4.329.749	2.052.536	126.202.732
Held-to-maturity investments	7.732.528	761.017	1.352.000	2.154.709	4.904.623	-	16.904.877
Other assets <sup>(1),(2)</sup>	1.016.183	221.785	593.799	1.488.452	163.986	6.362.962	9.847.167
<b>Total assets</b>	<b>73.819.967</b>	<b>19.448.282</b>	<b>37.519.607</b>	<b>29.289.670</b>	<b>13.851.733</b>	<b>17.072.231</b>	<b>191.001.490</b>
<b>Liabilities</b>							
Bank deposits	8.427.245	2.409.694	525.038	-	-	3.328.873	14.690.850
Other deposits	56.054.414	27.198.528	6.642.534	478.726	22.424	17.416.908	107.813.534
Money market balances	7.823.894	632.063	-	-	-	-	8.455.957
Sundry creditors	986.732	33.100	1.001.111	118.869	-	258.932	2.398.744
Bonds issued	47.656	707.800	858.861	5.781.652	1.444.591	-	8.840.560
Funds provided from other financial institutions <sup>(4)</sup>	1.219.171	4.536.538	11.529.545	4.612.874	245.262	347	22.143.737
Other liabilities <sup>(3)</sup>	2.215.332	189.464	860.918	4.745	-	23.387.649	26.658.108
<b>Total liabilities</b>	<b>76.774.444</b>	<b>35.707.187</b>	<b>21.418.007</b>	<b>10.996.866</b>	<b>1.712.277</b>	<b>44.392.709</b>	<b>191.001.490</b>
Balance sheet long position	-	-	16.101.600	18.292.804	12.139.456	-	46.533.860
Balance sheet short position	(2.954.477)	(16.258.905)	-	-	-	(27.320.478)	(46.533.860)
Off-balance sheet long position	-	764.369	612.369	1.332.390	1.346.914	-	4.056.042
Off-balance sheet short position	-	(619.754)	(627.927)	(1.565.778)	(1.319.421)	-	(4.132.880)
<b>Total position</b>	<b>(2.954.477)</b>	<b>(16.114.290)</b>	<b>16.086.042</b>	<b>18.059.416</b>	<b>12.166.949</b>	<b>(27.320.478)</b>	<b>(76.838)</b>

<sup>(1)</sup> TRY 49.703 of deferred tax assets is disclosed under the non interest bearing column in other assets and TRY 72.567 of deferred tax liability is disclosed under the non interest bearing column in other liabilities.

<sup>(2)</sup> TRY 1.016.819 of non-performing loans with no specific provision are disclosed under the non-interest bearing column in other assets.

<sup>(3)</sup> Shareholders' equity balance is disclosed under the non-interest bearing column in other liabilities line.

<sup>(4)</sup> Funds provided from other financial institutions include borrowings.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

2. Average interest rates applied to financial instruments:

<b>Current period</b>	<b>EURO</b>	<b>USD</b>	<b>JPY</b>	<b>TRY</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey <sup>(5)</sup>	-	0,49	-	3,30
Due from other banks and financial institutions <sup>(1)</sup>	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans <sup>(2)</sup>	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
<b>Liabilities</b>				
Bank deposits	0,44	3,17	-	7,82
Other deposits <sup>(4)</sup>	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors <sup>(3)</sup>	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55
<b>Prior Period</b>				
<b>Assets</b>				
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
<b>Liabilities</b>				
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

<sup>(1)</sup> Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

<sup>(2)</sup> Interest rates are calculated using weighted average method for loans given as of balance sheet date.

<sup>(3)</sup> Declared maximum deposits interest rate with a maturity of twelve months as of 31 December 2016.

<sup>(4)</sup> Customer based calculated stock interest rates are applied to TRY and FC deposits as of 31 December 2016.

<sup>(5)</sup> Required reserve ratio of the Central Bank of Turkey.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

3. The interest rate risk of the banking book items:

Standard interest rate shock methods are being used in respect of measuring the risk arising from re-pricing mismatch of asset and liability items. The duration within the limits are determined by BRSA that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Bank among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

While maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and re-pricing dates are taken into account for flexible interest instruments. Non-performing loans are placed to relevant maturity periods except demand time interval that are not than not be less than six months by taking into account receiving durations are receivables ratios under other receivables and estimated receiving durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

Effect of fluctuations in the interest rates of the Parent Bank divided by different currencies:

<b>Current Period</b>				
	<b>Currency</b>	<b>Applied Shock (+/- x basis points)</b>	<b>Gains/ Losses</b>	<b>Gains/Shareholders' Equity – Losses/ Shareholders' Equity</b>
1	TRY	500	(3.295.737)	(14,32%)
		(400)	3.353.847	14,57%
2	EURO	200	510.345	2,22%
		(200)	(553.459)	(2,40%)
3	USD	200	(86.661)	(0,38%)
		(200)	301.068	1,31%
<b>Total (For negative shocks)</b>			<b>3.101.456</b>	<b>13,48%</b>
<b>Total (For positive shocks)</b>			<b>(2.872.053)</b>	<b>(12,48%)</b>
<b>Prior Period</b>				
	<b>Currency</b>	<b>Applied Shock (+/- x basis points)</b>	<b>Gains/ Losses</b>	<b>Gains/Shareholders' Equity – Losses/ Shareholders' Equity</b>
1	TRY	500	(2.222.523)	(%10,88)
		(400)	2.256.145	%11,04
2	EURO	200	288.034	%1,41
		(200)	(313.850)	(%1,54)
3	USD	200	124.102	%0,61
		(200)	(11.649)	(%0,06)
<b>Total (For negative shocks)</b>			<b>1.930.646</b>	<b>%9,45</b>
<b>Total (For positive shocks)</b>			<b>(1.810.387)</b>	<b>(%8,86)</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**V. EXPLANATIONS RELATED TO THE CONSOLIDATED POSITION RISK OF SHARES**

Information on balance sheet value, fair value, market value and capital liability of equity investments arising from banking accounts:

Share Investments	Comparison			Capital Requirement
	Balance Sheet Value	Fair Value	Market Value	
Equity Investments excluding A,B,C,D Group	333.664 <sup>(*)</sup>	249.574 <sup>(**)</sup>	-	19.966

(\*)Includes TRY 41.243 of unconsolidated subsidiary, TRY 286.101 of associates accounted for under the equity method and TRY 6.320 of unconsolidated associates.

(\*\*)The financial informations about the fair value of Demir-Halkbank NV has been obtained from its valuation report as of 31 December 2016.

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

Portfolio	Revaluated appreciation in the fair value			Unrealized gains and losses		
	Realized gains (losses) in the current period	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	-	-	-	-	-	-
3. Other share certificates	-	10.908	10.908	-	-	-
<b>Total</b>	-	<b>10.908</b>	<b>10.908</b>	-	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VI. EXPLANATIONS RELATED TO THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO**

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

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

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

The top limits of the Parent Bank consist of the following: max lending amount of TRY and FC category on all maturity in interbank OTC markets, the upper limit of repurchase and reverse repurchase transactions in TRY and FC category on all maturity in the interbank OTC markets, the maximum foreign exchange position limits that can be moved, and finally; the upper limit relating to forward and swap transactions was determined on the that the whole term of TRY and foreign currency denominated, forward and the upper limit relating to swap transactions was determined.

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

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

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

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

According to the "Regulations on the Banks' Liquidity Coverage Ratio Calculation" published by the BDDK, calculated foreign currency and total liquidity coverage ratio are monitored to ensure that banks keep high levels of liquid assets to cover net cash outflows.

"Regulations on the Banks' Liquidity Coverage Ratio Calculation" by BDDK, calculated in accordance to "Liquidity Coverage Ratio" and "Liquidity Emergency Action Plan"; the coverage of the former is required for liquidity ratios and daily changes in these rates are monitored, then the information received is shared with the Audit Committee and the Asset-Liability Committee on a regularly basis.

Throughout the current period, bank's Liquidity Coverage Ratio's lowest and highest values and the weeks which have held these values are portrayed in the table below:

Liquidity Minimum-Maximum

Liquidity Coverage Ratio	FC		TL+FC	
	Related Month	(%)	Related Month	(%)
Maximum	DECEMBER	114,94	NOVEMBER	88,62
Minimum	OCTOBER	89,58	OCTOBER	82,79

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

Current Period	Total Unweighted Value (average) <sup>(1)</sup>		Total Weighted Value (average) <sup>(1)</sup>	
	TL+FC	FC	TL+FC	FC
<b>High Quality Liquid Assets</b>				
High Quality Liquid Assets			40.539.495	20.101.376
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	70.691.580	27.305.844	5.937.031	2.730.585
Stable Deposits	22.642.553	-	1.132.128	-
Less Stable Deposits	48.049.027	27.305.844	4.804.903	2.730.585
Unsecured wholesale funding , of which;	82.908.952	32.360.969	48.176.262	21.528.348
Operational Deposits	419.003	-	104.751	-
Non-operational Deposits	73.463.441	31.049.576	43.093.507	20.284.199
Other Unsecured Funding	9.026.508	1.311.393	4.978.004	1.244.149
Secured Funding			-	-
Other cash outflows, of which;	4.483.054	2.911.244	2.067.350	1.627.714
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	66.476	580.489	66.476	580.489
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.416.578	2.330.755	2.000.874	1.047.225
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	59.983.276	24.517.744	4.558.477	1.939.518
<b>Total Cash Outflows</b>			60.739.120	27.826.165
<b>Cash Inflows</b>				
Secured Lending	-	-	-	-
Unsecured Lending	19.152.663	10.201.918	12.979.229	8.550.397
Other Cash Inflows	14.194	14.194	14.194	14.194
<b>Total Cash Inflows</b>	<b>19.166.857</b>	<b>10.216.112</b>	<b>12.993.423</b>	<b>8.564.591</b>
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			<b>40.539.495</b>	<b>20.101.376</b>
<b>Total Net Cash Outflows</b>			<b>47.745.697</b>	<b>19.261.574</b>
<b>Liquidity Coverage Ratio (%)</b>			<b>84,91</b>	<b>104,82</b>

<sup>(1)</sup> 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.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

	Total Unweighted Value (average) <sup>(1)</sup>		Total Weighted Value (average) <sup>(1)</sup>	
	TL+FC	FC	TL+FC	FC
<b>Prior Period</b>				
<b>High Quality Liquid Assets</b>				
High Quality Liquid Assets			36.483.530	22.619.177
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	59.928.266	21.968.753	4.678.946	1.887.215
Stable Deposits	26.277.613	6.193.200	1.313.881	309.660
Less Stable Deposits	33.650.653	15.775.553	3.365.065	1.577.555
Unsecured wholesale funding , of which;	59.588.342	20.871.972	33.700.026	12.882.386
Operational Deposits	-	-	-	-
Non-operational Deposits	53.696.843	18.867.534	29.191.654	11.350.496
Other Unsecured Funding	5.891.499	2.004.438	4.508.372	1.531.890
Secured Funding			-	-
Other cash outflows, of which;	5.272.792	1.585.399	3.952.254	1.465.588
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	3.071.895	1.385.714	3.071.895	1.385.714
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	2.200.897	199.685	880.359	79.874
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	53.179.861	22.395.598	4.724.560	2.171.561
<b>Total Cash Outflows</b>			<b>47.055.786</b>	<b>18.406.750</b>
<b>Cash Inflows</b>				
Secured Lending	16.643	11.311	-	-
Unsecured Lending	11.184.432	4.374.289	6.730.818	3.316.671
Other Cash Inflows	3.129.692	3.005.108	3.129.692	3.005.108
<b>Total Cash Inflows</b>	<b>14.330.767</b>	<b>7.390.708</b>	<b>9.860.510</b>	<b>6.321.779</b>
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			<b>36.483.530</b>	<b>22.619.177</b>
<b>Total Net Cash Outflows</b>			<b>37.195.276</b>	<b>12.084.971</b>
<b>Liquidity Coverage Ratio (%)</b>			<b>98,95</b>	<b>192,75</b>

<sup>(1)</sup> 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.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

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

<b>Current period</b>	<b>Demand</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 Months</b>	<b>1-5 years</b>	<b>5 years and over</b>	<b>Undistributed</b>	<b>Total</b>
<b>Assets</b>								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	4.929.774	25.176.361	-	50.714	-	-	55.117	30.211.966
Banks	1.018.395	785.635	134.163	12.343	-	-	14.314	1.964.850
Financial assets at fair value through profit and loss	2.751	172.808	70.087	170.324	29.069	792	3.095	448.926
Money market placements	-	1.072.397	-	-	-	-	-	1.072.397
Financial assets available-for-sale	-	247.654	715.378	2.080.954	5.056.460	7.320.942	59.831	15.481.219
Loans <sup>(2)</sup>	1.351.439	11.694.182	10.466.532	48.738.850	66.096.047	19.710.985	-	158.058.035
Held-to-maturity investments	-	634.347	979.802	724.724	6.021.641	9.983.731	381	18.344.626
Other assets <sup>(3)</sup>	2.488.847	56.917	281.685	673.459	1.413.677	310.387	6.919.276	12.144.248
<b>Total assets</b>	<b>9.791.206</b>	<b>39.840.301</b>	<b>12.647.647</b>	<b>52.451.368</b>	<b>78.616.894</b>	<b>37.326.837</b>	<b>7.052.014</b>	<b>237.726.267</b>
<b>Liabilities</b>								
Bank deposits	7.867.130	12.234.408	2.374.878	383.795	-	-	-	22.860.211
Other deposits	21.570.215	72.720.532	23.202.394	9.445.077	589.593	10.855	-	127.538.666
Funds provided from other financial institutions <sup>(4)</sup>	53	1.762.350	2.113.226	10.843.536	4.879.943	1.990.003	-	21.589.111
Money market balances	-	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Bonds issued	-	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Sundry creditors	241.328	1.303.733	57.754	381.306	877.669	29	4.803	2.866.622
Other liabilities <sup>(1)</sup>	573.256	1.796.237	69.438	1.616.913	362.690	1.802.922	24.875.654	31.097.110
<b>Total liabilities</b>	<b>30.251.982</b>	<b>106.793.208</b>	<b>30.356.470</b>	<b>27.055.074</b>	<b>14.585.267</b>	<b>3.803.809</b>	<b>24.880.457</b>	<b>237.726.267</b>
<b>Liquidity gap</b>	<b>(20.460.776)</b>	<b>(66.952.907)</b>	<b>(17.708.823)</b>	<b>25.396.294</b>	<b>64.031.627</b>	<b>33.523.028</b>	<b>(17.828.443)</b>	<b>-</b>
<b>Net off balance sheet position</b>								
Derivative financial assets	-	6.015.467	5.724.727	2.068.327	4.529.279	6.896.416	-	25.234.216
Derivative financial liabilities	-	3.005.140	2.850.328	1.034.659	2.313.274	3.448.208	-	12.651.609
Non-cash loans	17.590.609	2.026.427	4.602.870	13.215.750	8.319.123	1.786.226	336.714	47.877.719
<b>Previous period</b>								
Total assets	11.824.788	13.711.535	18.276.720	47.342.698	64.088.357	30.384.914	5.372.478	191.001.490
Total liabilities	25.671.024	74.486.284	33.902.620	20.246.455	13.285.320	4.022.965	19.386.822	191.001.490
<b>Liquidity gap</b>	<b>(13.846.236)</b>	<b>(60.774.749)</b>	<b>(15.625.900)</b>	<b>27.096.243</b>	<b>50.803.037</b>	<b>26.361.949</b>	<b>(14.014.344)</b>	<b>-</b>
<b>Net off balance sheet position</b>								
Derivative financial assets	-	(25.072)	44.222	(22.326)	2.154	28.160	-	27.138
Derivative financial liabilities	-	3.953.047	2.776.047	1.067.668	886.225	322.701	-	9.005.688
Non-cash loans	14.600.770	1.117.523	3.715.349	13.212.258	6.067.227	1.068.123	255.976	40.037.226

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

<sup>(2)</sup> TRY 1.265.124 of non-performing loans with no specific provision, is disclosed in other assets line under the undistributed column.

<sup>(3)</sup> 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.

<sup>(4)</sup> Funds provided from other financial institutions include borrowings.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

Analysis of non-derivative financial liabilities by remaining contractual maturities:

<b>Current Period</b>	<b>Up to one month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years Over</b>	<b>Adjustments<sup>(*)</sup></b>	<b>Total</b>
<b>Liabilities</b>							
Deposits	114.023.770	25.757.529	10.529.290	614.505	11.011	(537.228)	150.398.877
Funds provided from other financial intuitions	1.787.510	2.219.235	10.952.226	5.043.435	2.125.296	(538.591)	21.589.111
Money market borrowings	16.660.819	1.479.146	911.132	-	-	(28.961)	19.022.136
Securities issued	333.042	1.090.794	3.801.556	8.920.337	-	(1.393.318)	12.752.411
Funds	193.660	13.548	103.576	334.913	1.719.621	(25.510)	2.339.808
<b>Total</b>	<b>132.998.801</b>	<b>30.560.252</b>	<b>26.297.780</b>	<b>14.913.190</b>	<b>3.855.928</b>	<b>(2.523.608)</b>	<b>206.102.343</b>

<b>Prior Period</b>	<b>Up to one month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Adjustments<sup>(*)</sup></b>	<b>Total</b>
<b>Liabilities</b>							
Deposits	85.549.835	29.814.711	7.292.681	531.220	7.839	(691.902)	122.504.384
Funds provided from other financial intuitions	814.497	2.667.550	11.165.398	5.880.670	2.064.916	(449.294)	22.143.737
Money market borrowings	7.832.684	634.574	-	-	-	(11.301)	8.455.957
Securities issued	53.016	723.544	1.052.216	6.630.355	1.479.029	(1.097.600)	8.840.560
Funds	568.336	127.139	132.675	603.780	634.541	(102.772)	1.963.699
<b>Total</b>	<b>94.818.368</b>	<b>33.967.518</b>	<b>19.642.970</b>	<b>13.646.025</b>	<b>4.186.325</b>	<b>(2.352.869)</b>	<b>163.908.337</b>

(\*) Adjustments column represents the difference between the total expected cash flows and the carrying values of non-derivative financial liabilities.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

Analysis of Bank's derivative financial instruments according to their remaining maturities:

<b>Current Period<sup>(1)</sup></b>	<b>Up to one month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Forwards Contracts- Buy	1.118.830	2.504.618	875.467	232.448	-	4.731.363
Forward Contracts – Sell	1.118.179	467.553	874.715	230.950	-	2.691.397
Swaps – Buy	1.775.843	264.926	159.192	656.768	-	2.856.729
Swaps – Sell	1.781.941	263.813	158.953	560.998	-	2.765.705
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	59.714	-	-	-	59.714
Forward Precious Metal - Sell	-	2.121.975	-	-	-	2.121.975
Money Buy Options	307.574	32.550	-	-	-	340.124
Money Sell Options	307.584	32.545	-	-	-	340.129
Swaps Interest – Buy	-	-	-	-	4.872.265	4.872.265
Swaps Interest – Sell	-	-	-	-	4.872.265	4.872.265
<b>Total</b>	<b>6.409.951</b>	<b>5.747.694</b>	<b>2.068.327</b>	<b>1.681.164</b>	<b>9.744.530</b>	<b>25.651.666</b>

<sup>(1)</sup> Forward asset purchase and sale commitments have been included in the table amounts of TRY 417.450.

<b>Prior Period<sup>(1)</sup></b>	<b>Up to one month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Forwards Contracts- Buy	726.221	2.206.989	905.864	532.124	-	4.371.198
Forward Contracts – Sell	727.658	446.265	905.270	529.626	-	2.608.819
Swaps – Buy	3.381.020	491.953	106.570	438.820	-	4.418.363
Swaps – Sell	3.404.572	483.630	121.016	405.893	-	4.415.111
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	15.278	-	-	-	15.278
Forward Precious Metal - Sell	-	1.734.898	-	-	-	1.734.898
Money Buy Options	86.586	61.398	31.650	-	-	179.634
Money Sell Options	86.790	61.184	31.650	-	-	179.624
Swaps Interest – Buy	-	-	-	-	3.790.180	3.790.180
Swaps Interest – Sell	-	-	-	-	3.790.180	3.790.180
<b>Total</b>	<b>8.412.847</b>	<b>5.501.595</b>	<b>2.102.020</b>	<b>1.906.463</b>	<b>7.580.360</b>	<b>25.503.285</b>

<sup>(1)</sup> Forward asset purchase and sale commitments have been included in the table amounts of TRY 481.678.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VII. EXPLANATIONS ON LEVERAGE RATIO**

The leverage ratio table prepared in accordance with the communiqué “Regulation on Measurement and Assessment of Leverage Ratios of Banks” published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

	Current Period <sup>(2)</sup>	Prior Period <sup>(2)</sup>
Summary Comparison Table Related to Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with IAS <sup>(1)</sup>	204.158.507	178.782.596
The difference between Total Amount of Asset in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(1)</sup>	(33.567.760)	102.283
The difference between total amount and total risk amount of derivative financial instruments with credit derivative in the Communiqué on Preparation of Consolidated Financial Statements of Banks	12.750.123	12.750.695
The difference between total amount and total risk amount of risk investment securities or commodity collateral financing transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks	8.497.311	9.619.091
The difference between total amount and total risk amount of off-balance sheet transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks	499.895	356.768
The other differences between amount of assets and risk in the Communiqué on Preparation of Consolidated Financial Statements of Banks	-	-
<b>Total Risk Amount</b>	<b>304.496.860</b>	<b>249.728.209</b>

<sup>(1)</sup> As of reporting date, in the cause of consolidated financial statements is not published yet, the amounts are represented in the table as of 31 December 2015 and 30 June 2016.

<sup>(2)</sup> Three-month average of the amounts in the table.

	Current Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>On-Balance Sheet Items</b>		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	231.246.177	188.320.683
Assets that are deducted from core capital	(142.844)	(170.073)
Total on balance sheet exposures	231.103.333	188.150.610
<b>Derivative exposures and credit derivatives</b>		
Replacement cost associated with derivative financial instruments and credit derivatives	426.047	444.606
The potential amount of credit risk with derivative financial instruments and credit derivatives	169.191	166.866
The total amount of risk on derivative financial instruments and credit derivatives	595.238	611.472
<b>Investment securities or commodity collateral financing transactions</b>		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	564.162	352.063
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	564.162	352.063
<b>Off -Balance Sheet Items</b>	564.162	352.063
Gross notional amount of off-balance sheet items	72.734.022	60.970.833
Adjustments for conversion to credit equivalent amounts	(499.895)	(356.768)
The total risk of off-balance sheet items	72.234.127	60.614.065
<b>Capital and Total Exposures</b>		
Tier 1 Capital	20.935.086	18.669.310
Total Exposures	304.496.860	249.728.210
<b>Leverage Ratio</b>		
Leverage Ratio	6,88	7,48

<sup>(1)</sup> Three-month average of the amounts in the table

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VIII. EXPLANATIONS RELATED TO CONSOLIDATED BUSINESS SEGMENTATION**

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

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

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

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

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

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

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VIII. EXPLANATIONS RELATED TO CONSOLIDATED BUSINESS SEGMENTATION (continued)**

Under the Treasury transactions, medium and long-term fund provision is performed through securities exchange, money market operations, spot and time TRY and foreign exchange transactions, derivative instruments (such as; forwards, swaps, futures and options), syndication and securitization, etc.

Details of the segment information prepared in accordance with the Act on “Disclosure of Financial Statements of Banks and The Related Presentations and Notes” as of 31 December 2016 are presented in the table below.

<b>Current Period</b>	<b>Corporate</b>	<b>Commercial</b>	<b>SME/ Integrated</b>	<b>Treasury / Investment<sup>(1)</sup></b>	<b>Other<sup>(3)</sup></b>	<b>Total</b>
<b>OPERATING INCOME / EXPENSES</b>						
Interest income	<b>1.474.585</b>	<b>2.138.386</b>	<b>10.406.769</b>	<b>3.026.965</b>	<b>316.508</b>	<b>17.363.213</b>
<i>Interest on loans</i>	1.474.545	2.137.979	10.263.159	432.183	-	14.307.866
<i>Interest income on marketable securities</i>	-	-	129.951	2.423.456	17.997	2.571.404
<i>Interest received from banks</i>	-	-	4.158	110.130	394	114.682
<i>Other interest income<sup>(2)</sup></i>	40	407	9.501	61.196	298.117	369.261
Interest expense	<b>879.936</b>	<b>420.987</b>	<b>6.006.409</b>	<b>2.589.050</b>	<b>118.290</b>	<b>10.014.672</b>
<i>Interest on deposits</i>	866.637	405.981	5.889.288	889.712	-	8.051.618
<i>Interest on borrowings</i>	833	6.909	24.491	345.535	111.874	489.642
<i>Interest on money market borrowings</i>	-	-	26.815	767.291	-	794.106
<i>Interest on marketable bonds issued</i>	-	-	-	585.219	5.529	590.748
<i>Other interest expense<sup>(2)</sup></i>	12.466	8.097	65.815	1.293	887	88.558
Net interest income	<b>594.649</b>	<b>1.717.399</b>	<b>4.400.360</b>	<b>437.915</b>	<b>198.218</b>	<b>7.348.541</b>
Net fees and commissions income	194.413	221.663	754.129	257.443	(189.545)	1.238.103
Net trading profit / (loss)	735	6.200	312.171	(168.086)	31.946	182.966
Dividend income	-	-	-	39.873	113	39.986
Other income	8.744	26.552	254.916	352.252	1.200.749	1.843.213
Loans and other receivables' impairment loss	182.336	209.248	603.701	1.148.611	62.013	2.205.909
Other expenses	17.159	64.826	1.696.112	2.202.051	1.117.314	5.097.462
<b>Income before taxes</b>	<b>599.046</b>	<b>1.697.740</b>	<b>3.421.763</b>	<b>(2.431.265)</b>	<b>62.154</b>	<b>3.349.438</b>
Income tax provision	-	-	(1.980)	(797.969)	(10.033)	(809.982)
<b>Net profit for the period</b>	<b>599.046</b>	<b>1.697.740</b>	<b>3.419.783</b>	<b>(3.229.234)</b>	<b>52.121</b>	<b>2.539.456</b>
<b>SEGMENT ASSETS</b>						
Marketable securities	-	-	2.524.561	31.134.471	255.928	33.914.960
Derivative financial assets held for trading	-	-	75.054	284.757	-	359.811
Banks and money market receivables	-	-	244.328	2.782.330	10.589	3.037.247
Associates and subsidiaries (net)	-	-	-	333.664	-	333.664
Loans	24.281.411	32.125.832	97.373.009	5.542.907	-	159.323.159
Other assets <sup>(1)</sup>	81.246	441.908	1.805.746	34.519.527	3.908.999	40.757.426
<b>TOTAL ASSETS</b>	<b>24.362.657</b>	<b>32.567.740</b>	<b>102.022.698</b>	<b>74.597.656</b>	<b>4.175.516</b>	<b>237.726.267</b>
<b>SEGMENT LIABILITIES</b>						
Deposits	23.833.195	8.253.723	100.730.184	17.581.775	-	150.398.877
Derivative financial liabilities held for trading	-	-	42.426	169.422	12.745	224.593
Money market balances	-	-	1.373.871	17.648.265	-	19.022.136
Borrowing funding loans	1.445	187.747	830.155	18.562.250	2.007.514	21.589.111
Bonds issued	-	-	-	12.627.411	125.000	12.752.411
Other liabilities	254.825	278.741	5.100.179	1.383.137	133.689	7.150.571
Provisions and tax payable	66.549	57.621	191.543	3.450.920	1.452.415	5.219.048
Shareholders' equity	543.102	1.701.171	3.102.242	15.079.106	943.899	21.369.520
<b>TOTAL LIABILITIES</b>	<b>24.699.116</b>	<b>10.479.003</b>	<b>111.370.600</b>	<b>86.502.286</b>	<b>4.675.262</b>	<b>237.726.267</b>
<b>OFF BALANCE SHEET ITEMS</b>						
Guarantees and surety ships	13.605.528	10.831.393	12.513.027	10.927.771	-	47.877.719
Commitments	58.048	855.008	11.050.295	12.545.837	245.172	24.754.360
Derivative financial instruments	-	-	6.427.378	18.507.766	299.072	25.234.216

<sup>(1)</sup> Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the treasury / investment column. In this context net of property, plant and equipment amounting TRY 3.266.984 (net), deferred tax assets amounting TRY 99.525 is presented under the other column.

<sup>(2)</sup> Branches current interest are distributed in other interest incomes and other interest expenses section.

<sup>(3)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kira lama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VIII. EXPLANATIONS RELATED TO CONSOLIDATED BUSINESS SEGMENTATION (continued)**

Prior Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment <sup>(1)</sup>	Other <sup>(2)</sup>	Total
<b>OPERATING INCOME / EXPENSES</b>						
Interest income	<b>1.252.248</b>	<b>1.566.379</b>	<b>7.834.586</b>	<b>3.093.570</b>	<b>225.929</b>	<b>13.972.712</b>
Interest on loans	1.252.216	1.566.211	7.829.954	668.831	-	11.317.212
Interest income on marketable securities	-	-	-	2.350.827	21.468	2.372.295
Interest received from banks	-	-	-	49.333	64	49.397
Other interest income	32	168	4.632	24.579	204.397	233.808
Interest expense	<b>754.908</b>	<b>305.330</b>	<b>4.773.771</b>	<b>2.117.074</b>	<b>87.509</b>	<b>8.038.592</b>
Interest on deposits	743.956	294.970	4.705.333	581.054	-	6.325.313
Interest on borrowings	1.388	9.620	17.423	297.774	86.889	413.094
Interest on money market borrowings	-	-	-	738.807	-	738.807
Interest on marketable bonds issued	-	-	-	457.351	-	457.351
Other interest expense	9.564	740	51.015	42.088	620	104.027
Net interest income	<b>497.340</b>	<b>1.261.049</b>	<b>3.060.815</b>	<b>976.496</b>	<b>138.420</b>	<b>5.934.120</b>
Net fees and commissions income	180.974	227.705	624.468	210.111	(149.324)	1.093.934
Net trading profit / (loss)	-	-	-	(260.313)	19.554	(240.759)
Dividend income	-	-	-	6.254	-	6.254
Other income	6.976	51.758	272.851	614.795	741.605	1.687.985
Loans and other receivables' impairment loss	371.039	81.570	386.691	487.797	49.758	1.376.855
Other expenses	19.171	64.802	1.658.274	1.852.837	611.235	4.206.319
<b>Income before taxes</b>	<b>295.080</b>	<b>1.394.140</b>	<b>1.913.169</b>	<b>(793.291)</b>	<b>89.262</b>	<b>2.898.360</b>
Income tax provision	-	-	-	(541.708)	(28.342)	(570.050)
<b>Net profit for the period</b>	<b>295.080</b>	<b>1.394.140</b>	<b>1.913.169</b>	<b>(1.334.999)</b>	<b>60.920</b>	<b>2.328.310</b>
<b>SEGMENT ASSETS</b>						
Marketable securities	-	-	-	28.245.148	281.275	28.526.423
Derivative financial assets held for trading	-	-	-	247.060	6.044	253.104
Banks and money market receivables	-	-	-	2.667.826	3.699	2.671.525
Associates and subsidiaries (net)	-	-	-	302.060	-	302.060
Loans	19.120.030	23.941.048	73.389.277	10.769.196	-	127.219.551
Other assets <sup>(1)</sup>	411	219.166	994.259	27.816.286	2.998.705	32.028.827
<b>TOTAL ASSETS</b>	<b>19.120.441</b>	<b>24.160.214</b>	<b>74.383.536</b>	<b>70.047.576</b>	<b>3.289.723</b>	<b>191.001.490</b>
<b>SEGMENT LIABILITIES</b>						
Deposits	14.534.734	7.832.679	84.745.717	15.391.254	-	122.504.384
Derivative financial liabilities held for trading	-	-	-	150.716	24.957	175.673
Money market balances	-	-	-	8.455.957	-	8.455.957
Borrowing funding loans	2.623	178.763	524.629	20.005.468	1.432.254	22.143.737
Bonds issued	-	-	-	8.840.560	-	8.840.560
Other liabilities	182.692	227.718	3.890.413	1.732.360	70.580	6.103.763
Provisions and tax payable	44.141	35.196	165.682	2,399.525	966.198	3,610.742
Shareholders' equity	-	-	-	18,347.846	818.828	19,166.674
<b>TOTAL LIABILITIES</b>	<b>14,764,190</b>	<b>8,274,356</b>	<b>89,326,441</b>	<b>75,323,686</b>	<b>3,312,817</b>	<b>191,001,490</b>
<b>OFF BALANCE SHEET ITEMS</b>						
Guarantees and surety ships	11,598,690	8,607,657	9,653,785	10,177,094	-	40,037,226
Commitments	42,388	761,495	8,566,394	12,664,419	6,607	22,041,303
Derivative financial instruments	-	-	-	24,388,456	633,151	25,021,607

<sup>(1)</sup> Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the treasury / investment column. In this context net of property, plant and equipment amounting TRY 3,144,367 (net), deferred tax assets amounting TRY 49,703 is presented under the other column.

<sup>(2)</sup> Branches current interest are distributed in other interest incomes and other interest expenses section.

<sup>(3)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kira lama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE**

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
<b>Financial Assets</b>	<b>228.959.936</b>	<b>183.722.815</b>	<b>219.320.338</b>	<b>172.124.292</b>
Cash and Balances with the Central Bank of Turkey	30.211.966	23.500.539	30.211.966	23.500.539
Financial assets fair value changes reflected to income statement <sup>(3)</sup>	440.816	333.295	440.816	333.295
Banks	1.964.850	2.617.651	1.965.009	2.617.651
Money market placements	1.072.397	53.874	1.072.397	53.874
Available for sale financial assets <sup>(1)</sup>	15.421.388	11.418.210	15.506.164	11.418.210
Held to maturity investments	18.344.626	16.904.877	18.302.970	16.520.672
Loans <sup>(2)</sup>	158.058.035	126.202.732	148.375.158	114.988.414
Leasing Receivables	2.311.330	2.204.752	2.311.330	2.204.752
Factoring Receivables	1.134.528	486.885	1.134.528	486.885
<b>Financial Liabilities</b>	<b>206.853.750</b>	<b>164.519.055</b>	<b>210.743.804</b>	<b>166.080.713</b>
Deposits	150.398.877	122.504.384	150.538.910	122.606.101
Derivative financial liabilities held for trading	224.593	175.673	224.593	175.673
Funds provided from other financial intuitions	21.589.111	22.143.737	25.926.472	23.656.563
Money market borrowings	19.022.136	8.455.957	19.006.498	8.455.957
Securities issued	12.752.411	8.840.560	12.188.982	8.840.758
Miscellaneous payables	2.866.622	2.398.744	2.858.349	2.345.661

<sup>(1)</sup> As of 31 December 2016, TRY 59.831 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above (31 December 2015: TRY 116.933).

<sup>(2)</sup> Net of follow-up loans has not been included in the table above.

<sup>(3)</sup> As of 31 December 2016, marketable securities amounting to TRY 8.110 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

- i- The fair value of the held to maturity assets is determined by market places, when the market prices are not available, quoted market prices of other marketable securities which are subject to redemption with the same terms of interest maturity and other similar conditions have been used.
- ii- The applicable interest rates as of balance sheet date are used in the calculation of fair value of money market placements, banks, loans, deposits, funds provided from other financial intuitions and sundry creditors.

*Classification of Fair Value Measurement*

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

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

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

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

Classification requires using observable market data if possible.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (continued)**

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

<b>Current Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit/loss:</b>				
Financial assets held for trading purpose <sup>(2)</sup> :	81.005	359.811	-	440.816
<i>Debt securities</i>	65.538	-	-	65.538
<i>Derivative financial assets held for trading purpose</i>	-	359.811	-	359.811
<i>Equity Share</i>	3.095	-	-	3.095
<i>Other Securities</i> <sup>(2)</sup>	12.372	-	-	12.372
Available-for-sale financial assets <sup>(1)</sup>	15.421.388	-	-	15.421.388
<i>Debt securities</i>	15.419.448	-	-	15.419.448
<i>Other Securities</i>	1.940	-	-	1.940
Subsidiaries	-	-	41.243	41.243
Association	-	-	292.421	292.421
<b>Total Financial Assets</b>	<b>15.502.393</b>	<b>359.811</b>	<b>333.664</b>	<b>16.195.868</b>
<b>Financial liabilities at fair value through profit/loss:</b>				
Derivative financial liabilities held for trading purpose	-	224.593	-	224.593
<b>Total Financial Liabilities</b>	<b>-</b>	<b>224.593</b>	<b>-</b>	<b>224.593</b>

<sup>(1)</sup>As of 31 December 2016, share certificates amounting to TRY 59.831 of “securities not quoted on the stock market” in available for sale financial assets are not included in the above table.

<sup>(2)</sup>As of 31 December 2016, marketable securities amounting to TRY 8.110 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

<b>Prior Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit/loss:</b>				
Financial assets held for trading purpose <sup>(2)</sup> :	80.191	253.104	-	333.295
<i>Debt securities</i>	61.672	-	-	61.672
<i>Derivative financial assets held for trading purpose</i>	-	253.104	-	253.104
<i>Equity Share</i>	3.318	-	-	3.318
<i>Other Securities</i> <sup>(2)</sup>	15.201	-	-	15.201
Available-for-sale financial assets <sup>(1)</sup>	11.418.210	-	-	11.418.210
<i>Debt securities</i>	11.390.219	-	-	11.390.219
<i>Other Securities</i>	27.991	-	-	27.991
Subsidiaries	-	-	38.029	38.029
Association	-	-	264.031	264.031
<b>Total Financial Assets</b>	<b>11.498.401</b>	<b>253.104</b>	<b>302.060</b>	<b>12.053.565</b>
<b>Financial liabilities at fair value through profit/loss:</b>				
Derivative financial liabilities held for trading purpose	-	175.673	-	175.673
<b>Total Financial Liabilities</b>	<b>-</b>	<b>175.673</b>	<b>-</b>	<b>175.673</b>

<sup>(1)</sup>As of 31 December 2015, share certificates amounting to TRY 116.933 of “securities not quoted on the stock market” in available for sale financial assets are not included in the above table.

<sup>(2)</sup>As of 31 December 2015, marketable securities amounting to TRY 6.212 that are not valued by market rate of return, are not included in financial assets held for trading purpose.

The movement of financial assets in the third level are as follows:

	<b>Current Period</b>	<b>Prior Period</b>
Balance at the beginning of the period	264.031	38.029
Purchases during the year	-	-
Non-paid up shares	-	-
Valuation Difference	28.390	170
Transfers	-	225.832
<b>Period End Balance</b>	<b>292.421</b>	<b>264.031</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**X. EXPLANATIONS RELATED TO TRANSACTIONS MADE ON BEHALF OF OTHERS AND  
TRANSACTIONS BASED ON TRUST**

The Parent Bank performs buying transactions on behalf of customers, and gives custody, administration and consultancy services

The Group does not engage in transaction based on trust.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS**

Explanations Related To Risk Management:

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

The Bank's Risk Management Strategy and Risk Weighted Amounts

The Bank's business model creates a comprehensive risk profile that includes all units of the Bank. Credit risk is a key component of the risk profile. The Bank effectively implements risk management policies and procedures for loan and other risks which is determined within the framework of risk capacity and appetite and approved by board of directors. Risk appetite and capacity, which are directly related to the Bank's strategic objectives, are limited by legal rates therefore the Bank associated with them.

Regarding the risk management structure; The Internal Audit Department, Internal Control Department and Risk Management Department, which are units within the scope of internal systems, carry out their activities in accordance with the Regulation on Internal Systems of Banks and the Internal Capital Adequacy Assessment Process published in the Official Gazette No. 29057 dated 11 June 2014 and subject to the Board of Directors through the Audit Committee. The Financial Crimes Investigation Board (MASAK) Compliance Unit is directly affiliated to the Audit Committee. The structure of the internal systems determines the level of risk by identifying the risks that the bank is exposed to. In this direction, the relevant units are responsible for monitoring, controlling and reporting risks, limited to their areas of responsibility. Outside of internal systems, Top Management is directly responsible to the Board of Directors for the risks to which the Bank is exposed in relation to its duties.

The Bank is using information technologies and training documents openly and effectively for the dissemination and application of risk culture, and the development of bank staff is supported in line with this goal with face to face learning and e-learning. In addition, all personnel are regularly informed and aware of the risks that the Bank is exposed to.

Risk measurement systems are based on accepted risk models and workflows for the identification, monitoring and reporting of risks in accordance with legislation. Methods and software that are in line with international standards are used for risk groups such as credit, market, operational and counterparty credit risk etc.

Within the scope of risk management activities, regular reporting and presentations are made to the boards of directors, asset-liability and audit committees and to the other committees by related units, in order to manage the risks that the Bank is exposed to more effectively, to support the decision making processes related to them, to create new strategies and policies.

The Bank reports to the BRSA by applying the stress tests determined in accordance with the Internal Capital Adequacy Assessment Process (ISEDES). In addition, stress tests are carried out in line with the scenarios created by the risks exposed and the macroeconomic conditions. This test which made by shocking various risk factors, shows the results on risk weighted assets, own funds and capital adequacy ratio.

The Bank monitors its effectiveness by closely monitoring the processes of managing and reducing the risks arising from the business model. The Bank regularly revises the strategies it has established regarding these processes in line with the existing conditions and sets policies.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS(continued)**

**Overview of RWA:**

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	166.783.094	134.549.626	13.342.647
2 Standardised approach (SA)	166.783.094	134.549.626	13.342.647
3 Internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	380.116	285.197	30.409
5 Standardised approach for counterparty credit risk (SA-CCR)	380.116	285.197	30.409
6 Internal model method (IMM)	-	-	-
7 Basic risk weight approach to internal models equity position in the banking account	-	-	-
8 Investments made in collective investment companies - look-through approach	-	-	-
9 Investments made in collective investment companies - mandate-based approach (*)	-	-	-
10 Investments made in collective investment companies - %1250 weighted risk approach	-	-	-
11 Settlement risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach (RBA)	-	-	-
14 IRB Supervisory Formula Approach (SFA)	-	-	-
15 SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	2.225.538	6.667.208	178.043
17 Standardised approach (SA)	2.225.538	6.667.208	178.043
18 Internal model approaches (IMM)	-	-	-
19 Operational Risk	12.718.488	12.041.060	1.017.479
20 Basic Indicator Approach	12.718.488	12.041.060	1.017.479
21 Standart Approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amount of the discount threshold under the equity (subject to a 250% risk weight)	715.254	644.278	57.220
24 Floor adjustment	-	-	-
<b>25 Total ( 1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>182.822.490</b>	<b>154.187.369</b>	<b>14.625.798</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS(continued)**

Differences and Matching Between Asset and Liabilities' Carrying Values in Financial Statements and In Capital Adequacy Calculation

	Carrying values in financial statements prepared as per TAS	Carrying values in consolidated financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				Not subject to capital requirements or subject to deduction from capital
			Credit Risk	Counterparty credit risk	Securitization positions	Market Risk	
<b>Assets</b>							
Cash and Balances with the Central Bank	-	30.211.966	30.211.966	-	-	-	-
Available-for-Sale Financial Assets	-	448.926	-	359.811	-	448.926	-
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-
Banks	-	1.964.850	1.964.850	-	-	-	-
Receivables from Money markets	-	1.072.397	1.067.712	-	-	4.685	-
Financial assets available for sale (net)	-	15.481.219	8.579.775	-	-	6.901.444	-
Loans and receivables	-	159.323.159	159.304.411	-	-	-	18.748
Receivables from factoring	-	1.134.528	1.134.528	-	-	-	-
Investments held to maturity (net)	-	18.344.626	18.344.626	-	-	-	-
Subsidiaries (net)	-	292.421	292.421	-	-	-	-
Associates (net)	-	41.243	41.243	-	-	-	-
Jointly controlled entities (joint ventures) (net)	-	-	-	-	-	-	-
Finance lease receivables	-	2.311.330	2.311.330	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-	-	-
Tangible Assets (net)	-	3.266.984	3.036.487	-	-	-	230.497
Intangible Assets (net)	-	115.229	-	-	-	-	115.229
Real estate for investment purpose (net)	-	864.116	864.116	-	-	-	-
Tax asset	-	99.525	99.525	-	-	-	-
Assets Held For Sale and Discontinued Operations (net)	-	1.537	1.537	-	-	-	-
Other assets	-	2.752.211	2.752.211	-	-	146	-
<b>Total Assets</b>	-	<b>237.726.267</b>	<b>230.006.738</b>	<b>359.811</b>	<b>-</b>	<b>7.355.201</b>	<b>364.474</b>
<b>Yükümlülükler</b>							
Deposits	-	150.398.877	-	-	-	-	150.398.877
Derivative financial liabilities held for trading	-	224.593	-	-	-	-	224.593
Loans	-	21.589.111	-	-	-	-	21.589.111
Money market borrowings	-	19.022.136	-	10.844.612	-	2.341.945	16.680.191
Securities issued	-	12.752.411	-	-	-	-	12.752.411
Funds	-	2.339.808	-	-	-	-	2.339.808
Miscellaneous payables	-	2.866.622	-	-	-	-	2.866.622
Other liabilities	-	1.943.553	-	-	-	349	1,943,204
Factoring payables	-	588	-	-	-	-	588
Finance lease payables	-	-	-	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-	-	-
Provisions	-	4.573.099	-	-	-	-	4,573,099
Tax Liability	-	645.949	-	-	-	-	645,949
Liabilities regarding assets held for sale and discontinued operations (net)	-	-	-	-	-	-	-
Subordinated Loans	-	-	-	-	-	-	-
Shareholders' equity	-	21.369.520	-	-	-	-	21,369,520
<b>Total liabilities</b>	-	<b>237.726.267</b>	<b>-</b>	<b>10.844.612</b>	<b>-</b>	<b>2.342.294</b>	<b>235.383.973</b>



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

		<b>Total</b>	<b>Credit risk</b>	<b>Securitization positions</b>	<b>Counterparty credit risk</b>	<b>Market Risk</b>
<b>1</b>	Asset carrying value amount under scope of regulatory consolidation	237.726.267	230.006.738	-	359.811	7.355.201
<b>2</b>	Liabilities carrying value amount under regulatory scope of consolidation	237.726.267	-	-	10.844.612	2.342.294
<b>3</b>	Total net amount under regulatory scope of consolidation	-	230.006.738	-	11.204.423	9.697.495
<b>4</b>	Off-balance Sheet Amounts	72.632.079	30.952.575	-	167.732*	25.651.666
<b>5</b>	Differences in valuations	-	-	-	-	-
<b>6</b>	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
<b>7</b>	Differences due to consideration of provisions	-	-	-	-	-
<b>8</b>	Differences due to prudential filters	-	-	-	-	-
<b>9</b>	Differences due to risk reduction	-	260.959.313	-	11.372.155	35.349.161

\* Potential credit risk amount

Explanations of differences between accounting and regulatory exposure amounts:

There is no material differences between the carrying values in financial statements and the risk amounts in capital adequacy calculation of assets and liabilities.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

**Explanations Related to Counterparty Credit Risk**

The Parent Bank provides the necessary definitions and classifications for the CCR that take into account the pre-clearing and pre-clearing risk in relation to the management policies and procedures of the CCR, thereby managing these risks on a counterparty basis and across the bank.

The impact of the new products and activities on the Bank's CCR level is assessed and these evaluations are included in the product / activity approval process.

The market, liquidity, compliance risk and operational risk that may be associated with the CCR are taken into account and the general / specific limit levels of the bank's transactions to the CCR are determined. These limits established within the framework of the CCPR are regularly monitored. The Bank uses risk mitigation techniques to the extent that it is appropriate, through applications such as margin taking and margin fulfillment.

The Bank uses methods and models in accordance with international standards for the identification, measurement, monitoring, control and reporting of the CCL. Independent scrutiny and supervision is carried out on the integrity, correctness and effectiveness of the CCR management systems. These activities are carried out by the bank's internal audit units and independent audit institutions.

The contracts made according to the attribute of the transaction are evaluated by taking into account ISDA and CSA frame for derivative transactions, GMRA frame for repurchase agreements. The risk is mitigated by receiving cash or other forms of collateral. In secured lending and repo transactions, the haircut amounts are reduced from the counterparty's limits. Possible falls or rises in rating affects the current replacement cost, margin call agreements are used as a risk mitigator.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO 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)	113.549	167.732	-	1,4	302.793	210.708
Internal Model Method (for derivatives and SFTs)			-	-		-
Simple Approach for credit risk mitigation (for SFTs)					996.259	125.331
Comprehensive Approach for credit risk mitigation (for SFTs)					350.794	44.077
VaR for SFTs					-	-
<b>Total</b>					<b>-</b>	<b>380.116</b>

(\*) Expected effective amount of risk

(\*\*) This amount represents, CRM and CVA amounts after adjustments.

Credit valuation adjustment (CVA) capital charge:

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) VaR component (including the 3×multiplier)	-	-
(ii) Stressed VaR component (including the 3×multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	302.793	210.708
<b>Total subject to the CVA capital charge</b>	<b>302.793</b>	<b>210.708</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

Standardised approach – CCR exposures by regulatory portfolio and risk weights:

<b>Risk Weight /Regulatory Portfolio</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Diğer</b>	<b>Total Credit Risk</b>
Sovereigns and their central banks	290.323	1.473	-	-	-	-	-	-	291.796
Non-central government public sector entities	-	4.419	-	-	-	-	-	-	4.419
Regional governments or local authorities	-	6.376	-	-	-	-	-	-	6.376
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	732.481	94.590	307.239	-	556	-	-	1.134.866
Corporate	-	53.393	-	-	-	122.054	-	-	175.447
Regulatory retail portfolios	-	34.696	-	-	2.246	-	-	-	36.942
Secured by residential property	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-
Investments on securities	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>290.323</b>	<b>832.838</b>	<b>94.590</b>	<b>307.239</b>	<b>2.246</b>	<b>122.610</b>	<b>-</b>	<b>-</b>	<b>1.649.846</b>

Composition of collateral for CCR exposure:

	<b>Collateral used in derivative transactions</b>				<b>Collateral used in SFTs</b>	
	<b>Fair value of collateral received</b>		<b>Fair value of posted collateral</b>		<b>Fair value of collateral received</b>	<b>Fair value of posted collateral</b>
	<b>Segregated</b>	<b>Unsegregated</b>	<b>Segregated</b>	<b>Unsegregated</b>		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	41.172	-	27.690	-	26.290
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>41.172</b>	<b>-</b>	<b>27.690</b>	<b>-</b>	<b>26.290</b>

Credit derivatives exposures:

None.

Exposures to central counterparties:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

Qualitative Disclosure on Credit Risk:

Credit risk, which is the most important risk profile of the Bank's business model, refers to risks and losses arising from the bank's failure to meet its obligations under contracts that the Bank is a party to. Credit limits are set by registering with the risk appetite and capacity of the bank.

Credit risk refers to the risks and damage caused by failure to fulfill the obligations of the other party in the contracts of the Bank. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation interms of the scope of the legislation.

Within the scope of internal systems, internal audit activities are carried out by the Internal Audit Department and the Internal Audit Department in order to ensure that the activities of the Bank are carried out in accordance with the Bankan determined policies in compliance with the legal regulations. The Risk Management Department, which is the risk unit within the internal systems, performs the function of measuring, monitoring, controlling and reporting on the credit risk to which the bank is exposed. The identified units are regularly reporting on the risks exposed to the Bank's Senior Management.

The Bank, in the credit allocation process, restricts its risk exposure by working with highly credible banks and entities considering the credit ratings for the purpose of managing its risks. Under the scope of credit risk management, the Bank rates all of its borrowers' credit and requires additional collaterals from whose risk is higher. The Bank has the policy of not granting loans/credits and/or limiting the amount of such loans/credits. The Bank's risk is concentrated in Turkey. In loan procedure, limits are determined based on the type of loans and customers and risk and limit information is controlled periodically.

Loans granted to other banks and risk limits set for the correspondent bank transactions are controlled on a daily basis. Risk concentrations are monitored systematically with the Treasury department, concerning the off-balance sheet operations based on the customers and banks.

Credit Quality of Assets:

		Gross carrying value as per TAS		Allowances/amortisation and impairments **	Net values
		Defaulted *	Non-defaulted		
1	Loans	5.320.512	158.058.035	4.055.388	159.323.159
2	Debt Securities	-	34.476.651	561.691	33.914.960
	Off-balance sheet				
3	exposures	-	72.632.079	-	72.632.079
<b>4</b>	<b>Total</b>	<b>5.320.512</b>	<b>265.166.765</b>	<b>4.617.079</b>	<b>265.870.198</b>

\* Shows the receivables which identified non performing receivables in accordance with the regulation on "Methods and Principles for the Determination of Loans and Other Receivables qualification and the provisions for these" published in the official gazette no.26333 dated 1 November 2006.

\*\* Refers the provision, depreciation and impairment which located in the regulation on methods and principles for the determination of loans and other receivables qualification and the provisions for these

Changes in Stock of Default Loans and Debt Securities:

1	Defaulted loans and debt securities at end of the previous reporting period	4.189.536
2	Loans and debt securities defaulted since the last reporting period	1.688.226
3	Receivables back to non-defaulted status	(41.638)
4	Amounts written off	952
5	Other changes	(514.660)
<b>6</b>	<b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)</b>	<b>5.320.512</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

**Additional Disclosure Related To The Credit Quality Of Assets:**

Exposures Provisioned Against By Maturity

<b>31 December 2016</b>	<b>Demands</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 years and Over</b>	<b>Total</b>
Loans and Advances	1.351.439	11.694.182	10.466.532	48.738.850	66.096.047	19.710.985	158.058.035

Exposures Provisioned Against By Major Regions:

<b>31 December 2016</b>	<b>Loans Under Follow-Up</b>	<b>Specific Provisions</b>
Domestic	5.069.781	3.911.527
European Union (EU) Countries	30.241	12.458
OECD Countries	3	3
Off-Shore Banking Regions	-	-
USA, Canada	5	5
Other Countries	220.482	131.395
<b>Total</b>	<b>5.320.512</b>	<b>4.055.388</b>

Exposures Provisioned Against By Sectors:

Explained in 4-II Information according to sectors and counterparties.

Aging analysis of overdue but not impaired financial assets:

30-60 days overdue	1.154.749
60-90 days overdue	672.781
<b>Total</b>	<b>1.827.530</b>

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

31 December 2016

Loans Structured from Standard Loans and Other Receivables	2.176.960
Loans Composed of Follow-on Loans and Other Receivables	2.615.757
Loans Restructured from Non-Performing Loans	1.254.641

Qualitative Disclosure on Credit Risk Mitigation Techniques:

The risk mitigating factors used in the lending activities of the Parent Bank are listed below.

Financial warranties (Treasury Bills, Government Bonds, Cash, Pledged Deposits, Gold, Pledged Securities)

Guarantees:

Mortgage (Although mortgage lending in Basel II has been considered as a risk class, it has also been included in this section in terms of valuation methods and concentrations).

The financial guarantees in the bank are subject to valuation on a daily basis. The creditors' credits are monitored and assessed within the framework of credit revision schedules.

As long as the mortgage that constitutes the collateral of the credits continues to be related to the loan, the risk-guarantee balances will be monitored and revalued each year. Despite the possibility of exposure to collateral, action plans have been drawn up.

Guarantees given by the Treasury and banks only in line with the related regulations of the BRSA are regarded as risk reduction elements and the credit value of the bank is regularly monitored.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

Qualitative Disclosure on Credit Risk Mitigation Techniques (continued):

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals that are composed of cash or similar assets and instruments of a high credit quality as well as real estate mortgages have been used in credit risk mitigation.

On-balance sheet and off-balance sheet adjustments are not available.

Credit Risk Mitigation Techniques- Overview:

	Exposures unsecured of (according to TAS)	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	financial guarantees, of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which secured amount
1 Loans <sup>(*)</sup>	103.500.018	54.558.017	44.814.196	457.086	457.086	-	-
2 Debt Instruments <sup>(**)</sup>	33.914.960	-	-	-	-	-	-
3 Total	137.414.978	54.558.017	44.814.196	457.086	457.086	-	-
4 Of which defaulted	250.913	1.014.211	629.978	10.188	10.188	-	-

\* As collateral, collateral which can only be used to reduce credit risk in the scope of Standard Approach is taken into consideration.

\*\* Only securities and shares representing the share in the capital are taken into consideration as debt instruments and other securities.

Information about the Banks' Use of Classification Notes by Calculation of Standard Approach to Credit Risk:

Explained in risk classifications related to Article 6 of Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks in 4-II Credit risk section.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

Standardised Approach- Credit Risk Exposure and Credit Risk Mitigation Techniques:

Risk Classification	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Claims on sovereigns and Central Banks	67.967.853	140.836	68.162.399	72.231	17.029.476	24,96%
Claims on regional governments or local authorities	2.073.317	61.363	1.882.449	30.682	947.302	49,52%
Claims on administrative bodies and other non-commercial undertakings	573.484	340.239	573.484	166.780	733.223	99,05%
Claims on multilateral development banks	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-
Claims on banks and intermediary institutions	4.833.655	2.829.512	4.855.930	1.551.459	1.776.884	27,73%
Claims on corporates	60.120.479	40.855.543	60.100.173	23.197.127	81.633.535	98,00%
Claims included in the regulatory retail portfolios	49.840.300	26.023.547	49.834.653	4.599.306	39.363.193	72,31%
Claims secured by residential property	25.825.339	860.072	25.825.339	475.148	9.354.872	35,57%
Claims secured by commercial property	18.474.111	1.162.678	18.474.111	805.779	9.639.945	50,00%
Overdue loans	1.264.569	9.061	1.264.569	4.821	1.155.751	91,05%
Higher risk categories decided by the Board	1.333	95.249	1.333	49.245	75.867	150,00%
Secured by mortgages	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-
Other receivables	10.003.316	-	10.003.316	-	5.386.360	53,85%
Equity share investments	352.902	-	352.902	-	782.055	221,61%
<b>Total</b>	<b>241.330.658</b>	<b>72.378.100</b>	<b>241.330.658</b>	<b>30.952.578</b>	<b>167.878.463</b>	<b>61,66%</b>

Risk weight / Risk Classifications	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total Credit Risk
Claims on sovereigns and Central Banks	34.279.604	1.473	15	-	33.848.425	-	105.113	-	-	-	68.234.630
Claims on regional governments or local authorities	14.991	4.419	-	-	1.893.721	-	-	-	-	-	1.913.131
Claims on administrative bodies and other non-commercial undertakings	1.227	6.376	94	-	-	-	732.567	-	-	-	740.264
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	614.159	732.481	3.848.460	-	556.690	-	655.599	-	-	-	6.407.389
Claims on corporates	504.999	53.393	978.606	-	655.656	-	81.104.646	-	-	-	83.297.300
Claims included in the regulatory retail portfolios	1.799.783	34.697	163.428	-	-	52.436.051	-	-	-	-	54.433.959
Claims secured by residential property	29.438	-	5.961	25.862.844	-	402.238	6	-	-	-	26.300.487
Claims secured by commercial property	-	-	-	-	19.279.890	-	-	-	-	-	19.279.890
Overdue loans	6.276	-	-	-	214.725	-	1.048.389	-	-	-	1.269.390
Higher risk categories decided by the Board	-	-	-	-	-	-	-	50.578	-	-	50.578
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	66.800	-	-	286.102	352.902
Other receivables	4.145.661	-	504.204	-	394.407	80.062	4.779.457	-	-	99.525	10.003.316
<b>Total</b>	<b>41.396.138</b>	<b>832.839</b>	<b>5.500.768</b>	<b>25.862.844</b>	<b>56.843.514</b>	<b>52.918.351</b>	<b>88.492.577</b>	<b>50.578</b>	<b>-</b>	<b>385.627</b>	<b>272.283.236</b>

\* Guaranteed with real estate mortgage.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

Qualitative Disclosure on Market Risk Publicly Announced:

In accordance with the Bank' risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of "Regulation On Measurement and Evaluation Of Capital Adequacy Of Banks" published in Official Journal No 29111 by 23 October 2015.

It is the ultimate responsibility of the senior management to apply and improve risk management strategies, policies and procedures that are approved by the board of directors, inform the board of directors about the important risks the Bank is exposed to, assess internal control, internal audit and risk reports with regard to the Banks' departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects and participate in the determination of risk limits.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", the Bank's possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method. The following table discloses the amounts that are calculated using the standard method.

The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and non-periodic reports are prepared for board of directors, relevant committees and senior management.

Market Risk: Standardised approach:

	<b>RWA</b>
<b>Outright products</b>	
Interest rate risk (general and specific)	1.044.175
Equity risk (general and specific)	87.150
Foreign exchange risk	1.086.913
Commodity risk	-
<b>Options</b>	
Simplified approach	-
Delta-plus method	7.300
Scenario approach	-
Securitization	-
<b>Total</b>	<b>2.225.538</b>

Statements related to Operational Risk Publicly Announced:

The value at operational risk is calculated according to the basic indicator approach and once a year with year-end datas.

	<b>2 PP Amount</b>	<b>1 PP Amount</b>	<b>CP Amount</b>	<b>Total/ No. of Years of Positive Gross Income</b>	<b>Rate (%)</b>	<b>Total</b>
Gross Income	6.469.646	6.535.163	7.344.771	6.783.193	15	1.017.479
Value at Operational Risk (Total x 12,5%)						12.718.488

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)**

**A. Qualitative Disclosures on Remuneration Policies:**

**1. Disclosures related with Remuneration Committee:**

The Bank's Remuneration Committee is comprised of two non-executive directors. The committee has convened for once during the year. The duties and responsibilities of the Committee include the following:

- The scope and structure of the Bank's operations and strategies ensure the effectiveness of a wage policy and wage policy that is consistent with its long-term goals and risk management structures, prevents excessive risk taking and contributes to effective risk management.
- Controls and follows the remuneration practices on behalf of the Board of Directors
- Ensures accordance of ethical values, strategical targets and internal balance of the Bank with the wage policy.
- Evaluates the remuneration policy and its practices in the context of risk management and submits proposals to the Board of Directors.
- Fullfils the other duties specified in the related regulations

The Parent Bank has received consultancy service from a company within the framework of the activities for compliance with the Guidelines on Sound Remuneration Practices in Banks.

The fundamental principles of the remuneration policy are applicable for all bank employees.

The Parent bank board members, senior management and the bank staff deemed to perform the functions having material impact on the bank's risk profile are considered as identified staff; and by the end of 2016, the number of identified staff is 25.

**2. Information on the design and structure of remuneration process:**

The Bank relies on the following values while managing its Remuneration Policy.

- Based on fair and balanced performance targets
- Balance within the Bank in terms of wage application to ensure competitiveness within the sector,
- To increase the efficiency of rewards by emphasizing the concepts of job size, performance and contribution to work,

In the meeting dated 6 December 2016, the Remuneration Committee evaluated its decisions previously taken with respect to remuneration of the senior managers and members of the board of directors considering the provisions of the Guidelines on Sound Remuneration Practices in Banks. Increases in the remuneration of employees working in the units responsible for internal systems are determined depending on the basic rate of increase specified by the Bank and their personal performances. In the variable remuneration, only the performance criteria associated with their personal performance or the performance of the unit that they work in are taken into account independently of the performance of the business units that they control.

In line with the growing and evolving organizational structure of the bank, project work has been initiated with a company in order to compare human resources applications with other banks in the sector.

With the completion of the project in mid-2017 as planned, a comprehensive change and revision of the Bank's human resources practices is planned.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED  
AMOUNTS (continued)**

3. Evaluation about how the bank's remuneration processes take the current and future risks into account:

The Bank follows the Risk Management Principles while implementing the remuneration processes.

4. Evaluation about how the Bank associates variable remunerations with performance:

The bank's variable payments are mostly made to the personnel working at the branches and Regional Coordinators as performance bonuses. The paid amounts are not exceed a certain percentage of the monthly fixed fees. No performance premium payments are made to other members of the bank that are considered to have performed a function that has a significant effect on the risk profile of the bank and the members of the board of directors and senior managers who are positioned as special personnel and only With the decision of the General Assembly of the Bank, a dividend payment is made up to twice the gross monthly salary of all personnel.

5. Evaluation about the bank's methods to adjust remunerations according to long-term performance:

The same rules apply for the ratios of deferral for all identified staff members regarding their variable remunerations.

6. Evaluation about the instruments used by the bank for variable remunerations and the purposes of use of such instruments:

The type and weight of non-cash instruments used in payment of variable remuneration are same for all identified staff.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS**

(1) a) Cash and balances with the Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	914.278	628.818	924.601	334.193
Central Bank of Turkey	2.620.111	25.902.219	3.414.818	18.700.084
Other <sup>(1)</sup>	-	146.540	-	126.843
<b>Total</b>	<b>3.534.389</b>	<b>26.677.577</b>	<b>4.339.419</b>	<b>19.161.120</b>

<sup>(1)</sup>As of 31 December 2016, blocked reserve deposits kept in Central Bank of Macedonia amounted TRY 50.713 and amounted TRY 95.795 kept in Central Bank of Serbia (31 December 2015: TRY 126.829).

b) Information on the account of Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount <sup>(1)</sup>	2.563.615	3.345.458	3.377.292	1.774.258
Time unrestricted amount	-	-	-	-
Time restricted amount	-	5.359.104	-	-
Reserve deposits <sup>(2)</sup>	56.496	17.197.657	37.526	16.925.826
<b>Total</b>	<b>2.620.111</b>	<b>25.902.219</b>	<b>3.414.818</b>	<b>18.700.084</b>

<sup>(1)</sup> Reserve deposits kept in Central Bank of Turkey.

<sup>(2)</sup> Blocked reserve deposits kept in Central Bank of Turkey and Central Bank of Cyprus.

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD, EUR and/or standard gold at the rates between 5% and 11,5% according to their maturities (31 December 2015: between 5% and 11,5% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 4% and 24% according to their maturities (31 December 2015: between 5% and 25 % according to their maturities). In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 by the Central Bank what is held in banks are of certain conditions: Turkish Lira required reserve amount, the Central Bank website published the weighted average funding cost (AOFM) ratio of 300 or 500 basis points missing from the rate. Turkish Liras required reserve amount related interest rates are paid 400 basis points missing from TCMB's weekly maturity repo funding interest rate being valid from 1 January 2017.

With the the change in press release dated 23 January 2015, it has been decided to apply a commission, to be charged on daily account balances on required reserves and two days notice account denominated in Euro held by banks and these are going to be collected as of 1 February 2015. As of 27 July 2015 commission ratios have been announced on the CBRT website as the zero percent.

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. Effective interest rate is 0,75 % after 26 December 2016.

According to the Declaration of Central Bank of Cyprus dated 30 January 2014 and No.872 it is kept required reserve changes between 5% and 8% rates for Turkish Lira and foreign exchange liabilities.

With the Board of Minutes No. 129 dated 2006 of Central Bank of Macedonia, required reserve ratio are 8% for MKD currency liabilities and 15% for foreign currency liabilities.

Accordingly, Official Gazzette of Serbia No. 102/2015, Central Bank of Serbia keep reserved required ratio 5% for short term liabilities which have been less than two years and 0% for long term liabilities, more than two years, 20% for foreign short term currency liabilities, less than two years, and 13% for long term foreign liabilities more than two years.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

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

The Group has financial assets at fair value through profit / loss amounting to TRY 2.532 which is blocked / given as collateral in the current period (31 December 2015: TRY 12.598).

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

None.

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	120.227	-	131.507
Swap transactions	-	239.460	-	121.519
Futures transactions	-	-	-	-
Options	4	120	7	71
Other	-	-	-	-
<b>Total</b>	<b>4</b>	<b>359.807</b>	<b>7</b>	<b>253.097</b>

(3) Information on banks and other financial institutions:

a) Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	192.757	26.801	21.842	531.222
Foreign banks	169.769	1.575.523	55.258	2.009.329
Branches and offices abroad	-	-	-	-
<b>Total</b>	<b>362.526</b>	<b>1.602.324</b>	<b>77.100</b>	<b>2.540.551</b>

b) Information on foreign banks:

	Unrestricted Balance		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	1.021.972	1.644.575	21.297	24.786
USA and Canada	143.531	165.995	8.538	378
OECD Countries <sup>(1)</sup>	86.081	42.808	3.475	1.245
Offshore Banking Regions	190	-	-	-
Other	299.596	184.800	160.612	-
<b>Total</b>	<b>1.551.370</b>	<b>2.038.178</b>	<b>193.922</b>	<b>26.409</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(4) Information on financial assets available-for-sale:

a) Financial assets available-for-sale blocked/given as collateral or subject to repurchase agreements:

a.1. Information on financial assets available-for-sale blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	122.648	365.859	141.315	709.473
<b>Total</b>	<b>122.648</b>	<b>365.859</b>	<b>141.315</b>	<b>709.473</b>

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

	Current Period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	4.789.610	728.138	1.269.031	355.458
<b>Total</b>	<b>4.789.610</b>	<b>728.138</b>	<b>1.269.031</b>	<b>355.458</b>

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Debt securities	15.698.700		11.602.861	
<i>Quoted on a stock exchange</i>	15.692.826		11.462.094	
<i>Not quoted</i>	5.874		140.767	
Share certificates	343.595		141.875	
<i>Quoted on a stock exchange</i>	53.292		104.185	
<i>Not quoted</i>	290.303		37.690	
Impairment provision(-)	561.076		209.593	
<b>Total</b>	<b>15.481.219</b>		<b>11.535.143</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans:

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

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	226.188	-	197.937	-
<b>Total</b>	<b>226.188</b>	<b>-</b>	<b>197.937</b>	<b>-</b>

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 <sup>(3)</sup>			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
<b>Cash loans</b>						
Non-specialized loans	123.627.014	2.131.375	-	4.326.025	2.577.626	-
<i>Corporation loans</i>	82.276.700	1.633.583	-	3.810.767	2.484.944	-
<i>Export loans</i>	4.279.445	60.372	-	113.255	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	2.342.172	-	-	-	-	-
<i>Consumer loans<sup>(1)</sup></i>	29.506.027	374.467	-	231.454	8.924	-
<i>Credit cards<sup>(2)</sup></i>	3.462.298	62.953	-	108.723	83.758	-
<i>Other</i>	1.760.372	-	-	61.826	-	-
Specialized lending	27.713.062	6.895	-	265.787	116	-
Other receivables	-	-	-	-	-	-
Accruals	2.064.028	38.690	-	62.119	38.015	-
<b>Total</b>	<b>153.404.104</b>	<b>2.176.960</b>	<b>-</b>	<b>4.653.931</b>	<b>2.615.757</b>	<b>-</b>

<sup>(1)</sup> Includes TRY 174.090 of personnel loans.

<sup>(2)</sup> Includes TRY 50.823 of personnel credit cards.

<sup>(3)</sup> The loan granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 160.040.606 is classified under "Performing Loans and Other Receivables". Discussions between the shareholders of the company, creditor banks and related sovereign institutions have started regarding restructuring of loans granted including a possible change in shareholder structure, and a positive outcome of these discussions is expected.

Number of modifications made to extend payment plan	Standard Loans and Other Receivables <sup>(1)</sup>	Loans and Other Receivables Under Close Monitoring <sup>(2)</sup>
Extended by 1 or 2 times	2.042.956	2.492.947
Extended by 3,4 or 5 times	33.244	55.768
Extended by more than 5 times	62.070	29.027

<sup>(1)</sup> Accruals amounting to TRY 38.090 are not included in the table above.

<sup>(2)</sup> Accruals amounting to TRY 38.015 are not included in the table above.

Extended period of time	Standard Loans and Other Receivables <sup>(1)</sup>	Loans and Other Receivables Under Close Monitoring <sup>(2)</sup>
0-6 Months	429.842	566.251
6 Months - 12 Months	1.090.711	838.768
1-2 Years	348.037	865.340
2-5 Years	206.305	182.352
5 Years and over	63.375	125.031

<sup>(1)</sup> Accruals amounting to TRY 38.690 are not included in the table above.

<sup>(2)</sup> Accruals amounting to TRY 38.015 are not included in the table above.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans: (continued)

c) Loans according to their maturity structure:

Current Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Agreement conditions modified	Loans and Other Receivables	Agreement conditions modified
<b>Short Term Loans and Other Receivables</b>	<b>32.383.921</b>	<b>207.303</b>	<b>677.307</b>	<b>225.676</b>
<i>Non-specialized loans</i>	31.650.019	201.323	668.077	221.000
<i>Specialized lending</i>	301.548	-	171	-
<i>Other receivables</i>	-	-	-	-
<i>Accruals</i>	432.354	5.980	9.059	4.676
<b>Medium and Long Term Loans and Other Receivables</b>	<b>121.020.183</b>	<b>1.969.657</b>	<b>3.976.624</b>	<b>2.390.081</b>
<i>Non-specialized loans</i>	91.976.995	1.930.052	3.657.948	2.356.626
<i>Specialized lending</i>	27.411.514	6.895	265.616	116
<i>Other receivables</i>	-	-	-	-
<i>Accruals</i>	1.631.674	32.710	53.060	33.339
<b>Prior Period</b>				
<b>Short Term Loans and Other Receivables</b>	<b>26.726.056</b>	<b>376.526</b>	<b>664.528</b>	<b>241.806</b>
<i>Non-specialized loans</i>	26.112.868	358.948	656.032	238.713
<i>Specialized lending</i>	275.005	12.762	55	-
<i>Other receivables</i>	-	-	-	-
<i>Accruals</i>	338.183	4.816	8.441	3.093
<b>Medium and Long Term Loans and Other Receivables</b>	<b>95.971.926</b>	<b>869.658</b>	<b>2.840.222</b>	<b>1.112.382</b>
<i>Non-specialized loans</i>	72.193.431	774.639	2.591.943	1.096.271
<i>Specialized lending</i>	22.543.353	83.894	212.257	1.881
<i>Other receivables</i>	-	-	-	-
<i>Accruals</i>	1.235.142	11.125	36.022	14.230



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans: (continued)

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

	<b>Short-term</b>	<b>Medium and long-term</b>	<b>Total</b>
Consumer loans-TRY	335.388	27.794.632	28.130.020
<i>Real estate loans</i>	6.765	15.252.938	15.259.703
<i>Automobile loans</i>	2.223	194.613	196.836
<i>Consumer loans</i>	326.400	12.347.081	12.673.481
<i>Other</i>	-	-	-
Consumer loans- Indexed to FC	1.142	83.185	84.327
<i>Real estate loans</i>	19	935	954
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	1.123	82.250	83.373
<i>Other</i>	-	-	-
Consumer loans- FC	3.779	588.472	592.251
<i>Real estate loans</i>	440	132.346	132.786
<i>Automobile loans</i>	22	1.928	1.950
<i>Consumer loans</i>	2.984	420.182	423.166
<i>Other</i>	333	34.016	34.349
Individual credit cards-TRY	2.594.125	1.505	2.595.630
<i>Installment</i>	1.160.330	-	1.160.330
<i>Non-installment</i>	1.433.795	1.505	1.435.300
Individual credit cards-FC	413	47.254	47.667
<i>Installment</i>	223	47.254	47.477
<i>Non-installment</i>	190	-	190
Personnel loans-TRY	8.463	146.026	154.489
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	8.463	146.026	154.489
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	10	1.265	1.275
<i>Real estate loans</i>	-	21	21
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	10	1.244	1.254
<i>Other</i>	-	-	-
Personnel loans-FC	157	19.444	19.601
<i>Real estate loans</i>	15	7.217	7.232
<i>Automobile loans</i>	7	65	72
<i>Consumer loans</i>	126	12.068	12.194
<i>Other</i>	9	94	103
Personnel credit cards-TRY	49.736	-	49.736
<i>Installment</i>	19.319	-	19.319
<i>Non-installment</i>	30.417	-	30.417
Personnel credit cards-FC	62	1.025	1.087
<i>Installment</i>	5	1.025	1.030
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Retail customer)	719.449	-	719.449
Overdraft accounts-FC (Retail customer)	33.219	2.850	36.069
<b>Total <sup>(1)</sup></b>	<b>3.745.943</b>	<b>28.685.658</b>	<b>32.431.601</b>

<sup>(1)</sup> Interest and income accruals are not included in the table above.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans: (continued)

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

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	9.058	1.067.626	1.076.684
<i>Business residential loans</i>	331	639.634	639.965
<i>Automobile loans</i>	8.727	346.572	355.299
<i>Consumer loans</i>	-	81.420	81.420
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Commercial installment loans - FC	225.233	514.346	739.579
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	225.233	514.346	739.579
Corporate credit cards-TRY	875.180	-	875.180
<i>Installment</i>	330.986	-	330.986
<i>Non-installment</i>	544.194	-	544.194
Corporate credit cards-FC	57	1.664	1.721
<i>Installment</i>	-	1.664	1.664
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Commercial customer)	911.532	-	911.532
Overdraft accounts-FC (Commercial customer)	7.087	-	7.087
<b>Total <sup>(1)</sup></b>	<b>2.028.147</b>	<b>1.583.636</b>	<b>3.611.783</b>

<sup>(1)</sup> Interest and income accruals are not included in table above.

e) Loans according to type of borrowers

	Current period	Prior period
Public	5.375.754	3.705.794
Private	152.682.281	122.496.938
<b>Toplam</b>	<b>158.058.035</b>	<b>126.202.732</b>

f) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	154.670.861	123.564.724
Foreign loans	3.387.174	2.638.008
<b>Total</b>	<b>158.058.035</b>	<b>126.202.732</b>

g) Loans granted to subsidiaries and associates:

None.

h) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	528.413	226.175
Loans and receivables with doubtful collectability	320.082	236.470
Uncollectible loans and receivables	3.206.893	2.710.072
<b>Total</b>	<b>4.055.388</b>	<b>3.172.717</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans: (continued)

h) Information on non-performing loans (Net):

h.1. Information on loans and other receivables included in non-performing loans which are restructured or rescheduled:

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period</b>	<b>68.585</b>	<b>16.658</b>	<b>1.281.781</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	68.585	16.658	1.281.781
<b>Prior period</b>	<b>39.536</b>	<b>137.879</b>	<b>204.800</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	39.536	137.879	204.800

h.2. Information on the movement of non-performing loans:

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
Prior period end balance	366.552	285.029	3.537.955
Additions (+)	1.545.380	21.583	121.263
Transfers from other categories of loans under follow-up (+)	-	794.503	523.505
Transfers to other categories of loans under follow-up (-)	816.902	501.106	-
Collections (-)	144.546	132.785	278.967
Write-offs (-)	7	3	942
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	7	3	942
<b>Current period end balance</b>	<b>950.477</b>	<b>467.221</b>	<b>3.902.814</b>
Specific provision (-)	528.413	320.082	3.206.893
<b>Net balance on balance sheet</b>	<b>422.064</b>	<b>147.139</b>	<b>695.921</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans: (continued)

h.3. Information on foreign currency non-performing loans and other receivables:

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period</b>			
Balance at the end of the period	240.218	81.699	1.637.222
Specific provisions(-)	146.630	44.779	1.146.049
<b>Net balance in the balance sheet</b>	<b>93.588</b>	<b>36.920</b>	<b>491.173</b>
<b>Prior period</b>			
Balance at the end of the period	61.214	85.054	1.552.061
Specific provisions(-)	28.646	73.308	995.276
<b>Net balance in the balance sheet</b>	<b>32.568</b>	<b>11.746</b>	<b>556.785</b>

Foreign currency non-performing loans amounting to TRY 180.430 and their related provisions amounting to TRY 91.343 of the consolidated foreign subsidiaries are recognized under foreign currency accounts and the foreign currency non-performing loans of the Parent Bank's and its domestic subsidiaries are recognized under Turkish Lira accounts.

h.4. Gross and net amounts of non-performing loans according to user groups:

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period (Net)</b>			
<b>Loans to granted real persons and legal entities (Gross)</b>	<b>949.476</b>	<b>466.580</b>	<b>3.832.429</b>
Specific provisions (-)	527.412	319.441	3.136.508
<b>Loans to granted real persons and legal entities (Net)</b>	<b>422.064</b>	<b>147.139</b>	<b>695.921</b>
<b>Banks (Gross)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other loans and receivables (Gross)</b>	<b>1.001</b>	<b>641</b>	<b>70.385</b>
Specific provisions (-)	1.001	641	70.385
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Prior period (Net)</b>			
<b>Loans to granted real persons and legal entities (Gross)</b>	<b>366.257</b>	<b>284.416</b>	<b>3.484.285</b>
Specific provisions (-)	225.880	235.857	2.656.402
<b>Loans to granted real persons and legal entities (Net)</b>	<b>140.377</b>	<b>48.559</b>	<b>827.883</b>
<b>Banks (Gross)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other loans and receivables (Gross)</b>	<b>295</b>	<b>613</b>	<b>53.670</b>
Specific provisions (-)	295	613	53.670
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(5) Information on loans: (continued)

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

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

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

j) Explanations on write-off policy:

In compliance with the “Procedure for Write Off and Procedures for Overdue Receivables for Legal Follow-Up” non performing loans which become unrecoverable as a result of legal follow up can be written off to prevent additional legal expenses.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(6) Information on held-to-maturity investments:

a) Information on held-to-maturity investments blocked/given as collateral or subject to repurchase agreement transactions are explained comparatively with net value:

a.1. Held-to-maturity investments blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	-	-	17.430	-
Government bonds and similar securities	4.471.171	1.048.201	3.390.012	771.973
<b>Total</b>	<b>4.471.171</b>	<b>1.048.201</b>	<b>3.407.442</b>	<b>771.973</b>

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	5.079.533	933.840	6.504.701	534.883
<b>Total</b>	<b>5.079.533</b>	<b>933.840</b>	<b>6.504.701</b>	<b>534.883</b>

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

	Current period	Prior period
Government bonds	18.198.316	16.705.087
Treasury bills	112.907	182.361
Other public sector debt securities	-	-
<b>Total</b>	<b>18.311.223</b>	<b>16.887.448</b>

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	18.344.626	16.904.877
<i>Quoted on a stock exchange</i>	<i>18.231.719</i>	<i>16.733.595</i>
<i>Not quoted</i>	<i>112.907</i>	<i>171.282</i>
Impairment provision (-)	-	-
<b>Total</b>	<b>18.344.626</b>	<b>16.904.877</b>

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

	Current period	Prior period
Beginning balance	16.904.877	17.869.082
Foreign currency differences on monetary assets	404.431	389.988
Purchases during the year <sup>(1)</sup>	3.731.489	2.250.175
Disposals through sales and redemptions	(2.696.171)	(3.604.368)
Impairment provision (-) / provision reversal (+)	-	-
<b>Balance at the of the period</b>	<b>18.344.626</b>	<b>16.904.877</b>

<sup>(1)</sup> Interest income accrual difference between 31 December 2016 amounting to TRY 1.911.868 and 31 December 2015 amounting to TRY 1.684.621 has been included in purchases row.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(6) Information on held-to-maturity investments: (continued)

e) Information on held-to-maturity investments accounts:

The breakdown of the held to maturity securities of the Group is as follows:

	Current period				Prior period			
	Historical cost		Amortized cost		Historical cost		Amortized cost	
	TRY	FC	TRY	FC	TRY	FC	TRY	FC
Obtained from Under secretariat of Treasury of Republic of Turkey	10.879.630	1.606.363	12.255.566	1.636.997	9.979.565	1.177.317	11.239.817	1.197.590
Obtained with the transfer	-	-	-	-	-	-	-	-
Reclassified from other securities portfolios	3.089.700	685.399	3.619.456	695.671	3.151.239	720.407	3.551.231	733.878
Other	-	-	-	136.936	-	170.983	-	182.361
<b>Total</b>	<b>13.969.330</b>	<b>2.291.762</b>	<b>15.875.022</b>	<b>2.469.604</b>	<b>13.130.804</b>	<b>2.068.707</b>	<b>14.791.048</b>	<b>2.113.829</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(7) Information on associates (Net):

a) Information on unconsolidated associates, reasons for not consolidating:

The non-financial investments in associates are accounted under cost method of accounting since reliable fair values cannot be determined.

b) Information on unconsolidated associates:

Description	Address (City/ Country)	Bank's share percentage, if different- voting percentage (%)	Bank's risk group share percentage (%)
1. Kredi Kayıt Bürosu AŞ <sup>(1)</sup>	İstanbul	18,18	18,18
2. Bankalararası Kart Merkezi AŞ <sup>(2)</sup>	İstanbul	18,95	18,95

Information related to the associates as sorted above:<sup>(1)</sup>

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1.	224.364	130.960	138.543	3.839	-	31.051	33.299	-
2.	80.262	39.897	50.021	904	-	10.403	3.869	-

<sup>(1)</sup> The financial information is obtained from dated 31 December 2016 financial statements..

<sup>(2)</sup> The financial information has been obtained from its independent audit reports as of 31 December 2016

c) Information on consolidated associates:

Description	Address (City/ Country)	Bank's share percentage, if different- voting percentage (%)	Bank's risk group share percentage (%)
1. Demirhalkbank NV	Holland	30,00	30,00
2. Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47	33,12
3. Türk P ve I Sigorta AŞ	İstanbul	16,67	16,67

Information related to the associates as sorted above:<sup>(1)</sup>

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1.	6.533.210	900.095	15.096	191.505	2.935	56.364	34.505	249.574 <sup>(2)</sup>
2.	47.722	47.193	126	2.602	-	323	698	-
3.	17.478	5.044	439	341	-	1.379	(539)	-

<sup>(1)</sup>The financial data is obtained from 31 December 2016 audited financial statements.

<sup>(2)</sup>The financial information about the fair value of Demir-Halkbank NV has been obtained from its independent audit report as of 31 December 2016.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

d) Movement of associates:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period	264.031	226.118
Movements during the period	28.390	37.913
<i>Purchases</i>	-	1.245
<i>Bonus shares obtained profit from current year's share</i>	-	-
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfers</i>	-	-
<i>Revaluation decrease (-) / increase</i>	28.390	36.668
<i>Provision for impairment (-) / reversals (+)</i>	-	-
<b>Balance at the end of the period</b>	<b>292.421</b>	<b>264.031</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

e) Sectoral information and related carrying amounts of associates:

	<b>Current period</b>	<b>Prior period</b>
Banks	270.028	242.037
Insurance companies	1.221	910
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	14.852	14.763

f) Associates quoted to a stock exchange:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(8) Information on subsidiaries (Net):

a) Information on subsidiaries:<sup>(1)</sup>

	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 Factoring AŞ	Halkbank A.D. Beograd
<b>CORE CAPITAL</b>									
Paid in Capital	82.000	129.000	277.000	790.000	272.250	11.000	147.843	55.500	53.667
Effect of Inflation Adjustment on Paid in Capital	-	-	-	-	-	-	-	-	-
Share premium	-	98	-	49.945	-	-	11.633	-	44.552
Reserves	10.536	17.906	43.659	56.502	8.746	1.461	81.037	1.218	58.074
Other Comprehensive Income according to TAS	700	(621)	(11.063)	3	(95)	(22)	299	(21)	7.570
<b>Profit / Loss</b>	<b>13.779</b>	<b>(92.947)</b>	<b>171.943</b>	<b>42.217</b>	<b>33.679</b>	<b>7.821</b>	<b>24.595</b>	<b>17.387</b>	<b>3.544</b>
<i>Net Profit</i>	<i>14.388</i>	<i>(64.631)</i>	<i>158.359</i>	<i>42.217</i>	<i>9.518</i>	<i>7.481</i>	<i>24.595</i>	<i>16.122</i>	<i>3.544</i>
<i>Prior Period Profit/Loss</i>	<i>(609)</i>	<i>(28.316)</i>	<i>13.584</i>	-	<i>24.161</i>	<i>340</i>	-	<i>1.265</i>	-
Bonus Shares from Associates, Subsidiaries and Joint Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	115	-	-	-	5.843	251	-
Intangible Assets (-)	868	3.163	854	316	921	18	2.887	323	2.105
<b>Total Core Capital</b>	<b>106.897</b>	<b>50.273</b>	<b>480.570</b>	<b>938.351</b>	<b>313.659</b>	<b>20.242</b>	<b>256.677</b>	<b>73.510</b>	<b>165.302</b>
<b>SUPPLEMENTARY CAPITAL</b>	-	-	-	-	-	-	<b>17.022</b>	-	<b>4.150</b>
<b>CAPITAL</b>	<b>106.897</b>	<b>50.273</b>	<b>480.570</b>	<b>938.351</b>	<b>313.659</b>	<b>20.242</b>	<b>273.699</b>	<b>73.510</b>	<b>169.452</b>
<b>NET AVAILABLE CAPITAL</b>	<b>106.897</b>	<b>50.273</b>	<b>480.570</b>	<b>938.351</b>	<b>313.659</b>	<b>20.242</b>	<b>273.699</b>	<b>73.510</b>	<b>169.452</b>

<sup>(1)</sup> The information is presented from companies' financial statements as of 31 December 2016.

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

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

Paid in capital (foreign) has been indicated as foreign currency in articles of incorporation and registered in trade registry.

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(8) Information on subsidiaries (continued)

c) Information on unconsolidated subsidiaries:

1.	Bileşim Alternatif Dağ. Kan. AŞ <sup>(1)</sup>	Description	Address (City/ Country)	Bank's share		Fair value <sup>(2)</sup>		
				percentage, if different-voting percentage (%)	percentage (%)			
		İstanbul	100,00		100,00			
	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value <sup>(2)</sup>
1.	37.725	24.170	5.095	397	1.498	4.650	1.467	41.243

<sup>(1)</sup> The financial data of Bileşim Alternatif Dağ. Kan. is obtained from 31 December 2016 unaudited financial statements.

<sup>(2)</sup> The information is presented from valuation report as 31 December 2016.

d) Information on consolidated subsidiaries: (Net):

1.	Description	Address (City/ Country)	Bank's share		Bank's risk group share percentage (%)
			percentage, if different-voting percentage (%)	percentage (%)	
1.	Halk Yatırım Menkul Değerler AŞ	İstanbul	99,96		99,96
2.	Halk Sigorta AŞ <sup>(4)</sup>	İstanbul	89,18		94,23
3.	Halk Hayat ve Emeklilik AŞ	İstanbul	100,00		100,00
4.	Halk Gayrimenkul Yatırım Ortaklığı AŞ <sup>(3)</sup>	İstanbul	79,33		79,36
5.	Halk Finansal Kiralama AŞ	İstanbul	100,00		100,00
6.	Halk Portföy Yönetimi AŞ	İstanbul	75,00		99,99
7.	Halk Banka AD, Skopje	Macedonia	99,03		99,03
8.	Halk Faktoring AŞ	İstanbul	97,50		100,00
9.	Halk Banka A.D. Beograd	Serbia	82,47		82,47

e) Information related to the subsidiaries as sorted above<sup>(1)</sup>:

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 <sup>(2)</sup>
2.	1.221.636	50.273	5.107	78.001	2.321	(64.631) <sup>(4)</sup>	(24.978)	368.089
3.	887.864	480.570	1.837	80.562	22.214	158.359	109.758	920.493
4.	1.135.229	938.351	508.741	7.001	-	42.217	58.360	517.421
5.	2.552.645	313.659	1.415	158.806	-	9.518	6.992	415.786
6.	21.596	20.242	355	1.938	12	7.481	4.530	22.634
7.	2.069.327	273.699	47.688	85.819	8.364	24.595	19.196	272.372
8.	1.146.985	73.510	1.130	132.582	-	16.122	8.586	95.558
9.	1.002.396	169.452	25.393	41.157	4.342	3.544	(3.292)	90.813

<sup>(1)</sup> The information is presented from financial statements subject to consolidation as 31 December 2016.

<sup>(2)</sup> The informations are obtained from valuation reports as 31 December 2016. Halk Gayrimenkul Yatırım Ortaklığı AŞ is valued with stock price.

<sup>(3)</sup> 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.

<sup>(4)</sup> The amount of the loss is due to the gradual reflection of the provision for outstanding claims due to IBNR, which was calculated by Halk Sigorta AS within the scope of the Treasury's circular 2014/16, until 2019 according to the circulars numbered 2016/11.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(8) Information on subsidiaries (continued)

f) Movement of the subsidiaries:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period(before elimination)	2.685.934	2.576.816
Movements during the period	243.055	109.118
<i>Purchases<sup>(1)</sup></i>	-	28.907
<i>Bonus shares obtained profit from current year's share</i>	171.560	61.035
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfer</i>	-	-
<i>Revaluation increase</i>	71.495	19.176
<i>Reversal of provision for impairment (-)</i>	-	-
Share capital elimination of subsidiaries	(2.887.746)	(2.647.905)
<b>Balance at the end of the period</b>	<b>41.243</b>	<b>38.029</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

<sup>(1)</sup>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%.

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

	<b>Current period</b>	<b>Prior period</b>
Banks	363.185	275.646
Insurance companies	1.288.582	1.197.085
Factoring companies	95.558	61.758
Leasing companies	415.786	413.336
Financing companies	-	-
Other financial subsidiaries	673.470	700.080
Other non-financial subsidiaries	41.243	38.029

h) Subsidiaries quoted in the stock exchange:

	<b>Current period</b>	<b>Prior period</b>
Quoted to domestic stock <sup>(1) (2)</sup>	885.510	897.784
Quoted foreign stock exchange	-	-

<sup>(1)</sup>In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ pre-market trading platform therefore the fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

<sup>(2)</sup> Halk Gayrimenkul Yatırım Ortaklığı AŞ has been public offering on 22 February 2013 and its shares are traded on the Istanbul Stock Exchange A.Ş.

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

a) Maturity structure of investments on financial lease:

	<b>Current period</b>		<b>Prior period</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Less than 1 year	815.231	688.075	779.458	640.029
Between 1-4 years	1.426.002	1.220.074	1.342.529	1.191.590
More than 4 years	476.994	403.181	429.573	373.133
<b>Total</b>	<b>2.718.227</b>	<b>2.311.330</b>	<b>2.551.560</b>	<b>2.204.752</b>

b) Information on gross investments of financial lease:

	<b>Current period</b>	<b>Prior period</b>
Gross financial lease investment	2.718.227	2.551.560
Unearned revenues from financial lease	(406.897)	(346.808)
<b>Total</b>	<b>2.311.330</b>	<b>2.204.752</b>

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

	<b>Current period</b>	<b>Prior period</b>
Financial lease receivables with limited collectability	32.055	1.419
Financial lease receivables with doubtful collectability	5.418	118.335
Uncollectible financial lease receivables	249.256	237.783
Specific provisions	(214.397)	(163.884)
<b>Total</b>	<b>72.332</b>	<b>193.653</b>

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(12) Information on tangible assets:

The fair value of tangible assets for use are determined by precedent value method. Fair value measurement of properties for use which fair values are determined by precedent value method, are classified as level 2.

<b>Current Period</b>	<b>Balance at the end of the prior period</b>	<b>Current Year Additions</b>	<b>Revaluation Increase</b>	<b>Current Year Disposals</b>	<b>Transfers, Net</b>	<b>Balance at the end of the period</b>
<b>Cost:</b>						
Immovable	2.431.830	16.759	216.993	3.302	(163.588)	2.498.692
Tangible assets purchased through financial lease	27.741	-	-	945	-	26.796
Office machines	463.072	54.046	-	18.592	-	498.526
Fixed assets obtained due to non-performing loans	570.604	174.456	-	96.513	-	648.547
Lease hold improvements costs	143.420	16.151	-	3.443	(257)	155.871
Other	309.230	8.259	-	333	(3.305)	313.851
<b>Total Cost</b>	<b>3.945.897</b>	<b>269.671</b>	<b>216.993</b>	<b>123.128</b>	<b>(167.150)</b>	<b>4.142.283</b>
<b>Accumulated depreciation (-) :</b>						
Immovable	194.491	10.999	9.154	19.378	(615)	194.651
Tangible assets purchased through financial lease	26.412	266	-	782	-	25.896
Office machines	257.261	62.502	-	18.101	-	301.662
Fixed assets obtained due to non-performing loans	13.253	6.527	-	2.372	-	17.408
Lease hold improvements costs	72.426	14.886	-	3.828	-	83.484
Other	229.240	32.634	-	26.518	-	235.356
<b>Total accumulated depreciation</b>	<b>793.083</b>	<b>127.814</b>	<b>9.154</b>	<b>70.979</b>	<b>(615)</b>	<b>858.457</b>
<b>Provision for impairment (-)</b>						
Immovable	1.313	4.510	-	6	-	5.817
Tangible assets purchased through financial lease	7.134	4.476	-	585	-	11.025
<b>Total provision for impairment (-)</b>	<b>8.447</b>	<b>8.986</b>	<b>-</b>	<b>591</b>	<b>-</b>	<b>16.842</b>
<b>Net Book Value</b>	<b>3.144.367</b>	<b>132.871</b>	<b>207.839</b>	<b>51.558</b>	<b>(166.535)</b>	<b>3.266.984</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(12) Information on tangible assets(continued):

Prior Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfers, Net	Balance at the end of the period
<b>Cost:</b>						
Immovable	1.130.977	98.267	2.224.434	(1.113.501)	91.654	2.431.830
Tangible assets purchased through financial lease	30.787	335	-	(3.381)	-	27.741
Office machines	374.276	120.831	-	(32.035)	-	463.072
Fixed assets obtained due to non-performing loans	508.102	1.997.997	-	(1.935.495)	-	570.604
Lease hold improvements costs	146.739	69.560	-	(72.879)	-	143.420
Other	283.499	33.332	-	(5.614)	(1.987)	309.230
<b>Total Cost</b>	<b>2.474.380</b>	<b>2.320.322</b>	<b>2.224.434</b>	<b>(3.162.906)</b>	<b>89.667</b>	<b>3.945.897</b>
<b>Accumulated depreciation (-) :</b>						
Immovable	252.941	24.466	160.308	(244.998)	1.774	194.491
Tangible assets purchased through financial lease	29.099	669	-	(3.356)	-	26.412
Office machines	196.901	72.709	-	(12.349)	-	257.261
Fixed assets obtained due to non-performing loans	10.676	4.678	-	(2.101)	-	13.253
Lease hold improvements costs	79.090	28.114	-	(34.778)	-	72.426
Other	213.512	19.846	-	(4.118)	-	229.240
<b>Total accumulated depreciation</b>	<b>782.219</b>	<b>150.482</b>	<b>160.308</b>	<b>(301.700)</b>	<b>1.774</b>	<b>793.083</b>
<b>Provision for impairment (-)</b>						
Immovable	1.855	-	-	(591)	49	1.313
Fixed assets obtained due to non-performing loans	6.391	1.872	-	(1.129)	-	7.134
<b>Total provision for impairment (-)</b>	<b>8.246</b>	<b>1.872</b>	<b>-</b>	<b>(1.720)</b>	<b>49</b>	<b>8.447</b>
<b>Net Book Value</b>	<b>1.683.915</b>	<b>2.167.968</b>	<b>2.064.126</b>	<b>2.859.486</b>	<b>87.844</b>	<b>3.144.367</b>

(13) Information on intangible assets:

Current Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
<b>Cost:</b>					
Other intangible assets	157.462	54.071	2.608	-	208.925
<b>Total Cost</b>	<b>157.462</b>	<b>54.071</b>	<b>2.608</b>	<b>-</b>	<b>208.925</b>
<b>Accumulated Depreciation:</b>					
Other intangible assets	55.148	38.621	73	-	93.696
<b>Total Accumulated Depreciation</b>	<b>55.148</b>	<b>38.621</b>	<b>73</b>	<b>-</b>	<b>93.696</b>
<b>Net Book Value</b>	<b>102.314</b>	<b>15.450</b>	<b>2.535</b>	<b>-</b>	<b>115.229</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(13) Information on intangible assets(continued):

Prior Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
<b>Cost:</b>					
Other intangible assets	112.581	55.777	10.896	-	157.462
<b>Total Cost</b>	<b>112.581</b>	<b>55.777</b>	<b>10.896</b>	-	<b>157.462</b>
<b>Accumulated Depreciation (-) :</b>					
Other intangible assets	29.980	25.521	353	-	55.148
<b>Total Accumulated Depreciation</b>	<b>29.980</b>	<b>25.521</b>	<b>353</b>	-	<b>55.148</b>
<b>Net Book Value</b>	<b>82.601</b>	<b>30.256</b>	<b>10.543</b>	-	<b>102.314</b>

(14) Information on investment property:

	Current Period	Prior Period
<b>Cost</b>		
<b>Opening Balance</b>	<b>550.093</b>	<b>24.686</b>
Acquisitions	7.118	2.289
Transfer	377.348	523.471
Disposals	-	-
Impairment Charge/Cancellation(-)	501	353
<b>Ending Balance</b>	<b>934.058</b>	<b>550.093</b>
<b>Accumulated Depreciation</b>		
<b>Opening Balance</b>		
Amortization Charge (-)	64.499	157
Transition in current period	4.723	-
Disposals	-	721
Impairment Charge/Cancellation (-)	105	96
Transfer	615	63.525
<b>Ending Balance</b>	<b>69.942</b>	<b>64.499</b>
<b>Net Book Value</b>	<b>864.116</b>	<b>485.594</b>

(\*) As of December 2015 The Parent Bank's former headquarters building in Ankara that had been evacuated depending upon the personnel moving to Istanbul; has been leased and classified as investment .



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(14) Information on investment property(continued):

	Current Period	Prior Period
Building/Ankara Söğütözü	389.262	365.000
Building /İstanbul Beyoğlu	13.817	12.380
Building /Ankara Bahçelievler	8.100	7.650
Building /Ankara Çankaya	4.957	4.600
Building /İstanbul Levent	165.378	145.108
Building /Eskişehir Odunpazarı	4.200	4.177
Building /Eskişehir Odunpazarı	863	650
Building /İstanbul Salıpazarı	49.362	46.680
Land/İstanbul Ataşehir	258.585	252.839
Building /Kocaeli Şekerpınar	70.300	67.593
Building /İstanbul Caddebostan*	11.225	18.690
<b>Toplam</b>	<b>976.049</b>	<b>925.367</b>

\*In current year the property is valued on land amount because of the urban transformation. In priod periods building value take into considiration for valuation.

(15) Information on tax assets:

a) Information on current tax assets:

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

b) Information on deferred tax assets:

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

(16) Information on fixed assets held for sale:

	Current period	Prior period
Cost	3.984	4.460
Accumulated Depreciation(-) <sup>(1)</sup>	(2.447)	(1.766)
<b>Net Book Value</b>	<b>1.537</b>	<b>2.694</b>
<b>Opening Balance</b>	<b>2.694</b>	<b>8.776</b>
Acquisitions (Transfers) (Net)	(547)	167
Disposals (Net)	811	8.485
Revaluation increase	154	-
Impairment Charge/Cancellation(-)	-	49
Amortization Charge(-) <sup>(1)</sup>	47	2.187
<b>Net Book Value</b>	<b>1.537</b>	<b>2.694</b>

<sup>(1)</sup> Accumulated depreciation is attributable to the recoverable amounts which are classified as held for sale in the current period.

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 2.752.211 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 2.050.762).

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES**

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.158.114	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.720
Foreign currency deposits	6.954.391	-	3.245.776	28.684.887	4.915.876	1.531.229	4.036.778	11.016	49.379.953
<i>Residents in Turkey</i>	4.938.313	-	3.020.417	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.894.245
<i>Residents abroad</i>	2.016.078	-	225.359	700.680	331.367	506.513	1.705.304	407	5.485.708
Public sector deposits	2.184.382	-	2.417.784	1.764.160	260.540	2.976.331	87.204	-	9.690.401
Commercial inst. deposits	4.294.379	-	4.224.273	13.055.676	1.872.533	562.730	39.505	-	24.049.096
Other inst. deposits	586.039	-	819.701	885.372	52.798	89.853	880	-	2.434.643
Precious metals	1.392.853	-	-	-	-	-	-	-	1.392.853
Interbank deposits	7.867.130	-	3.190.685	10.801.903	238.410	32.863	729.220	-	22.860.211
<i>Central Bank of Turkey</i>	9	-	-	-	-	-	-	-	9
<i>Domestic banks</i>	39.076	-	1.091.898	3.908.323	-	8.227	4.167	-	5.051.691
<i>Foreign banks</i>	7.099.283	-	1.928.707	6.893.580	238.410	24.636	725.053	-	16.909.669
<i>Participation banks</i>	728.762	-	170.080	-	-	-	-	-	898.842
<b>Total</b>	<b>29.437.288</b>	<b>-</b>	<b>14.479.462</b>	<b>86.959.113</b>	<b>8.417.061</b>	<b>5.554.626</b>	<b>5.435.506</b>	<b>115.821</b>	<b>150.398.877</b>

a.2. Prior period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	4.293.350	-	474.007	28.297.921	1.096.767	366.364	581.833	103.000	35.213.242
Foreign currency deposits	6.205.436	34.348	3.395.518	18.689.673	2.669.844	1.172.686	3.463.561	10.680	35.641.746
<i>Residents in Turkey</i>	4.614.977	-	3.248.873	18.013.646	2.459.778	709.667	2.100.420	10.508	31.157.869
<i>Residents abroad</i>	1.590.459	34.348	146.645	676.027	210.066	463.019	1.363.141	172	4.483.877
Public sector deposits	2.446.626	-	3.016.281	2.937.312	272.240	1.773.372	90.299	-	10.536.130
Commercial inst. Deposits	3.212.174	-	3.081.974	15.644.561	816.279	33.215	28.447	-	22.816.650
Other inst. Deposits	557.371	-	644.038	1.468.290	8.244	38.413	4.407	-	2.720.763
Precious metals	885.003	-	-	-	-	-	-	-	885.003
Interbank deposits	3.328.873	-	5.527.445	4.567.731	333.396	-	933.405	-	14.690.850
<i>Central Bank of Turkey</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	12.428	-	5.296.445	2.767.451	288.091	-	-	-	8.364.415
<i>Foreign banks</i>	2.366.254	-	231.000	1.800.280	45.305	-	933.405	-	5.376.244
<i>Participation banks</i>	950.191	-	-	-	-	-	-	-	950.191
<b>Total</b>	<b>20.928.833</b>	<b>34.348</b>	<b>16.139.263</b>	<b>71.605.488</b>	<b>5.196.770</b>	<b>3.384.050</b>	<b>5.101.952</b>	<b>113.680</b>	<b>122.504.384</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

b) Information on saving deposits in the scope of Saving Deposits Insurance Fund:

b.1. Amounts exceeding insurance limit:

b.1.1. Saving deposits under the guarantee of deposit insurance and exceeding the insurance limit:

Saving deposits	Under the guarantee insurance		Exceeding the insurance limit	
	Current period	Prior period	Current period	Prior period
	Saving deposits	23.535.650	20.718.253	16.938.565
Foreign currency saving deposits	7.502.986	6.632.903	14.742.676	11.027.597
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	167.456	129.662	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

b.1.2. Saving deposits at foreign branches are excluded from the scope of Saving Deposits Insurance Fund according to the related legislation, and are subject to insurance of foreign authorities in compliance with the foreign legislations.

c) Saving deposits which are not under the guarantee of deposit insurance fund:

	Current period	Prior period
Foreign branches' saving deposits and other accounts	283.157	177.772
Deposits and other accounts belonging to dominant partners as well as their fathers, mothers, spouses and children under their custody	-	-
Deposits and other accounts belonging to the chairman and members of the board of directors, general managers and deputy general managers as well as their fathers, mothers, spouses and children under their custody	8.063	9.720
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26.9.2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(2) Information on derivative financial liabilities held for trading:

Negative differences table related to the derivative financial liabilities held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	137.422	-	84.160
Swap transactions	-	86.857	1.416	89.725
Future transactions	-	-	-	-
Options	59	255	18	354
Other	-	-	-	-
<b>Total</b>	<b>59</b>	<b>224.534</b>	<b>1.434</b>	<b>174.239</b>

(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from Central Bank of Turkey	-	-	-	-
Domestic banks and institutions	843.368	2.503.564	757.763	1.123.810
Foreign banks, institutions and funds	328.396	17.913.783	556.756	19.705.408
<b>Total</b>	<b>1.171.764</b>	<b>20.417.347</b>	<b>1.314.519</b>	<b>20.829.218</b>

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	968.495	4.927.580	851.253	7.965.899
Medium and long-term	203.269	15.489.767	463.266	12.863.319
<b>Total</b>	<b>1.171.764</b>	<b>20.417.347</b>	<b>1.314.519</b>	<b>20.829.218</b>

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

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

Main liability of the Group is deposit, which is composed of 26,99% of saving deposits and 32,83% of foreign currency" deposits. In order to fulfill the short term liquidity requirements, the Parent Bank borrows loans from interbank money markets. The Parent Bank can borrow loans from overseas institutions especially to be used in the financing of consumer loans. There are funds obtained from the Ministry of Industry and Trade especially for constructing small industrial estates and organized industrial estates.

The Group's 57,12% of banks deposits and 39,81% of other deposits consist of foreign currency deposits.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

- (3) c) Additional disclosures related to the concentrations of the Group's major liabilities (continued):

Funds provided from repo transactions:

	Current period		Prior period	
	TRY	FC	TRY	FC
<b>From domestic transactions</b>	<b>9.464.294</b>	-	<b>7.499.973</b>	-
<i>Financial inst. and organizations</i>	9.396.299	-	7.434.203	-
<i>Other institutions and organizations</i>	29.220	-	29.509	-
<i>Real persons</i>	38.775	-	36.261	-
<b>From overseas transactions</b>	<b>460</b>	<b>1.365.201</b>	<b>100.299</b>	<b>726.001</b>
<i>Financial inst. and organizations</i>	-	1.365.201	-	726.001
<i>Other institutions and organizations</i>	-	-	100.069	-
<i>Real persons</i>	460	-	230	-
Accruals	5.987	8.670	7.191	2.498
<b>Total</b>	<b>9.470.741</b>	<b>1.373.871</b>	<b>7.607.463</b>	<b>728.499</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	2.067.703	-	1.500.713	-
Bonds	-	10.684.708	-	7.339.847
<b>Total</b>	<b>2.067.703</b>	<b>10.684.708</b>	<b>1.500.713</b>	<b>7.339.847</b>

(5) Explanations to the funds:

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

Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	37.539	2.302.269	29.572	1.934.127

(6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 1.943.553 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.693.952).

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

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

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

b) Explanation on finance lease payables:

None.

c) Explanations regarding operational leases:

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(8) Information on derivative financial liabilities for hedging purposes:

None.

(9) Explanations on provisions:

a) Information on general provisions:

	<b>Current period</b>	<b>Prior period</b>
<b>General provision</b>	<b>2.049.136</b>	<b>1.139.290</b>
Provisions for first group loans and receivables	1.834.503	920.263
<i>Additional provisions for the loans with extended payment plan</i>	-	33.186
Provisions for second group loans and receivables	93.459	113.212
<i>Additional provisions for the loans with extended payment plan</i>	-	66.843
Provisions for non cash loans	121.174	105.815
Other	-	-

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

As of 31 December 2016 the Parent Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 23 (31 December 2015: TRY 7.222).

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

As of 31 December 2016, the Parent Bank's specific provision for unindemnified non-cash loans balance is TRY 139.279 (31 December 2015: TRY 93.877).

d) Information on other provisions:

Total other provision balance amounting to TRY 392.356 (31 December 2015: TRY 402.368) consists of TRY 139.551 (31 December 2015: TRY 93.877) for specific provisions for unindemnified non cash loans, TRY 94.679 (31 December 2015: TRY 37.481) for legal cases filed against the Bank, TRY 158.126 (31 December 2015: TRY 147.510) of other provisions.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(9) Explanations on provisions (continued):

d) Information on other provisions(continued):

Movement of employee termination benefits

Severance indemnity provision as of 31 December 2016 is calculated by an independent company by using the actuarial conjectures. The amount calculated for the employee termination benefits as a result of the actuarial valuation according to TAS 19, is as follows;

	<b>Cari Dönem</b>	<b>Önceki Dönem</b>
Inflation Rate	7,80%	7,75%
Wage growth	11,20%	10,75%
Estimated Real Wage Growth Rate	8,00%	7,95%

Calculated amounts as a result of actuarial conjectures are as follows:

	<b>Cari Dönem</b>	<b>Önceki Dönem</b>
As of January 1	395.018	358.851
Charge for the year	37.372	34.426
Interest Expense	41.722	30.120
Actuarial gain/loss	(21.117)	6.488
Prior period service cost composed current period	849	203
Payment/The limitation of benefits/ Loss ( Gain) therefore discharge	1.546	286
Benefits paid within the period(-)	50.315	35.356
<b>Total</b>	<b>405.075</b>	<b>395.018</b>

As of 31 December 2016, unused vacation provision is TRY 139.894, personnel dividend provision is TRY 160.451 and severance indemnity provision for outsource firms is TRY 13.964. This amount is followed under employee benefits provision under liabilities (31 December 2015: TRY 130.187 for unused vacation provision; TRY 11.848 for severance indemnity provision for outsources; TRY 138.241 for personnel dividend provision).

As of 1 January 2013, actuarial gains and losses are recognized and accounted in shareholders' equity.

(9) Explanations on provisions: (continued)

e) Liabilities on pension rights

e.1. Liabilities for pension funds established in accordance with "Social Security Institution":

None.

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

Based on the results of the actuarial report prepared as of 31 December 2016, no technical deficit has been reported for Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı, T.C. Ziraat Bankası and T. Halk Bankası Çalışanları Emekli Sandığı Vakfı.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

f) Insurance Technical Provisions (Net):

	<b>Current period</b>	<b>Prior period</b>
Life-Mathematical Provisions	255.917	222.007
Provisions for unearned premium claims	427.120	345.222
Provision for outstanding claims	696.078	344.534
Provisions for unexpired risk reserves	20.865	18.940
Other	168	1.962
<b>Total</b>	<b>1.400.148</b>	<b>932.665</b>

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 December 2016 the calculated corporate tax amount is TRY 64.824 for the Parent Bank. And this amount is submitted to account of corporate tax provision as of related date.

a.2. Information on taxes payable:

	<b>Current period</b>	<b>Prior period</b>
Corporate tax payable	64.824	118.241
Income on securities tax	157.179	143.398
Property income tax	1.402	1.323
Banking and insurance transactions tax (BITT)	92.058	71.486
Foreign exchange transactions tax	48	9
Value added tax payable	3.797	5.180
Other	15.271	17.019
<b>Total</b>	<b>334.579</b>	<b>356.656</b>

a.3. Information on premiums:

	<b>Current period</b>	<b>Prior period</b>
Social insurance premiums-employee	768	377
Social insurance premiums-employer	1.419	818
Bank social aid pension fund premium-employee	7.621	7.164
Bank social aid pension fund premium-employer	10.452	9.881
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	48	25
Unemployment insurance-employer	132	74
Other	1.956	1.703
<b>Total</b>	<b>22.396</b>	<b>20.042</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

b) Explanations regarding deferred tax liability:

	Current period	Prior period
<b>Deferred Tax (Asset) /Liability</b>		
Provisions <sup>(1)</sup>	277.574	203.319
Revaluation of Financial Assets	(375.878)	(224.107)
Other	(91.145)	(2.076)
<b>Deferred Tax Liability:</b>	<b>(189.449)</b>	<b>(22.864)</b>
<b>Deferred tax accounted in shareholders' equity</b>	<b>(1.535)</b>	<b>16.499</b>
Fair value differences for available for sale financial assets	65.830	431.805
Actuarial gains and losses	241	2.927
Subsidiaries Valuation	(67.606)	(418.233)

<sup>(1)</sup> Provisions are comprised of the employee termination benefits and other provisions.

As of 31 December 2016 net deferred tax liability represents TRY 189.449 (31 December 2015: TRY 22.864), it consists of deferred tax assets which amount to TRY 99.525 (31 December 2015: TRY 49.703) and deferred tax liabilities amount to TRY 288.974 (31 December 2015: TRY 72.567).

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

None.

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(13) Information on shareholders' equity:

a) Presentation of paid-in capital:

	<b>Current period</b>	<b>Prior period</b>
Common stock	1.250.000	1.250.000
Preferred stock	-	-

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

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

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

None.

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

None.

e) Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:

None.

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

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

g) Information on preferred shares:

None.

h) Information on marketable securities revaluation fund:

	<b>Current period</b>		<b>Prior period</b>	
	<b>TRY</b>	<b>FC</b>	<b>TRY</b>	<b>FC</b>
From subsidiaries, associates and jointly controlled entities (joint ventures)	10.869	39	9.155	-
Revaluation difference	(302.092)	(427.744)	(113.259)	(181.027)
Exchange rate difference	-	-	-	-
<b>Total</b>	<b>(291.223)</b>	<b>(427.705)</b>	<b>(104.104)</b>	<b>(181.027)</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(13) Information on shareholders' equity: (continued)

i) Information on legal reserves:

	<b>Current Period</b>	<b>Prior Period</b>
First Legal Reserves	981.962	850.090
Second Legal Reserves	546.732	507.000
Legal reserves appropriated in accordance with the law	33.478	36.837
<b>Total</b>	<b>1.562.172</b>	<b>1.393.927</b>

j) Information on the extraordinary and other profit reserves:

	<b>Current Period</b>	<b>Prior Period</b>
Reserves appropriated by General Assembly	12.913.212	11.002.900
Retained Earnings	198.178	200.396
Accumulated Losses	-	-
<b>Total</b>	<b>13.111.390</b>	<b>11.203.296</b>

(14) Information on minority interest shares:

a) Information on minority interest shares:

	<b>Current Period</b>	<b>Prior Period</b>
Paid-in capital	159.066	151.230
Export Premium	15.538	15.717
Marketable Securities Revaluation Fund	1.327	1.281
Legal Reserves	8.218	8.061
Extraordinary Reserves	9.161	10.949
Retained Earnings	8.006	1.095
Other Profit Reserves	5.993	2.767
Net Period Income / Loss	5.850	10.326
<b>Closing Balance</b>	<b>213.158</b>	<b>201.426</b>

b) Movement of minority interest shares:

	<b>Current Period</b>	<b>Prior period</b>
Beginning Balance	201.426	178.760
Change in Minority Interest	5.882	12.340
Net Period Income / Loss	5.850	10.326
<b>Closing Balance</b>	<b>213.158</b>	<b>201.426</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

<b>Types of irrevocable commitments</b>	<b>Current period</b>	<b>Prior period</b>
Commitments for credit card expenditure limits	10.824.073	11.181.001
Payment commitments for cheques	5.805.008	5.442.458
Loan granting commitments	3.580.800	2.560.552
Two days forward foreign exchange buy/sell transactions	417.450	481.678
Commitments for credit cards and banking services promotions	44.328	46.532
Tax and fund liabilities from export commitments	28.864	20.764
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	3.462.296	1.904.541
<b>Total</b>	<b>24.162.819</b>	<b>21.637.526</b>

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:

	<b>Current period</b>	<b>Prior period</b>
Letters of credit	4.019.100	5.016.951
Bank acceptance loans	2.825.466	3.273.781
Other guarantees	914.248	879.817
<b>Total</b>	<b>7.758.814</b>	<b>9.170.549</b>

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

	<b>Current period</b>	<b>Prior period</b>
Letters of certain guarantees	14.917.475	13.968.827
Letters of advance guarantees	3.501.034	2.992.251
Letters of tentative guarantees	512.981	789.535
Letters of guarantee given to customs offices	887.159	880.741
Other letters of guarantee	20.300.256	12.235.323
<b>Total</b>	<b>40.118.905</b>	<b>30.866.677</b>

b.3. Total non-cash loans:

	<b>Current period</b>	<b>Prior period</b>
Non-cash loans for providing cash loans	2.256.883	1.181.205
<i>Within one year or less original maturity</i>	414.973	184.804
<i>Within more than one year maturity</i>	1.841.910	996.401
Other non-cash loans	45.620.836	38.856.021
<b>Total</b>	<b>47.877.719</b>	<b>40.037.226</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ITEMS (continued)**

(1) Information on off-balance sheet liabilities (continued):

b.4. Non-cash loans sectoral risk concentrations:

	Current period				Prior period			
	TRY	(%)	FC	(%)	TRY	(%)	FC	(%)
Agricultural	40.378	0,19	24.718	0,09	23.325	0,14	10.947	0,05
<i>Farming and raising livestock</i>	36.311	0,17	22.308	0,08	20.156	0,12	10.016	0,04
<i>Forestry</i>	199	-	-	-	152	-	-	-
<i>Fishing</i>	3.868	0,02	2.410	0,01	3.017	0,02	931	-
Manufacturing	5.006.181	23,84	14.017.581	52,15	4.018.351	24,13	12.342.069	52,78
<i>Mining</i>	140.712	0,67	66.010	0,25	126.501	0,76	48.833	0,21
<i>Production</i>	3.113.471	14,83	11.910.161	44,30	2.843.994	17,08	10.013.570	42,82
<i>Electric, gas and water</i>	1.751.998	8,34	2.041.410	7,60	1.047.856	6,29	2.279.666	9,75
Construction	6.112.235	29,11	7.020.483	26,12	4.317.501	25,92	5.578.617	23,86
Services	9.676.704	46,08	5.498.471	20,46	8.155.736	48,97	5.362.202	22,93
<i>Wholesale and retail trade</i>	4.837.193	23,03	2.364.286	8,80	4.449.349	26,72	1.970.494	8,43
<i>Hotel, food and beverage services</i>	83.860	0,40	178.138	0,67	69.933	0,42	72.426	0,31
<i>Transportation and telecommunication</i>	186.011	0,89	505.600	1,88	151.737	0,91	327.059	1,40
<i>Financial Institutions</i>	3.214.131	15,31	544.054	2,02	2.371.214	14,24	525.539	2,25
<i>Real estate and renting services</i>	1.187.469	5,65	1.836.181	6,83	992.720	5,96	2.413.268	10,32
<i>Self-employment services</i>	17.781	0,08	370	-	10.221	0,06	407	-
<i>Education services</i>	26.483	0,13	45.486	0,17	18.799	0,11	52.991	0,23
<i>Health and social services</i>	123.776	0,59	24.356	0,09	91.763	0,55	18	-
Other	164.040	0,78	316.928	1,18	139.766	0,84	88.712	0,38
<b>Total</b>	<b>20.999.538</b>	<b>100,00</b>	<b>26.878.181</b>	<b>100,00</b>	<b>16.654.679</b>	<b>100,00</b>	<b>23.382.547</b>	<b>100,00</b>

b.5. Non-cash loans classified in Group I and II:

	Group I		Group II	
	TRY	FC	TRY	FC
<b>Non-cash loans</b>	<b>20.781.435</b>	<b>26.839.842</b>	<b>218.103</b>	<b>38.339</b>
Letters of guarantee	19.976.256	19.887.158	218.103	37.388
Bank acceptances	12.876	2.812.590	-	-
Letters of credit	18.091	4.000.058	-	951
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring commitments	-	-	-	-
Other commitments and contingencies	774.212	140.036	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ITEMS (continued)**

- (1) Information on off-balance sheet liabilities (continued):  
c) Information on derivative financial instruments:

	Derivative transactions according to purposes			
	Trading		Risk Management	
	Current period	Prior period	Current period	Prior period
Types of trading transactions				
<b>Foreign currency related derivative transactions (I)</b>	<b>13.307.997</b>	<b>15.691.071</b>	-	-
Forward foreign currency buy/sell transactions	7.005.310	6.528.818	-	-
Currency buy/sell swap	5.622.434	8.802.995	-	-
Currency futures	-	-	-	-
Currency put/call options	680.253	359.258	-	-
	<b>9.744.530</b>	<b>7.580.360</b>	-	-
<b>Interest related derivative transactions (II)</b>	-	-	-	-
Interest rate contracts	9.744.530	7.580.360	-	-
Interest rate buy/sell swap	-	-	-	-
Interest rate put/call options	-	-	-	-
Interest rate buy/sell futures	<b>2.181.689</b>	<b>1.750.176</b>	-	-
<b>Other trading derivative transactions (III)<sup>(1)</sup></b>	<b>25.234.216</b>	<b>25.021.607</b>	-	-
<b>A. Total trading derivative transactions (I+II+III)</b>				
<b>Types of derivative transactions for risk management</b>				
Fair value fluctuations hedge	-	-	-	-
Cash flow risk hedge	-	-	-	-
FC investment in associates risk hedge	-	-	-	-
<b>B. Total derivative transactions for hedging</b>	-	-	-	-
<b>Total derivative transactions (A+B)</b>	<b>25.234.216</b>	<b>25.021.607</b>	-	-

<sup>(1)</sup> Other trading derivatives include credit default swap purchases and sale transactions amounting TRY 59.714 and TRY 2.121.975 respectively

- d) Explanations related to contingencies and commitments:

The Parent Bank's commitments due to cheques given to client is TRY 5.805.008 (31 December 2015: TRY 5.442.458).

- e) Services supplied on behalf of others:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT**

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
<b>Interest on loans<sup>(1)</sup></b>				
Short term loans	3.753.474	198.481	2.814.447	160.691
Medium and long term loans	7.994.235	2.285.880	6.572.326	1.700.220
Interest on non-performing loans	69.789	6.007	66.167	3.361
Premiums from resource utilization support fund	-	-	-	-
<b>Total</b>	<b>11.817.498</b>	<b>2.490.368</b>	<b>9.452.940</b>	<b>1.864.272</b>

<sup>(1)</sup> Includes fees and commissions obtained from cash loans.

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Central Bank of Turkey	69.911	13.189	26.681	2.631
Domestic banks	22.500	1.329	13.486	1.004
Overseas banks	4.071	3.682	3.104	2.491
Head office and branches	-	-	-	-
<b>Total</b>	<b>96.482</b>	<b>18.200</b>	<b>43.271</b>	<b>6.126</b>

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial Assets Held for Trading	6.954	647	4.739	882
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Available-for-Sale Financial Assets	847.799	234.243	641.758	183.461
Held-to-Maturity Investments	1.361.916	119.845	1.435.453	106.002
<b>Total</b>	<b>2.216.669</b>	<b>354.735</b>	<b>2.081.950</b>	<b>290.345</b>

d) Interest income from associates:

None.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	119.290	355.292	118.005	295.067
<i>Central Bank</i>	69.297	32.803	71.964	15.831
<i>Domestic banks</i>	49.993	322.489	46.041	279.236
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	13	15.047	22	-
<b>Total</b>	<b>119.303</b>	<b>370.339</b>	<b>118.027</b>	<b>295.067</b>

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	3.003	3.092

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	171.121	419.627	138.351	319.000
<b>Total</b>	<b>171.121</b>	<b>419.627</b>	<b>138.351</b>	<b>319.000</b>

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			
<b>TRY</b>									
Bank deposits	235	450.808	275.911	21.463	378	-	-	748.795	
Saving deposits	6	41.769	3.211.798	101.083	30.187	40.083	8.176	3.433.102	
Public deposits	79	262.529	196.467	35.288	6.426	660	-	501.449	
Commercial deposits	24	303.561	1.620.445	157.840	17.207	2.495	-	2.101.572	
Other deposits	1	72.552	164.648	22.757	194.451	9.505	-	463.914	
7 days call accounts	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>345</b>	<b>1.131.219</b>	<b>5.469.269</b>	<b>338.431</b>	<b>248.649</b>	<b>52.743</b>	<b>8.176</b>	<b>7.248.832</b>	
<b>Foreign currency</b>									
Deposits	581	32.610	523.548	57.426	16.841	64.974	178	696.158	
Bank deposits	4	106.001	227	226	-	170	-	106.628	
7 days call accounts	-	-	-	-	-	-	-	-	
Precious metal	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>585</b>	<b>138.611</b>	<b>523.775</b>	<b>57.652</b>	<b>16.841</b>	<b>65.144</b>	<b>178</b>	<b>802.786</b>	
<b>Grand total</b>	<b>930</b>	<b>1.269.830</b>	<b>5.993.044</b>	<b>396.083</b>	<b>265.490</b>	<b>117.887</b>	<b>8.354</b>	<b>8.051.618</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(3) Information on dividend income:

	Current period	Prior period
Financial assets held for trading	81	-
Financial assets at fair value through profit and loss	-	26
Financial assets available-for-sale	30.448	4.340
Other	9.457	1.888
<b>Total</b>	<b>39.986</b>	<b>6.254</b>

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

	Current period	Prior period
<b>Profit</b>	<b>15.307.780</b>	<b>20.498.674</b>
Profit from the capital market operations	21.425	37.077
Profit on derivative financial instruments	1.703.255	4.018.119
Foreign exchange gains	13.583.100	16.443.478
<b>Loss (-)</b>	<b>15.124.814</b>	<b>20.739.433</b>
Loss from the capital market operations	1.144	4.117
Loss on derivative financial instruments	1.692.097	3.892.538
Foreign exchange losses	13.431.573	16.842.778

b) Türev finansal işlemlere ilişkin açıklamalar:

	Cari Dönem	Önceki Dönem
<b>Türev Finansal İşlemlerden Kar</b>	<b>1.703.255</b>	<b>4.018.119</b>
Kur değişiminden kaynaklanan kar/zarar etkisi	1.652.809	3.929.463
Faiz değişiminden kaynaklanan kar/zarar etkisi	50.446	88.656
<b>Türev Finansal İşlemlerden Zarar (-)</b>	<b>1.692.097</b>	<b>3.892.538</b>
Kur değişiminden kaynaklanan kar/zarar etkisi	1.642.832	3.836.462
Faiz değişiminden kaynaklanan kar/zarar etkisi	49.265	56.076
<b>Türev Finansal İşlemlerden Kar/Zarar</b>	<b>11.158</b>	<b>125.581</b>

(5) Information on other operating income:

	Current period	Prior period
Adjustments for Prior Period Expenses <sup>(1)</sup>	375.295 <sup>(1)</sup>	748.861 <sup>(2)</sup>
Life insurance income	1.116.931	731.824
Receivable from the asset sale on credit terms	130.562	71.300
Rent income	51.930	23.200
Other income	151.186	102.319
<b>Total</b>	<b>1.825.904</b>	<b>1.677.504</b>

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	1.161.930	864.690
<i>Group - III loans and receivables</i>	534.454	231.262
<i>Group - IV loans and receivables</i>	313.230	190.811
<i>Group - V loans and receivables</i>	314.246	442.617
General loan provision expenses	910.121	291.794
Provision expenses for possible losses	-	123.500
Marketable securities impairment losses	-	-
<i>Financial assets at fair value through profit and loss</i>	-	-
<i>Financial assets available for sale</i>	-	-
Impairment losses from associates, subsidiaries, jointly controlled entities (joint ventures) and investments held-to-maturity	-	-
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Jointly controlled entities (joint ventures)</i>	-	-
<i>Investments held-to-maturity</i>	-	-
Other	133.858	96.871
<b>Total</b>	<b>2.205.909</b>	<b>1.376.855</b>

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	1.876.103	1.629.124
Reserve for employee termination benefits	83.517	67.067
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	4.713	-
Depreciation expenses of fixed assets	120.804	114.110
Intangible assets impairment expense	-	-
Amortization expenses of intangible assets	35.853	20.973
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	4.319	1.714
Amortization expenses of assets that will be disposed of	13.372	7.654
Impairment expense for property and equipment held for sale	95	-
Other operating expenses	1.305.467	1.130.048
<i>Operational leasing expenses</i>	214.401	187.384
<i>Maintenance expenses</i>	31.573	31.115
<i>Advertisement expenses</i>	165.782	140.671
<i>Other expenses</i>	893.711	770.878
Loss on sales of assets	1.330	4.503
Other	1.651.889	1.231.126
<b>Total</b>	<b>5.097.462</b>	<b>4.206.319</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

(8) Information on profit/loss from continuing and discontinued operations before taxes:

The Group's income before tax is due from continuing activities. The amount of profit before tax consists TRY 7.348.541 of net interest income and TRY 1.238.103 of net fees and commissions. The net operating profit before tax of the Group is amounting to TRY 3.349.438.

(9) Information on tax provisions for continuing and discontinued operations:

As of 31 December 2016, the Group's tax provision amounting to TRY 809.982 consists of TRY 625.363 of current tax charge and TRY 184.619 of deferred tax income.

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

The profit after tax for the year ended 31 December 2016 is TRY 2.539.456.

(11) Information on net profit/loss from continuing and discontinued operations:

a) Income and expenses from ordinary banking operations: TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses.

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. has been completed. In acquisition, the Bank has sold its one share in Visa Europe Ltd. with a nominal of EUR 10.00 for a consideration of EUR 22.854.086,82 in cash and 8.299 in "C Type Visa Inc." shares. The income generated from the sale share is recognized under the "Other Operating Income".

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

c) "Other" item under "Fees and Commissions Received" in the Income Statement are composed of fees and commissions received from credit card operations and various banking operations, mainly from capital market operations.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**V. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Explanations on inflation adjustments for equity items:

As per the BRSA circular announced on 28 April 2005, inflation accounting applied in the banking system has been ceased as of 1 January 2005 in accordance with the BRSA decree numbered 1623 and dated 21 April 2005.

According to this circular, TRY 1.220.451 of inflation adjustment related to paid in capital was transferred to the "Other Capital Reserves" account, which was recognized in "Paid-in Capital Inflation Adjustment" account before 31 December 2005. However, inflation adjustments related to other equity items are presented under the related equity item.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VI. EXPLANATIONS AND NOTES RELATED TO THE CASH FLOW STATEMENT**

- (1) Disclosures for the “other” and “the effect of foreign exchange differences on cash and cash equivalents” items of cash flow statement:

The “net increase/(decrease) in other liabilities” under the changes in operating assets and liabilities is resulted from the changes in the funds obtained through repurchase agreements, miscellaneous payables, other external funding payables and taxes, duties and premiums payables and amounts to TRY 11.388.032 increase for the year 2016 (31 December 2015: TRY 890.803 increase). The “others” item under operating income composes of fees and commissions paid, foreign exchange gains, other operating income and other operating expenses excluding employee costs, and amounts to TRY 6.189.946 decrease for the year 2016 (31 December 2015: TRY6.255.078 decrease).

For the year ended 31 December 2016, the effect of change in foreign exchange rate on cash and cash equivalents is TRY 1.424.356 increase (31 December 2015: TRY 846.458 increase). The average exchange rate of last five weekday has been taken in consideration as of the balance sheet date when calculating the change in the exchange rate.

- (2) Items of cash and cash equivalents, accounting policies used in the determination of those items: Cash in TRY and cash in foreign currency, Central Bank and bank deposits having maturity less than three months are defined as cash and cash equivalents.
- (3) The effect of any change in accounting policies:  
None.
- (4) Period beginning cash and cash equivalents balance:

	<b>Current period</b>	<b>Prior period</b>
Cash	23.500.539	20.331.936
<i>Cash in TRY and foreign currency</i>	<i>1.258.794</i>	<i>1.000.135</i>
<i>Central Bank and others<sup>(1)</sup></i>	<i>22.241.745</i>	<i>19.331.801</i>
Cash equivalents	2.671.525	1.742.639
<i>Demand and Time Deposits Up to 3 Months</i>	<i>2.617.651</i>	<i>1.440.532</i>
<i>Money Market Placements</i>	<i>53.874</i>	<i>302.107</i>
<b>Total cash and cash equivalents</b>	<b>26.172.064</b>	<b>22.074.575</b>
Reserve deposits in Central Bank of Turkey	(17.068.977)	(14.579.877)
Bank blockage balance <sup>(2)</sup>	(224.139)	(199.262)
Accruals for reserve deposits	(21.204)	(1.606)
Accruals for money market placement	-	-
Accruals for banks	(1.842)	(2.899)
<b>Cash and Cash Equivalents</b>	<b>8.855.902</b>	<b>7.290.931</b>

<sup>(1)</sup> The other item consists of the checks purchased and the required reserves held by the Central Bank of Macedonia.

<sup>(2)</sup> There is a blocked amount amounting to TRY 200.998 given by the Undersecretariat of Treasury as collateral for the technical reserves of Halk Hayat ve Emeklilik AŞ. In addition, Halk Sigorta AŞ has a blocked amount of TRY 23.141 given as collateral by the Undersecretariat of Treasury of the Republic of Turkey

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VI. EXPLANATIONS AND NOTES RELATED TO THE CASH FLOW STATEMENT (continued)**

(5) Period ending cash and cash equivalents balance:

	<b>Current period</b>	<b>Prior period</b>
Cash	30.211.966	23.500.539
<i>Cash in TRY and foreign currency</i>	<i>1.543.096</i>	<i>1.258.794</i>
<i>Central Bank and others<sup>(1)</sup></i>	<i>28.668.870</i>	<i>22.241.745</i>
Cash equivalents	3.010.590	2.671.525
<i>Demand and Time Deposits Up to 3 Months</i>	<i>1.938.193</i>	<i>2.617.651</i>
<i>Money Market Placements</i>	<i>1.072.397</i>	<i>53.874</i>
<b>Total cash and cash equivalents</b>	<b>33.222.556</b>	<b>26.172.064</b>
Reserve deposits in Central Bank of Turkey	(17.363.785)	(17.068.977)
Bank blockage balance <sup>(2)</sup>	(290.080)	(224.139)
Accruals for reserve deposits	(36.875)	(21.204)
Accruals for money market placement	-	-
Accruals for banks	(1.219)	(1.842)
<b>Cash and Cash Equivalents</b>	<b>15.530.597</b>	<b>8.855.902</b>

<sup>(1)</sup> The other item consists of the checks purchased and the required reserves held by the Central Bank of Macedonia.

<sup>(2)</sup> There is a blocked amount amounting to TRY 248.138 given by the Undersecretariat of Treasury as collateral for the technical reserves of Halk Hayat ve Emeklilik AŞ. In addition, Halk Sigorta AŞ has a blocked amount of TRY 41.942 given as collateral by the Undersecretariat of Treasury of the Republic of Turkey

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VII. EXPLANATION RELATED TO THE RISK GROUP OF THE BANK**

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

- a) Current period:

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

- c) Prior period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
	Loans and other receivables					
Beginning balance	-	1,878	-	-	-	-
Closing balance	-	-	-	-	-	-
Interest and commissions income	-	-	-	-	-	-

- d) 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
	<b>Deposits</b>					
Beginning balance	5.823	27.020	-	-	-	-
Closing Balance	8.771	5.823	-	-	-	-
Interest expense on deposits	393	482	-	-	-	-

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

None.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED 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:

	<b>Amount</b>	<b>% compared to the amounts in the financial statements</b>
Cash loans	-	-
Non-cash loans	-	-
Deposits	8.771	0,01%
Forward and option contracts	-	-
Banks and financial institutions	-	-

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

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

Explained in b).

ç) Transactions accounted under the equity method:

Demir-Halkbank NV, operating in Netherlands, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ qualified as investments in associates of the Parent Bank, are accounted for in the accompanying consolidated financial statements by the equity method of accounting

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel are TRY 21.020 as of 31 December 2016 (31 December 2015: TRY 23.316).

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**VIII. EXPLANATIONS ON THE BANK'S DOMESTIC BRANCHES, AGENCIES/BRANCHES ABROAD AND OFF-SHORE BRANCHES**

- (1) Explanations on the Bank's domestic branches, agencies/branches abroad and off-shore branches.

	Quantity	Number of employees	Country	Total Asstes	Legal Capital
<b>Domestic Branches</b>	959	16.900			
<b>Agencies Abroad</b>	3	4	Teheran/IRAN Singapore/SINGAPORE		
			London/ENGLAND		
<b>Overseas Branches</b>	4	21	Nicosia/TRNC	647.118	-
		10	Gazimagosa/TRNC	80.498	-
		9	Kyrenia/TRNC	63.131	-
		2	Pasakoy/TRNC	163	-
<b>Off-shore Branches</b>	1	3	Manama/BAHREYN	11.169.301	-

- (2) Explanations on branch and agency openings or closings of the Bank:

The Bank opened 15 domestic branches during the year 2016.

**IX. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS**

The Parent Bank which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.826 after necessary authorization and being taken out from the scope and programme of the Administration by The Privatization High Council.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION VI: OTHER EXPLANATIONS AND NOTES**

**I. OTHER EXPLANATIONS ON THE BANK'S OPERATIONS**

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION VII: INDEPENDENT AUDITORS' REPORT**

**I. EXPLANATIONS ON THE INDEPENDENT AUDITORS' REPORT**

The consolidated financial statements as of and for the year ended 31 December 2016 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Independent Auditors' Report dated 13 February 2017 is presented in the introduction of this report.

**II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS**

None.