

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

# **Türkiye Halk Bankası Anonim Şirketi**

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

13 February 2017

*This report contains "Independent Auditors'  
Report" comprising 2 pages and; "Unconsolidated  
Financial Statements and Related Disclosures and  
Footnotes" comprising 124 pages.*

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish to English (See Note I in Section Three)  
To the Board of Directors of Halk Bankası Anonim Şirketi;

### **Report on the Unconsolidated Financial Statements**

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

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

### Auditor's Responsibility

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

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

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

### Opinion

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

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

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

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

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

Alper Güvenç  
Partner, SMMM

13 February 2017  
İstanbul, Turkey

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**THE UNCONSOLIDATED FINANCIAL REPORT**  
**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 and E-mail Address:  
Website: [www.halkbank.com.tr](http://www.halkbank.com.tr)  
E-mail Address: halkbank.ir@halkbank.com.tr

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

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

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

İstanbul, 13 February 2017.

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

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

Name/Title : Arman Acar / Senior Specialist  
Tel No : 0216 503 57 59  
Fax No : 0212 340 09 90

## SECTION ONE

### General Information About the Bank

	<b>Page No</b>
I. Establishment Date of the Bank, Initial Articles of Association, History of the Bank Including The Changes of These Articles	3
II. Capital Structure of the Bank, Shareholders That Retain Direct or Indirect Control and Management of the Bank, Solely or Together, Changes About These Issues During the Year and Disclosures About The Group	3
III. Explanations Regarding the Bank's Chairman and Members of Board of Directors, Audit Committee Members, Chief Executive Officer and Executive Vice Presidents and Their Shares Attributable to the Bank, if any	4
IV. Information About the Persons and Institutions that Have Qualified Shares Attributable to the Bank	6
V. Summary on the Bank's Functions and Lines of Activity	6
VI. 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	7
VII. The Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholder's Equity Between the Bank and Its Subsidiaries or the Reimbursement of Liabilities	8

## SECTION TWO

### Unconsolidated Financial Statements

I. Balance Sheet (Statement of Financial Position)	10
II. Statement of Off-Balance Sheet Items	12
III. Statement of Income	13
IV. Statement of Income and Expense Items Accounted under Shareholders' Equity	14
V. Statement of Changes in Shareholders' Equity	15
VI. Statement of Cash Flows	16
VII. Statement of Profit Distribution Table	17

## SECTION THREE

### Explanations on Accounting Policies of the Bank

I. Basis of Presentation	18
II. Explanations on the Strategy of Use of Financial Instruments and Foreign Currency Transactions	18
III. Explanations on Forward and Option Contracts and Derivative Instruments	19
IV. Interest Income and Expenses	19
V. Fees and Commission Income and Expenses	19
VI. Explanations and Disclosures on Financial Assets	19
VII. Explanations on Impairment of Financial Assets	22
VIII. Offsetting Financial Assets and Liabilities	24
IX. Explanations on Sales and Repurchase Agreements (Repos) and Transactions on Securities Loaned	24
X. Explanations on Assets Held For Sale and Discontinued Operations	24
XI. Explanations on Goodwill and Other Intangible Assets	24
XII. Explanations on Property, Plant and Equipment	25
XIII. Explanations on Investment Properties	25
XIV. Explanations on Leasing Transactions	26
XV. Explanations on Provisions and Contingent Liabilities	27
XVI. Explanations on Employee Benefit Liabilities	28
XVII. Explanations on Taxation	29
XVIII. Additional Explanations on Borrowings	30
XIX. Explanations on Shares and Share Issue	30
XX. Explanations on Bill Guarantees and Acceptances	30
XXI. Explanations on Government Incentives	30
XXII. Explanations on Segment Reporting	30
XXIII. Explanations on Other Matters	31

#### **SECTION FOUR**

##### Information Related to Financial Position and Risk Management of the Bank

I.	Explanations on Equity	32
II.	Explanations Related to the Credit Risk	37
III.	Explanations Related to the Currency Risk	48
IV.	Explanations on Interest Rate Risk	50
V.	Explanations Related on the Position Risk of Shares	55
VI.	Explanations on Liquidity Risk and Liquidity Coverage Ratio	56
VII.	Explanations on Leverage Ratio	62
VIII.	Explanations Related To Business Segmentation	63
IX.	Explanations on Presentation of Financial Assets and Liabilities at Fair Value	67
X.	Explanations Related To Transactions Made on Behalf of Others and Transactions Based on Trust	69
XI.	Explanations On Risk Management and Risk Weighted Amounts	69

#### **SECTION FIVE**

##### Explanations and Notes Related to the Unconsolidated Financial Statements

I.	Explanations and Notes Related to the Assets	83
II.	Explanations and Notes Related to the Liabilities	102
III.	Explanations and Notes Related to the Off-Balance Sheet Items	111
IV.	Explanations and Notes Related to the Income Statement	114
V.	Explanation and Notes Related to the Statement of Changes in Shareholders' Equity	118
VI.	Explanations and Notes Related to the Cash Flow Statement	119
VII.	Explanation Related to the Risk Group of the Bank	120
VIII.	Explanations on the Banks' Domestic Branches, Agencies/Branches Abroad and Off-Shore Branches	122
IX.	Explanations Related to the Subsequent Events	122

#### **SECTION SIX**

##### Other Explanations and Notes

I.	Other Explanations on the Bank's Operations	123
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#### **SECTION SEVEN**

##### Independent Auditors' Report

I.	Explanations on the Independent Auditors' Report	124
II.	Explanations and Notes Prepared by the Independent Auditors	124

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

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

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

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

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

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

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

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

Shareholders	31 December 2016	%	31 December 2015	%
Privatization Administration <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 Bank’s shares were registered to Capital Market Board records by decision number 16/471 dated 26 April 2007. The shares were traded on the Borsa İstanbul AŞ as of 10 May 2007. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

T.C. It was decided to transfer the Bank of Turkey’s Privatization Administration to the Turkey Asset Fund, which will be managed by the Turkish Asset Management Company after the necessary permissions are obtained by subtracting 51,11% of the shares with nominal value of TRY 638,826 from the privatization scope and program.

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



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

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

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

**III. EXPLANATIONS REGARDING THE BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE BANK, IF ANY <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 TAŞKESENLIOĞLU	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Member of the Board of Directors, Permanent Member of the Credit Committee, Head of the Pricing Committee, Independent Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Mehmet AYTEKİN	Member of the Board of Directors
Ömer AÇIKGÖZ	Member of the Board of Directors
Yahya BAYRAKTAR	Independent Member of the Board of Directors, Member of the Audit Committee
Faruk ÖZÇELİK	Member of the Audit Committee
Zekeriya KAYA	Member of the Audit Committee
Selahattin SÜLEYMANOĞLU	Executive Vice President, Banking Operations (on commission)
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Hakan ATİLLA	Executive Vice President, International Banking
Erdal ERDEM	Executive Vice President, Artisans and SME Banking (on commission)
Salim KÖSE	Executive Vice President, Legal Affairs and Proceedings
Ömer Faruk ŞENEL	Executive Vice President, Support Services (on commission)
Murat OKTAY	Executive Vice President, Corporate and Commercial Marketing
Mehmet Sebahattin BULUT	Executive Vice President, Loan Policies and Risk Monitoring
Hasan ÜNAL	Executive Vice President, Retail Banking
Mustafa AYDIN	Executive Vice President, Financial Management and Planning, Information Systems and Technical Services (on commission)

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

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

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

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

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

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

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

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

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

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

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

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

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

a) General information about the Bank:

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

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

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

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

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

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

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

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

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

As of 31 December 2016, the Bank operates with a total of 964 branches consisting of 959 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic branches include 35 satellite branches. The Bank has also 3 representative office in England, Iran and Singapore.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES**

**I. BASIS OF PRESENTATION**

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

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

**Additional paragraph for convenience translation to English**

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

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

a) The Bank’s strategy on financial instruments:

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

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

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

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

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

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

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

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

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

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

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

Derivative transactions of the Bank consist of foreign currency and interest rate swaps, forwards. The Bank has no derivative instruments decomposed from the main contract. The bank uses derivatives to avoid economical risks and accounted under Turkish Accounting Standard No: 39 “Financial Instruments: Recognition and Measurement” (TAS 39) classification.

Derivative financial instruments are recorded at fair value as of the contract date and valued at fair value in the following reporting periods. Although some derivative transactions are qualified as economical hedging items, they do not meet all the definition requirements of hedge accounting items. Therefore, these derivative instruments are recognized as held for trading and gains and losses of these instruments are associated with statement of income.

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

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

**IV. INTEREST INCOME AND EXPENSES**

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

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

**V. FEES AND COMMISSION INCOME AND EXPENSES**

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

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

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

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

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

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

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

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

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

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

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

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

1. Cash and banks

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

2. Financial assets at fair value through profit and loss

2.1. Financial assets held for trading

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

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

2.2. Financial assets at fair value through profit and loss

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

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



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

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

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

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

4. Financial assets available for sale

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

5. Loans and receivables

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

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

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

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

Non-performing loans are classified in accordance with the regulation on “Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette No: 26333 dated 1 November 2006 and amended with the regulation published in the Official Gazette No: 29918 dated last 14 December 2016 and specific provisions are allocated for those loans. Specific provisions are reflected to “820/821 Provisions and Impairment Expenses 82000/82100 Specific Provisions Expenses” account. Provisions released in same year are recognized as a credit movement under the “Provision Expenses”, released portion of the previous period provisions are recognized under the “Other Operating Income” account.

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

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

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

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

6. Associates and subsidiaries:

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

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

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

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

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

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

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

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

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

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

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

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

In the consequence of the ratio of consumer loans to total loans has been below 25% as of the second quarter in 2015, the Bank has begun to allocate 1% and 2% rate of general allowances for all consumer loans except for real estate loans instead of 4% and 8%. In accordance with the communiqué "The Change in the Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" published on 8 October 2013 No: 28789 Official Gazette, as of the recent month end prior to the effective date of the Communiqué, the Bank cancelled the differences in general allowances for all consumer loans except for real estate loans in both groups with the rates stated.

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

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

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

**VIII. OFFSETTING FINANCIAL ASSETS AND LIABILITIES**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	<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 of Investment Properties:*

If a land or building is being used by an owner and the intention is changed to an investment property, this property is classified as an investment property.

When the use of an immovable is changed and reclassified as an investment property, the actual value of the date on which the change in the use of the named property takes place will be the cost of the subsequent accounting.

**XIII. EXPLANATIONS ON INVESTMENT PROPERTIES**

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

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

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

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

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

**XIV. EXPLANATIONS ON LEASING TRANSACTIONS**

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

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

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

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

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

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

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

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

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

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

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

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

**XVI. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES**

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

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

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

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

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

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



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

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

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

**XVII. EXPLANATIONS ON TAXATION**

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

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

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

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

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

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

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred tax assets and liabilities are also offset.

**Tax practices in the countries that foreign branches operate:**

Turkish Republic of Northern Cyprus (TRNC)

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

Bahrain

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

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

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

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

**XVIII. ADDITIONAL EXPLANATIONS ON BORROWINGS**

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

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

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

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

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

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

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

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

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

**XXI. EXPLANATIONS ON GOVERNMENT INCENTIVES**

There are no government incentives utilized by the Bank.

**XXII. EXPLANATIONS ON SEGMENT REPORTING**

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

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

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

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

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

**XXIII EXPLANATION ON OTHER MATTERS**

*The new and adjusted standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) and Public Oversight Accounting and Auditing Standards Authority (POA)*

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK  
MANAGEMENT OF THE BANK**

**I. EXPLANATIONS ON EQUITY**

Calculating the amount of equity according to the "Regulation on Equities of Banks" and the calculation of capital adequacy standard ratio according to "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy" is performed. As of 31 December 2016, the Group's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 13,08% (31 December 2015: 13,83%), Equity is calculated the amount of TRY 23.013.281 in accordance with the principles of "Regulation on Equities of Banks" (31 December 2015: TRY 20.428.844).

	Amount	Amounts related to treatment before 1/1/2014(*)
<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	-	
Reserves	14.513.209	
Gains recognized in equity as per Turkish Accounting Standards (TAS)	1.766.310	
Profit	2.558.265	
Current Period Profit	2.558.265	
Prior Period Profit	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	8.711	
<b>Common Equity Tier 1 Capital Before Deductions</b>	<b>21.316.946</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	66.671	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	53.156	88.593
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
<b>Total Deductions From Common Equity Tier 1 Capital</b>	<b>119.827</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>21.197.119</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**I. EXPLANATIONS ON EQUITY (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)	-
<b>Additional Tier I Capital before Deductions</b>	<b>-</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>35.437</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 (-)	35.437
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-
<b>Total Deductions From Additional Tier I Capital</b>	<b>-</b>
<b>Total Additional Tier I Capital</b>	<b>-</b>
<b>Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)</b>	<b>21.161.682</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)	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.027.964
<b>Tier II Capital Before Deductions</b>	<b>2.027.964</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>-</b>
<b>Total Tier II Capital</b>	<b>2.027.964</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>23.189.646</b>
<b>Deductions from Total Capital</b>	<b>23.013.281</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 UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**I. EXPLANATIONS ON EQUITY (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	23.013.281
Total risk weighted amounts	175.986.593
<b>Capital Adequacy Ratios</b>	
Tier I Capital Adequacy Ratio	12,04
Core Capital Adequacy Ratio	12,02
Capital Adequacy Ratio	13,08
<b>BUFFERS</b>	
Total buffer requirement	5,133
Capital conservation buffer requirement (%)	0,625
Bank specific counter-cyclical buffer requirement(%)	0,258
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets(%)	5,077
<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	262.338
Other intangibles other than mortgage-servicing rights	-
Amount arising from deferred tax assets based on temporary differences	184.112
<b>Limits related to provisions considered in Tier II calculation</b>	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	2.027.964
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	2.027.964
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Excess amount of total provision amount to %0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
<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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

	<b>Prior Period</b>
<b>Total Deductions from Additional Core Capital</b>	-
<b>Total Additional Core Capital</b>	-
<b>Deductions from Core Capital</b>	<b>46.171</b>
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	46.171
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
<b>Total Core Capital</b>	<b>19.403.642</b>
<b>TIER II CAPITAL</b>	
Debt Instruments and Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-
General Provisions	1.123.838
<b>Tier II Capital before Deductions</b>	<b>1.123.838</b>
<b>Deductions from Tier II Capital</b>	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be Defined by the BRSA (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>1.123.838</b>
<b>CAPITAL</b>	<b>20.527.480</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 BRSA (-)	29.301
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in equity Items of Unconsolidated Banks and Financial Institutions where the Banks Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
<b>EQUITY</b>	<b>20.428.844</b>
<b>Amounts Below the Thresholds for Deduction</b>	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	15.635
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Tier I Capital	221.000
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	163.984



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

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT  
OF THE BANK (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 Bank. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation interms of the scope of the legislation.

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

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

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

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

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

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

The receivables of the Bank from its top 100 and 200 cash loan customers are respectively 25,20% and 30,92% of its total cash loans.

The receivables of the Bank from its top 100 and 200 non-cash loan customers are respectively 46,64% and 57,91% of its total non-cash loans.

Share of cash and non-cash receivables of the Bank from its top 100 and 200 customers are respectively 18,31% and 23,30% of its total balance sheet and off-balance sheet assets.

General loan loss provision related to the credit risk incurred by the Bank in accordance with the legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" is TRY 2.027.964 (31 December 2015: TRY 1.123.838).

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

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

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

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

<b>Risk Classifications:</b>	<b>Current Period Risk Amount<sup>(1)</sup></b>	<b>Average Risk Amount</b>	<b>Prior Period Risk Amount<sup>(1)</sup></b>	<b>Average Risk Amount</b>
Claims on sovereigns and Central Banks	67.933.081	52.866.902	47.398.066	44.777.040
Claims on regional governments or local authorities	1.913.131	1.385.766	1.074.473	844.635
Claims on administrative bodies and other non-commercial undertakings	740.264	709.610	619.959	555.877
Claims on multilateral development banks	-	-	-	-
Claims on international organizations	-	-	-	-
Claims on banks and intermediary institutions	4.883.011	5.004.910	4.465.484	5.456.343
Claims on corporates	80.747.981	73.757.772	65.226.266	59.566.902
Claims included in the regulatory retail portfolios	52.895.456	52.150.462	40.793.188	39.217.513
Claims secured by residential property	44.811.431	35.039.188	32.275.335	27.853.356
Overdue loans	1.180.302	1.061.419	930.890	1.056.586
Higher risk categories decided by the Board	50.578	1.242.936	7.079.352	7.622.966
Secured by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-
Other receivables	11.164.941	10.492.226	9.797.540	9.018.048

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

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

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK (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	67.933.072	1.913.131	740.208	4.829.439	78.822.896	52.793.475	44.594.415	1.162.519	50.578	11.164.941	264.004.674
2. EU Countries <sup>(2)</sup>	-	-	56	20.095	407.887	100.032	213.895	17.783	-	-	759.748
3. OECD Countries	-	-	-	8.897	-	128	171	-	-	-	9.196
4. Off-shore banking regions	-	-	-	-	-	23	-	-	-	-	23
5. USA, Canada	-	-	-	2.850	215.163	93	346	-	-	-	218.452
6. Other Countries	9	-	-	21.730	1.302.035	1.705	2.604	-	-	-	1.328.083
7. Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-
8. Undistributed Assets/Liabilities <sup>(3)</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>9. Total</b>	<b>67.933.081</b>	<b>1.913.131</b>	<b>740.264</b>	<b>4.883.011</b>	<b>80.747.981</b>	<b>52.895.456</b>	<b>44.811.431</b>	<b>1.180.302</b>	<b>50.578</b>	<b>11.164.941</b>	<b>266.320.176</b>
<b>Prior Period</b>											
1. Domestic	47.398.058	1.074.473	619.942	2.508.570	62.315.812	40.701.337	32.111.282	930.736	7.079.352	9.797.540	204.537.102
2. EU Countries <sup>(2)</sup>	-	-	17	556.795	178.682	89.805	162.573	154	-	-	988.026
3. OECD Countries	-	-	-	1.184.038	-	526	171	-	-	-	1.184.735
4. Off-shore banking regions	-	-	-	29	-	-	-	-	-	-	29
5. USA, Canada	-	-	-	63.428	678.889	174	129	-	-	-	742.620
6. Other Countries	8	-	-	8.325	845.554	1.346	1.180	-	-	-	856.413
7. Investment and associates, subsidiaries and joint ventures	-	-	-	144.299	1.207.329	-	-	-	-	-	1.351.628
8. Undistributed Assets/Liabilities <sup>(3)</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>9. Total</b>	<b>47.398.066</b>	<b>1.074.473</b>	<b>619.959</b>	<b>4.465.484</b>	<b>65.226.266</b>	<b>40.793.188</b>	<b>32.275.335</b>	<b>930.890</b>	<b>7.079.352</b>	<b>9.797.540</b>	<b>209.660.553</b>

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

<sup>(2)</sup> OECD Countries other than the EU Countries, USA and Canada.

<sup>(3)</sup> Assets and liabilities that are not consistently allocated.

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

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK (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 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			
Agricultural	11	14	100	-	226.322	492.775	87.239	22.861	-	-	649.526	179.796	829.322
<i>Farming and raising livestock</i>	11	14	70	-	158.192	462.215	79.513	21.648	-	-	609.751	111.912	721.663
<i>Forestry</i>	-	-	5	-	3	4.896	131	8	-	-	5.043	-	5.043
<i>Fishing</i>	-	-	25	-	68.127	25.664	7.595	1.205	-	-	34.732	67.884	102.616
Manufacturing	48	55	361.455	-	33.722.108	8.252.361	12.851.077	706.423	-	-	25.034.071	30.859.456	55.893.527
<i>Mining</i>	-	-	139.590	-	904.043	131.809	167.579	17.364	-	-	401.881	958.504	1.360.385
<i>Production</i>	48	28	107.988	-	25.293.195	8.085.433	11.787.102	689.059	-	-	22.812.293	23.150.560	45.962.853
<i>Electric, gas and water</i>	-	27	113.877	-	7.524.870	35.119	896.396	-	-	-	1.819.897	6.750.392	8.570.289
Construction	13	16	128	-	8.964.203	1.582.337	1.441.797	89.103	-	-	6.392.270	5.685.327	12.077.597
Services	70.029	18.029	288.616	4.859.848	26.020.112	22.420.908	13.033.551	361.915	-	3.162.297	45.855.669	24.379.636	70.235.305
<i>Wholesale and retail trade</i>	17	694	102.093	-	9.108.908	14.214.515	6.376.754	192.411	-	-	25.046.631	4.948.761	29.995.392
<i>Hotel, food and beverage services</i>	-	47	13	-	3.813.020	664.916	3.654.415	49.179	-	-	1.580.599	6.600.991	8.181.590
<i>Transportation and telecommunication</i>	-	17.250	172.320	-	6.866.000	6.280.731	621.188	17.046	-	-	6.973.900	7.000.635	13.974.535
<i>Financial institutions</i>	-	-	1.189	4.859.848	3.109.024	41.112	582.349	-	-	3.162.297	9.520.833	2.234.986	11.755.819
<i>Real estate and renting services</i>	5	-	-	-	1.926.101	307.168	889.365	73.446	-	-	858.436	2.337.649	3.196.085
<i>Self-employment services</i>	4	6	17	-	13	701.233	133.298	1.763	-	-	836.149	185	836.334
<i>Education services</i>	25.513	-	238	-	661.703	81.572	244.921	2.372	-	-	437.721	578.598	1.016.319
<i>Health and social services</i>	44.490	32	12.746	-	535.343	129.661	531.261	25.698	-	-	601.400	677.831	1.279.231
Other	67.862.980	1.895.017	89.965	23.163	11.815.236	20.147.075	17.397.767	-	50.578	8.002.644	82.071.524	45.212.901	127.284.425
<b>Total</b>	<b>67.933.081</b>	<b>1.913.131</b>	<b>740.264</b>	<b>4.883.011</b>	<b>80.747.981</b>	<b>52.895.456</b>	<b>44.811.431</b>	<b>1.180.302</b>	<b>50.578</b>	<b>11.164.941</b>	<b>160.003.060</b>	<b>106.317.116</b>	<b>266.320.176</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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

Risk Profile according to sectors:

Prior 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 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				
Agricultural	11	34	110	-	175.215	455.866	63.890	13.573	-	118.766	720.021	107.444	827.465	
<i>Farming and raising livestock</i>	11	34	42	-	131.455	430.188	58.786	13.422	-	118.695	683.076	69.557	752.633	
<i>Forestry</i>	-	-	5	-	993	3.011	234	8	-	71	4.322	-	4.322	
<i>Fishing</i>	-	-	63	-	42.767	22.667	4.870	143	-	-	32.623	37.887	70.510	
Manufacturing	42	104	70.863	-	28.350.833	6.984.727	8.485.791	567.423	-	12.525	20.682.741	23.789.567	44.472.308	
<i>Mining</i>	-	-	12.459	-	324.021	118.097	75.318	15.794	-	-	303.908	241.781	545.689	
<i>Production</i>	42	104	49.596	-	22.494.069	6.838.757	7.646.870	551.573	-	12.525	19.083.934	18.509.602	37.593.536	
<i>Electric, gas and water</i>	-	-	8.808	-	5.532.743	27.873	763.603	56	-	-	1.294.899	5.038.184	6.333.083	
Construction	12	15	127	-	6.297.870	1.206.598	1.035.574	83.943	-	147.069	4.739.886	4.031.322	8.771.208	
Services	45.229.371	19.084	442.469	4.465.484	21.282.132	18.824.799	9.039.305	246.820	-	38.275	62.099.123	37.488.616	99.587.739	
<i>Wholesale and retail trade</i>	20	50	326.643	-	8.522.713	11.941.675	4.881.017	132.379	-	9.685	21.969.012	3.845.170	25.814.182	
<i>Hotel, food and beverage services</i>	-	319	1.368	-	2.828.177	505.655	2.054.788	26.053	-	84	1.197.547	4.218.897	5.416.444	
<i>Transportation and telecommunication</i>	-	6	28.480	-	4.267.694	5.246.931	458.464	6.587	-	622	5.767.751	4.241.033	10.008.784	
<i>Financial institutions</i>	45.199.989	2.677	7.926	4.465.484	2.783.406	78.717	269.738	319	-	68	30.866.147	21.942.177	52.808.324	
<i>Real estate and renting services</i>	-	2	-	-	1.788.841	228.593	900.445	72.258	-	21.729	615.191	2.396.677	3.011.868	
<i>Self-employment services</i>	3	5	16	-	40	628.417	101.424	1.511	-	6.017	734.100	3.333	737.433	
<i>Education services</i>	323	5	48.732	-	470.148	81.759	106.390	380	-	2	390.847	316.892	707.739	
<i>Health and social services</i>	29.036	16.020	29.304	-	621.113	113.052	267.039	7.333	-	68	558.528	524.437	1.082.965	
Other	2.168.630	1.055.236	106.390	-	9.120.216	13.321.198	13.650.775	19.131	7.079.352	9.480.905	47.717.102	8.284.731	56.001.833	
<b>Total</b>	<b>47.398.066</b>	<b>1.074.473</b>	<b>619.959</b>	<b>4.465.484</b>	<b>65.226.266</b>	<b>40.793.188</b>	<b>32.275.335</b>	<b>930.890</b>	<b>7.079.352</b>	<b>9.797.540</b>	<b>135.958.873</b>	<b>73.701.680</b>	<b>209.660.553</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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

Distribution of maturity risk factors according to their outstanding maturities:

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	144.199	25.973	362.850	793.113	66.606.946
2.Claims on regional governments or local authorities	31.431	351	9.775	45.171	1.826.403
3.Claims on administrative bodies and other non-commercial undertakings	380.050	164.820	8.018	181.319	6.057
4.Claims on banks and intermediary institutions	4.770.949	19.102	52.609	32.051	8.300
5.Claims on corporate	11.917.965	4.935.918	8.529.750	14.079.641	57.424.087
6.Claims included in the regulatory retail portfolios	4.711.808	2.296.235	4.616.873	11.210.485	58.782.684
7. Overdue loans	1.180.302	-	-	-	-
8. Other receivables	-	-	-	-	11.164.941
<b>Total</b>	<b>23.136.704</b>	<b>7.442.399</b>	<b>13.579.875</b>	<b>26.341.780</b>	<b>195.819.418</b>

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

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

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	28.855.871	208.053	975.106	148.920	17.210.116
2.Claims on regional governments or local authorities	15.013	547	7.734	13.269	1.037.910
3.Claims on administrative bodies and other non-commercial undertakings	139.275	39.343	333.415	29.651	78.275
4.Claims on banks and intermediary institutions	4.338.162	5.421	32.898	8.785	80.218
5.Claims on corporate	8.964.895	3.876.372	6.983.691	11.960.610	44.035.170
6.Claims included in the regulatory retail portfolios	3.850.301	2.065.997	3.897.733	8.525.316	51.214.056
7. Overdue loans	818.367	100.934	256	4.213	7.120
8. Other receivables	-	-	-	-	9.797.540
<b>Total</b>	<b>46.981.884</b>	<b>6.296.667</b>	<b>12.230.833</b>	<b>20.690.764</b>	<b>123.460.405</b>

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

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

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

a) Türkiye Halkbank A.Ş. is using the risk ratings of the independent rating firm Fitch Ratings for the calculation of capital adequacy.

b) Fitch Ratings' risk ratings are used., for the claims on sovereigns and Central Banks and for the risk groups below on the condition that being settled abroad;

Claims on banks and intermediary institutions

Claims on regional governments or local authorities

Claims on administrative bodies and other non-commercial undertakings

Claims on multilateral development banks

Claims on corporates

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

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

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

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK (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	0%	0%	20%	20%	20%	20%
	AA+						
	AA						
	AA-						
2	A+	20%	20%	50%	20%	50%	50%
	A						
	A-						
3	BBB+	50%	50%	100%	20%	50%	100%
	BBB						
	BBB-						
4	BB+	100%	100%	100%	50%	100%	100%
	BB						
	BB-						
5	B+	100%	100%	100%	50%	100%	150%
	B						
	B-						
6	CCC+	150%	150%	150%	150%	150%	150%
	CCC						
	CC						
	C						
	D						

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

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT**  
**OF THE BANK (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
TURKEY	144.454.646	52.943	144.507.589
VIRGIN ISLANDS(US)	972.192	-	972.192
CYPRUS	396.157	186	396.343
IRAN	244.103	-	244.103
SWEDEN	185.659	-	185.659
MACEDONIA	76.714	-	76.714
OTHER	37.278	31.834	69.112

\*Countries having less than twenty thousand Turkish Lira risk weighted amount are classified under "Others".

**Risk balances according to risk weights:**

Current Period Risk Weights	0%	10%	20%	%35	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1. Pre-Amount of Credit Risk Mitigation	37.961.056	-	3.747.018	-	37.382.701	82.321.685	104.594.800	50.578	-	262.338	331.629
2. Amount after Credit Risk Mitigation	42.337.365	832.839	4.097.104	25.585.260	56.314.661	51.380.287	85.459.744	50.578	-	262.338	331.629

Prior Period Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1. Pre-Amount of Credit Risk Mitigation	46.754.539	-	4.915.927	18.430.193	50.259.199	82.000.343	2.593.313	4.485.266	221.773	242.837
2. Amount after Credit Risk Mitigation	51.094.927	-	5.443.786	37.967.722	38.837.615	69.016.151	2.593.313	4.485.266	221.773	242.837



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

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

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

**II. EXPLANATIONS RELATED TO THE CREDIT RISK (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>95.176</b>	<b>13.667</b>	<b>273</b>	<b>72.314</b>
<i>Farming and raising livestock</i>	86.396	10.699	214	64.747
<i>Forestry</i>	472	-	-	464
<i>Fishing</i>	8.308	2.968	59	7.103
<b>Manufacturing</b>	<b>2.263.512</b>	<b>567.333</b>	<b>11.347</b>	<b>1.557.088</b>
<i>Mining</i>	133.994	12.663	253	116.630
<i>Production</i>	2.128.561	554.188	11.084	1.439.501
<i>Electric, gas and water</i>	957	482	10	957
<b>Construction</b>	<b>442.592</b>	<b>117.742</b>	<b>2.355</b>	<b>353.489</b>
<b>Services</b>	<b>1.390.369</b>	<b>897.812</b>	<b>17.956</b>	<b>1.032.721</b>
<i>Wholesale and retail trade</i>	967.460	529.049	10.581	779.316
<i>Hotel, food and beverage services</i>	147.144	79.956	1.599	97.965
<i>Transportation and telecommunication</i>	53.842	129.641	2.593	36.795
<i>Financial institutions</i>	10.482	959	19	10.482
<i>Real estate and renting services</i>	123.450	121.216	2.424	50.005
<i>Self-employment services</i>	9.808	19.805	396	8.045
<i>Education services</i>	5.979	12.581	252	3.607
<i>Health and social services</i>	72.204	4.605	92	46.506
<b>Other</b>	<b>948.433</b>	<b>172.885</b>	<b>3.458</b>	<b>948.433</b>
<b>Total</b>	<b>5.140.082</b>	<b>1.769.439</b>	<b>35.389</b>	<b>3.964.045</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>80.121</b>	<b>28.420</b>	<b>779</b>	<b>66.547</b>
<i>Farming and raising livestock</i>	72.490	26.077	709	59.067
<i>Forestry</i>	482	60	1	474
<i>Fishing</i>	7.149	2.283	69	7.006
<b>Manufacturing</b>	<b>1.853.936</b>	<b>1.010.721</b>	<b>34.935</b>	<b>1.297.135</b>
<i>Mining</i>	132.563	17.509	701	116.770
<i>Production</i>	1.720.330	677.386	24.246	1.179.378
<i>Electric, gas and water</i>	1.043	315.826	9.988	987
<b>Construction</b>	<b>340.257</b>	<b>406.679</b>	<b>11.984</b>	<b>247.872</b>
<b>Services</b>	<b>992.862</b>	<b>1.172.404</b>	<b>46.739</b>	<b>777.785</b>
<i>Wholesale and retail trade</i>	677.113	859.530	33.201	544.741
<i>Hotel, food and beverage services</i>	105.416	67.797	1.978	79.781
<i>Transportation and telecommunication</i>	33.873	88.262	2.442	26.868
<i>Financial institutions</i>	10.763	2.736	118	10.444
<i>Real estate and renting services</i>	123.143	50.829	5.118	88.494
<i>Self-employment services</i>	21.166	50.761	1.458	14.001
<i>Education services</i>	2.852	3.789	118	2.471
<i>Health and social services</i>	18.536	48.700	2.306	10.985
<b>Other</b>	<b>706.562</b>	<b>676.211</b>	<b>13.891</b>	<b>638.546</b>
<b>Total</b>	<b>3.973.738</b>	<b>3.294.435</b>	<b>108.328</b>	<b>3.027.885</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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK (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 cancelation of the provisions	Other adjustments	Close out balance
<b>Current Period</b>					
1. Specific Provisions	3.027.885	1.133.276	196.084	(1.032)	3.964.045
2. General Provisions	1.123.838	904.401	275	-	2.027.964

	The opening balance	Provision amounts set aside during the period	The cancelation of the provisions	Other adjustments	Close out balance
<b>Prior Period</b>					
1. Specific Provisions	2.414.023	844.497	230.588	(47)	3.027.885
2. General Provisions	1.268.847	285.324	430.333	-	1.123.838

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

<b>Gross Maximum Exposure</b>	<b>Current Period</b>	<b>Prior Period</b>
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	29.999.160	23.324.971
Due from banks	1.661.030	2.513.285
Money Market Receivables	-	-
Financial Assets at Fair Value through profit or loss	430.098	269.341
Financial Assets Available for Sale	14.889.333	11.048.245
Held to maturity Investments	18.156.182	16.676.797
Loans	158.354.333	126.744.977
<b>Total</b>	<b>223.490.136</b>	<b>180.577.616</b>
Contingent Liabilities	47.760.828	39.781.250
Commitments	23.516.681	21.383.765
<b>Total</b>	<b>71.277.509</b>	<b>61.165.015</b>
<b>Total Credit Risk Exposure</b>	<b>294.767.645</b>	<b>241.742.631</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

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

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

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

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

Book values of reviewed maturity financial assets:

	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.

The net value and type of collaterals of the loans amounting TRY 4.533.721 followed under loans and other receivables under close monitoring section is below (31 December 2015: TRY 3.411.109):

Collateral Types <sup>(1),(2)</sup>	Net Value of Collateral Current Period	Net Value of Collateral Prior Period
Real estate mortgage	3.257.898	1.640.947
Salary pledge, vehicle pledge and pledge of commercial undertaking	89.968	115.816
Financial collaterals (cash, securities pledge, etc.)	8	5
Cheque / bills	38.123	41.827
Surety ship	881.283	1.285.234
Other	266.441	327.280
<b>Total</b>	<b>4.533.721</b>	<b>3.411.109</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 61.896 (31 December 2015: TRY 35.760) are not included in the table.

The net value and type of collaterals belongs to loans amounted TRY 5.140.082 followed under non-performing loans section is below (31 December 2015: TRY 3.973.738):

Collateral Types	Net Value of Collateral Current Period <sup>(1)</sup>	Net Value of Collateral Prior Period
Cash	298	310
Mortgage	1.235.609	851.343
Pledge	211.957	176.897
Cheque / bills	5.519	1.921
Surety ship	1.500.317	2.136.683
Other <sup>(2)</sup>	2.186.382	806.584
<b>Total</b>	<b>5.140.082</b>	<b>3.973.738</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 UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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

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

Announced current foreign exchange buying rates of the Bank as at 31 December 2016 and the previous five working days in full TRY are as follows:

	<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
EURO	3,6331000	3,6277000	3,6477000	3,6710000	3,6589000	3,6974000

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

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

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

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

**SECTION IV: INFORMATION ON FINANCIAL STRUCTURE (continued)**

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

Information related to 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	6.703.856	16.029.007	3.732.065	26.464.928
Banks	474.952	781.982	207.788	1.464.722
Financial assets at fair value through profit and loss <sup>(3)</sup>	91.242	138.476	1.807	231.525
Money market placements	-	-	-	-
Financial assets available-for-sale <sup>(5)</sup>	778.880	3.440.385	-	4.219.265
Loans <sup>(2)</sup>	24.708.850	31.651.732	489.992	56.850.574
Subsidiaries, associates and entities under common control <sup>(5)</sup>	249.574	-	363.185	612.759
Held-to-maturity investments	-	2.332.668	-	2.332.668
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	102	102
Intangible assets	-	-	-	-
Other assets <sup>(3)</sup>	36.910	382.624	144	419.678
<b>Total assets</b>	<b>33.044.264</b>	<b>54.756.874</b>	<b>4.795.083</b>	<b>92.596.221</b>
<b>Liabilities</b>				
Bank deposits	8.448.235	3.162.803	1.437.084	13.048.122
Foreign currency deposits	16.570.866	30.587.612	1.839.109	48.997.587
Money market balances	-	1.373.871	-	1.373.871
Funds provided from other financial institutions	7.975.987	10.542.250	8.912	18.527.149
Bonds issued	-	10.684.708	-	10.684.708
Sundry creditors	1.363	53.398	24.659	79.420
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities <sup>(3)</sup>	254.282	292.416	54.786	601.484
<b>Total liabilities</b>	<b>33.250.733</b>	<b>56.697.058</b>	<b>3.364.550</b>	<b>93.312.341</b>
<b>Net balance sheet position</b>	<b>(206.469)</b>	<b>(1.940.184)</b>	<b>1.430.533</b>	<b>(716.120)</b>
<b>Net off-balance sheet position</b>				
Financial derivative assets <sup>(4)</sup>	1.387.874	4.185.717	1.571.078	7.144.669
Financial derivative liabilities <sup>(4)</sup>	(1.523.286)	(2.259.822)	(2.711.951)	(6.495.059)
Non-cash loans <sup>(1)</sup>	8.757.283	16.447.030	1.482.895	26.687.208
<b>Prior period</b>				
Total assets	22.735.529	42.869.184	3.571.159	69.175.872
Total liabilities	24.257.962	43.951.013	2.376.388	70.585.363
<b>Net balance sheet position</b>	<b>(1.522.433)</b>	<b>(1.081.829)</b>	<b>1.194.771</b>	<b>(1.409.491)</b>
<b>Net off-balance sheet position</b>				
Financial derivative assets	2.200.012	4.269.475	1.299.172	7.768.659
Financial derivative liabilities	764.827	3.058.218	2.236.341	6.059.386
Non-cash loans <sup>(1)</sup>	6.333.113	16.007.174	786.284	23.126.571

<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) in assets; and derivative financial instruments foreign currency expense accruals (TRY 17.465) and shareholders' equity (TRY 224.176) in liabilities are not taken into consideration in the currency risk measurement.

<sup>(4)</sup> Financial derivative assets include forward precious metal purchase transactions amounted to TRY 59.714. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 2.121.975. Besides, derivative transactions under forward foreign currency purchase and sale commitments are included.

<sup>(5)</sup> Foreign currency subsidiaries Halkbank A.D. Beograd (TRY 90.813) and Halk Banka AD Skopje (TRY 272.372), and foreign currency associate Demir-Halk Bank NV (TRY 249.574) are included.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK  
MANAGEMENT OF THE BANK (continued)**

**IV. EXPLANATIONS ON INTEREST RATE RISK**

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK  
MANAGEMENT OF THE BANK (continued)**

**IV. EXPLANATIONS ON INTEREST RATE RISK (continued)**

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

<b>Current period</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>Non-interest bearing</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	20.210.851	-	-	-	-	9.788.309	29.999.160
Banks and financial institutions	783.753	-	16.343	-	-	860.934	1.661.030
Financial assets at fair value through profit and loss	419.809	1.450	8.522	210	107	-	430.098
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	667.993	2.980.838	2.444.922	3.296.251	5.499.329	100.594	14.989.927
Loans	58.545.736	20.841.578	41.619.172	28.620.319	6.078.569	1.472.922	157.178.296
Held-to-maturity investments	377.666	7.562.529	1.871.686	2.505.389	5.838.912	-	18.156.182
Other assets <sup>(4)</sup>	5.146.230	4.279	13.298	44.913	11.469	3.805.936	9.026.125
<b>Total assets</b>	<b>86.152.038</b>	<b>31.390.674</b>	<b>45.973.943</b>	<b>34.467.082</b>	<b>17.428.386</b>	<b>16.028.695</b>	<b>231.440.818</b>
<b>Liabilities</b>							
Bank deposits	12.210.406	2.377.790	380.301	-	-	7.862.967	22.831.464
Other deposits	72.619.489	24.588.520	8.930.408	281.954	2.822	21.008.182	127.431.375
Money market balances	16.652.570	303.429	891.064	-	-	-	17.847.063
Sundry creditors	1.201.703	81.016	345.373	839.184	29	233.371	2.700.676
Bonds issued	198.378	813.673	3.546.319	7.875.372	-	-	12.433.742
Funds provided from other financial institutions <sup>(3)</sup>	3.288.720	4.838.730	8.097.168	1.777.589	965.360	537	18.968.104
Other liabilities <sup>(1),(2)</sup>	212.335	2.031.637	35.160	-	-	26.949.262	29.228.394
<b>Total liabilities</b>	<b>106.383.601</b>	<b>35.034.795</b>	<b>22.225.793</b>	<b>10.774.099</b>	<b>968.211</b>	<b>56.054.319</b>	<b>231.440.818</b>
Balance sheet long position	-	-	23.748.150	23.692.983	16.460.175	-	63.901.308
Balance sheet short position	(20.231.563)	(3.644.121)	-	-	-	(40.025.624)	(63.901.308)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
<b>Total position</b>	<b>(19.880.563)</b>	<b>(3.468.621)</b>	<b>23.748.150</b>	<b>23.263.683</b>	<b>16.460.175</b>	<b>(40.025.624)</b>	<b>97.200</b>

<sup>(1)</sup> TRY 286.672 of deferred tax liability is disclosed under the non-interest bearing column in other assets.

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

<sup>(3)</sup> Funds provided from other financial institutions include borrowings.

<sup>(4)</sup> TRY 1.176.037 of non-performing loans with no specific provision is disclosed under the non-interest bearing column in other assets.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**IV. EXPLANATIONS ON INTEREST RATE RISK (continued)**

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

Prior period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non-interest bearing	Total
<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	16.747.037	-	-	-	-	6.577.934	23.324.971
Banks and financial institutions	859.293	-	-	-	-	1.653.992	2.513.285
Financial assets at fair value through profit and loss	247.364	754	21.194	27	2	-	269.341
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	2.358.685	502.968	1.545.281	2.376.793	4.264.518	160.748	11.208.993
Loans	44.599.622	17.767.705	33.658.375	23.031.167	4.700.737	2.041.518	125.799.124
Held-to-maturity investments	7.601.605	745.742	1.298.673	2.142.024	4.888.753	-	16.676.797
Other assets <sup>(4)</sup>	953.098	5.652	17.722	57.188	19.101	6.884.078	7.936.839
<b>Total assets</b>	<b>73.366.704</b>	<b>19.022.821</b>	<b>36.541.245</b>	<b>27.607.199</b>	<b>13.873.111</b>	<b>17.318.270</b>	<b>187.729.350</b>
<b>Liabilities</b>							
Bank deposits	8.419.481	2.422.059	479.736	-	-	3.328.282	14.649.558
Other deposits	55.935.917	27.784.868	6.343.983	225.749	-	17.205.890	107.496.407
Money market balances	7.824.493	585.773	-	-	-	-	8.410.266
Sundry creditors	947.799	4.692	953.533	87.342	-	324.222	2.317.588
Bonds issued	47.656	729.233	902.157	5.781.652	1.444.591	-	8.905.289
Funds provided from other financial institutions <sup>(3)</sup>	670.173	4.188.241	11.037.756	3.725.136	640.310	-	20.261.616
Other liabilities <sup>(1)(2)</sup>	2.104.236	179.417	217.187	-	-	23.187.786	25.688.626
<b>Total liabilities</b>	<b>75.949.755</b>	<b>35.894.283</b>	<b>19.934.352</b>	<b>9.819.879</b>	<b>2.084.901</b>	<b>44.046.180</b>	<b>187.729.350</b>
Balance sheet long position	-	-	16.606.893	17.787.320	11.788.210	-	46.182.423
Balance sheet short position	(2.583.051)	(16.871.462)	-	-	-	(26.727.910)	(46.182.423)
Off-balance sheet long position	-	764.369	612.369	1.332.390	1.346.914	-	4.056.042
Off-balance sheet short position	-	(619.754)	(627.927)	(1.565.778)	(1.319.421)	-	(4.132.880)
<b>Total position</b>	<b>(2.583.051)</b>	<b>(16.726.847)</b>	<b>16.591.335</b>	<b>17.553.932</b>	<b>11.815.703</b>	<b>(26.727.910)</b>	<b>(76.838)</b>

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

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

<sup>(3)</sup> Funds provided from other financial institutions include borrowings.

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



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

<sup>(3)</sup> Declared maximum deposits interest rate with a maturity of year 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 TRNC.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**IV. EXPLANATIONS ON 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.

<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 UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**V. EXPLANATIONS ON THE POSITION RISK OF SHARES**

Information about position risk of shares:

Equities	Comparison			
	Balance Sheet Value	Fair Value Change	Market Value	Capital Requirements
Investment in Shares-Grade A	517.421	517.421	517.421	41.394
Quoted Securities <sup>(1)</sup>	517.421	517.421	517.421	41.394
Investment in Shares-Grade B	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares-Grade C	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares- Grade D <sup>(2)</sup>	368.089	368.089	-	29.447
Other	2.276.758	2.260.971	-	205.305

<sup>(1)</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 Istanbul AŞ.

<sup>(2)</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 Istanbul AŞ Pre-Market Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

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

Portfolio	Revaluated appreciation in the fair value			Unrealized gains and losses		
	Realized gains (losses) in the current period	Total	Included to supplementary capital	Total	Included to total core capital	Included to supplementary capital
1. Private equity investments	-	-	-	-	-	-
2. Share Certificates quoted in a stock exchange <sup>(1) (2)</sup>	-	256.423	256.423	-	-	-
3. Other share certificates	-	951.675	951.675	-	-	-
<b>Total</b>	-	<b>1.208.098</b>	<b>1.208.098</b>	-	-	-

<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 Istanbul AŞ Pre-Market Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

<sup>(2)</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 Istanbul AŞ.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VI. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO**

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

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

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VI. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (continued)**

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

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

Throughout the current period, Bank's Liquidity Satisfactory Rate's lowest and highest values and the weeks which have held these values are portrayed in the table below:

Liquidity Minimum-Maximum

Liquidity Coverage Ratio	FC		TRY+FC	
	Related Week	(%)	Related Week	(%)
Maximum	19.12.2016 25.12.2016	115,77	14.11.2016 20.11.2016	85,90
Minimum	10.10.2016 16.10.2016	84,34	24.10.2016 30.10.2016	79,20

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VI. EXPLANATIONS ON LIQUIDITY RISK 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			41.286.093	19.507.763
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	70.029.880	26.128.895	5.867.361	2.612.889
Stable Deposits	22.712.529	-	1.135.626	-
Less Stable Deposits	47.317.351	26.128.895	4.731.735	2.612.889
Unsecured wholesale funding , of which;	85.855.129	32.355.737	49.088.217	21.263.600
Operational Deposits	167.119	-	41.779	-
Non-operational Deposits	78.878.637	31.061.117	45.302.644	20.063.830
Other Unsecured Funding	6.809.373	1.294.620	3.743.794	1.199.770
Secured Funding			-	-
Other cash outflows, of which;	4.449.607	3.317.011	2.055.719	2.044.791
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	73.331	1.007.035	73.331	1.007.035
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.376.276	2.309.976	1.982.388	1.037.756
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	64.048.521	24.649.794	4.748.321	1.938.944
<b>Total Cash Outflows</b>			<b>61.759.618</b>	<b>27.860.224</b>
<b>Cash Inflows</b>				
Secured Lending	-	-	-	-
Unsecured Lending	17.973.709	9.549.697	11.966.727	7.922.449
Other Cash Inflows	-	-	-	-
<b>Total Cash Inflows</b>	<b>17.973.709</b>	<b>9.549.697</b>	<b>11.966.727</b>	<b>7.922.449</b>
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			<b>41.286.093</b>	<b>19.507.763</b>
<b>Total Net Cash Outflows</b>			<b>49.792.891</b>	<b>19.937.775</b>
<b>Liquidity Coverage Ratio(%)</b>			<b>82,92</b>	<b>98,92</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 UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VI. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (continued)**

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

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

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

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

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
<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	4.822.799	25.176.361	-	-	-	-	-	29.999.160
Banks	860.934	783.753	-	16.343	-	-	-	1.661.030
Financial assets at fair value through profit and loss	-	170.443	62.217	168.262	29.069	107	-	430.098
Money market placements	-	-	-	-	-	-	-	-
Financial assets available-for-sale	-	237.114	666.067	1.897.533	4.996.307	7.092.312	100.594	14.989.927
Loans	1.346.586	11.697.406	10.442.350	48.423.750	65.463.267	19.804.937	-	157.178.296
Held-to-maturity investments	-	521.440	946.399	714.103	6.008.614	9.965.626	-	18.156.182
Other assets <sup>(2)</sup>	1.180.064	2.122	4.279	13.298	44.913	11.469	7.769.980	9.026.125
<b>Total assets</b>	<b>8.210.383</b>	<b>38.588.639</b>	<b>12.121.312</b>	<b>51.233.289</b>	<b>76.542.170</b>	<b>36.874.451</b>	<b>7.870.574</b>	<b>231.440.818</b>
<b>Liabilities</b>								
Bank deposits	7.862.967	12.210.406	2.377.790	380.301	-	-	-	22.831.464
Other deposits	21.008.182	72.619.243	24.588.407	8.924.655	288.066	2.822	-	127.431.375
Funds provided from other financial institutions <sup>(3)</sup>	10	879.839	1.979.522	10.133.379	3.883.051	2.092.303	-	18.968.104
Money market balances	-	16.652.570	303.429	891.064	-	-	-	-
Bonds issued	-	198.378	813.673	3.546.319	7.875.372	-	-	12.433.742
Sundry creditors	233.371	1.201.703	81.016	345.373	839.184	29	-	2.700.676
Other liabilities <sup>(1)</sup>	341.471	1.759.870	52.789	540.577	362.276	1.802.922	24.368.489	29.228.394
<b>Total liabilities</b>	<b>29.446.001</b>	<b>105.522.009</b>	<b>30.196.626</b>	<b>24.761.668</b>	<b>13.247.949</b>	<b>3.898.076</b>	<b>24.368.489</b>	<b>231.440.818</b>
<b>Liquidity gap</b>	<b>(21.235.618)</b>	<b>(66.933.370)</b>	<b>(18.075.314)</b>	<b>26.471.621</b>	<b>63.294.221</b>	<b>32.976.375</b>	<b>(16.497.915)</b>	<b>-</b>
<b>Net off balance sheet position</b>	<b>-</b>	<b>(5.187)</b>	<b>(24.071)</b>	<b>991</b>	<b>98.699</b>	<b>-</b>	<b>-</b>	<b>70.432</b>
Derivative financial assets	-	3.004.975	2.850.328	1.016.106	2.183.006	3.448.208	-	12.502.623
Derivative financial liabilities	-	(3.010.162)	(2.874.399)	(1.015.115)	(2.084.307)	(3.448.208)	-	(12.432.191)
<b>Non-cash loans</b>	<b>17.683.351</b>	<b>2.026.427</b>	<b>4.604.681</b>	<b>13.248.606</b>	<b>8.367.717</b>	<b>1.830.046</b>	<b>-</b>	<b>47.760.828</b>
<b>Prior Period</b>								
Total Assets	10.952.283	13.446.565	18.011.448	46.480.370	62.254.003	30.075.793	6.508.888	187.729.350
Total Liabilities	25.087.424	74.174.467	33.827.394	18.860.080	12.613.983	3.741.659	19.424.343	187.729.350
<b>Liquidity Gap</b>	<b>(14.135.141)</b>	<b>(60.727.902)</b>	<b>(15.815.946)</b>	<b>27.620.290</b>	<b>49.640.020</b>	<b>26.334.134</b>	<b>(12.915.455)</b>	<b>-</b>
<b>Net off balance sheet position</b>	<b>-</b>	<b>(23.649)</b>	<b>37.878</b>	<b>(7.792)</b>	<b>(17.973)</b>	<b>28.160</b>	<b>-</b>	<b>16.624</b>
Derivative financial assets	-	3.902.170	2.737.927	976.386	737.405	322.701	-	8.676.589
Derivative financial liabilities	-	(3.925.819)	(2.700.049)	(984.178)	(755.378)	(294.541)	-	(8.659.965)
<b>Non-cash loans</b>	<b>14.600.770</b>	<b>1.117.523</b>	<b>3.715.349</b>	<b>13.212.258</b>	<b>6.067.227</b>	<b>1.068.123</b>	<b>-</b>	<b>39.781.250</b>

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

<sup>(2)</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>(3)</sup> Funds provided from other financial institutions include borrowings.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VI. EXPLANATIONS ON THE LIQUIDITY RISK AND THE 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>Over 5 Years</b>	<b>Adjustments</b>	<b>Total</b>
<b>Liabilities</b>							
Deposits	113.838.641	27.148.101	9.487.222	324.834	3.514	(539.473)	150.262.839
Funds provided from other financial intuitions	904.600	2.085.531	10.242.069	4.054.005	2.233.040	(551.141)	18.968.104
Money market borrowings	16.660.819	304.073	911.132	-	-	(28.961)	17.847.063
Securities issued	208.042	844.189	3.854.492	8.920.337	-	(1.393.318)	12.433.742
Funds	193.660	13.548	103.576	334.913	1.719.621	(25.510)	2.339.808
<b>Total</b>	<b>131.805.762</b>	<b>30.395.442</b>	<b>24.598.491</b>	<b>13.634.089</b>	<b>3.956.175</b>	<b>(2.538.403)</b>	<b>201.851.556</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</b>	<b>Total</b>
<b>Liabilities</b>							
Deposits	85.073.728	30.506.845	6.918.664	334.438	4.192	(691.902)	122.145.965
Funds provided from other financial intuitions	671.648	2.005.026	10.803.988	5.443.244	1.787.003	(449.293)	20.261.616
Money market borrowings	7.833.283	588.284	-	-	-	(11.301)	8.410.266
Securities issued	53.016	744.977	1.095.512	6.630.355	1479029	(1.097.600)	8.905.289
Funds	568.336	127.139	132.675	603.780	634.541	(102.772)	1.963.699
<b>Total</b>	<b>94.200.011</b>	<b>33.972.271</b>	<b>18.950.839</b>	<b>13.011.817</b>	<b>3.904.765</b>	<b>(2.352.868)</b>	<b>161.686.835</b>

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

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

<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	1.118.665	2.504.618	875.467	232.448	-	4.731.198
Forward Contracts – Sell	1.118.014	467.553	874.715	230.950	-	2.691.232
Swaps – Buy	1.775.843	264.926	140.639	526.500	-	2.707.908
Swaps – Sell	1.781.941	263.813	140.400	429.300	-	2.615.454
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	59.714	-	-	-	59.714
Forward Precious Metal - Sell	-	2.121.975	-	-	-	2.121.975
Money Buy Options	307.574	32.550	-	-	-	340.124
Money Sell Options	307.584	32.545	-	-	-	340.129
Swaps Interest – Buy	-	-	-	-	4.872.265	4.872.265
Swaps Interest – Sell	-	-	-	-	4.872.265	4.872.265
<b>Total</b>	<b>6.409.621</b>	<b>5.747.694</b>	<b>2.031.221</b>	<b>1.419.198</b>	<b>9.744.530</b>	<b>25.352.264</b>

(1) 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	679.764	2.206.989	905.864	532.124	-	4.324.741
Forward Contracts – Sell	679.786	446.265	905.270	529.626	-	2.560.947
Swaps – Buy	3.376.600	453.833	15.288	290.000	-	4.135.721
Swaps – Sell	3.400.144	451.854	15.200	277.200	-	4.144.398
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	15.278	-	-	-	15.278
Forward Precious Metal - Sell	-	1.734.898	-	-	-	1.734.898
Money Buy Options	86.586	61.398	31.650	-	-	179.634
Money Sell Options	86.790	61.184	31.650	-	-	179.624
Swaps Interest – Buy	-	-	-	-	3.790.180	3.790.180
Swaps Interest – Sell	-	-	-	-	3.790.180	3.790.180
<b>Total</b>	<b>8.309.670</b>	<b>5.431.699</b>	<b>1.904.922</b>	<b>1.628.950</b>	<b>7.580.360</b>	<b>24.855.601</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VII. EXPLANATIONS ON LEVERAGE RATIO**

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

	Current Period <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)	226.075.095	185.282.357
Assets that are deducted from core capital	(155.000)	(141.014)
Total on balance sheet exposures	225.920.095	185.141.343
<b>Derivative exposures and credit derivatives</b>		
Replacement cost associated with derivative financial instruments and credit derivatives	425.626	328.635
The potential amount of credit risk with derivative financial instruments and credit derivatives	166.032	160.677
The total amount of risk on derivative financial instruments and credit derivatives	591.658	489.312
<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)	564.131	314.623
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	564.131	314.623
<b>Off -Balance Sheet Items</b>		
Gross notional amount of off-balance sheet items	71.287.525	59.890.202
Adjustments for conversion to credit equivalent amounts	-	-
The total risk of off-balance sheet items	71.287.525	59.890.202
<b>Capital and Total Exposures</b>		
Tier 1 Capital	21.147.130	19.016.499
Total Exposures	298.363.409	245.835.480
<b>Leverage Ratio</b>		
Leverage Ratio	7,09	7,74

<sup>(1)</sup> The amounts in the table, represents three-month average.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**VIII. EXPLANATIONS RELATED TO BUSINESS SEGMENTATION**

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

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK  
MANAGEMENT OF THE BANK (continued)**

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

Details of the segment information prepared in accordance with the Act on “Disclosure of Financial Statements of Banks and The Related Presentations and Notes” as of 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</b>	<b>Total</b>
<b>OPERATING INCOME / EXPENSES</b>					
<b>Interest income</b>	1.536.062	2.138.386	10.406.769	2.872.782	16.953.999
<i>Interest on loans</i>	1.536.022	2.137.979	10.263.159	318.973	14.256.133
<i>Interest income on marketable securities</i>	-	-	129.951	2.408.559	2.538.510
<i>Interest received from banks</i>	-	-	4.158	88.472	92.630
<i>Other interest income</i>	40	407	9.501	56.778	66.726
<b>Interest expense</b>	1.028.816	420.987	6.007.434	2.540.044	9.997.281
<i>Interest on deposits</i>	1.015.517	405.981	5.889.288	870.140	8.180.926
<i>Interest on borrowings</i>	833	6.909	24.491	337.619	369.852
<i>Interest on money market borrowings</i>	-	-	26.815	749.394	776.209
<i>Interest on marketable bonds issued</i>	-	-	-	582.467	582.467
<i>Other interest expense</i>	12.466	8.097	66.840	424	87.827
<b>Net interest income</b>	507.246	1.717.399	4.399.335	332.738	6.956.718
Net fees and commissions income	194.413	221.663	754.129	205.143	1.375.348
Net trading profit / (loss)	735	6.200	312.171	(169.360)	149.746
Dividend income	-	-	-	267.273	267.273
Other income	8.744	26.552	254.916	282.905	573.117
Loans and other receivables' impairment loss	182.336	209.248	603.701	1.111.038	2.106.323
Other expenses	17.159	64.826	1.696.112	2.086.232	3.864.329
<b>Income before taxes</b>	<b>511.643</b>	<b>1.697.740</b>	<b>3.420.738</b>	<b>(2.278.571)</b>	<b>3.351.550</b>
Income tax provision	-	-	(1.980)	(791.305)	(793.285)
<b>Net profit for the period</b>	<b>511.643</b>	<b>1.697.740</b>	<b>3.418.758</b>	<b>(3.069.876)</b>	<b>2.558.265</b>
<b>SEGMENT ASSETS</b>					
Marketable securities	-	-	2.524.561	30.691.835	33.216.396
Derivative financial assets held for trading	-	-	75.054	284.757	359.811
Banks and money market receivables	-	-	244.328	1.416.702	1.661.030
Associates and subsidiaries (net)	-	-	-	3.146.481	3.146.481
Loans	25.359.824	32.125.832	97.373.010	3.495.667	158.354.333
Other assets	81.246	441.908	1.805.746	32.373.867	34.702.767
<b>TOTAL ASSETS</b>	<b>25.441.070</b>	<b>32.567.740</b>	<b>102.022.699</b>	<b>71.409.309</b>	<b>231.440.818</b>
<b>SEGMENT LIABILITIES</b>					
Deposits	25.575.129	8.253.723	100.730.184	15.703.803	150.262.839
Derivative financial liabilities held for trading	-	-	42.426	169.422	211.848
Money market balances	-	-	1.373.871	16.473.192	17.847.063
Borrowing funding loans	1.445	187.747	830.155	17.948.757	18.968.104
Bonds issued	-	-	-	12.433.742	12.433.742
Other liabilities	254.825	278.741	5.100.181	1.098.696	6.732.443
Provisions and tax payable	66.549	57.621	191.543	3.352.120	3.667.833
Shareholders' equity	543.102	1.701.171	3.102.242	15.970.431	21.316.946
<b>TOTAL LIABILITIES</b>	<b>26.441.050</b>	<b>10.479.003</b>	<b>111.370.602</b>	<b>83.150.163</b>	<b>231.440.818</b>
<b>OFF BALANCE SHEET ITEMS</b>					
Guarantees and surety ships	13.825.351	10.831.393	12.513.027	10.591.057	47.760.828
Commitments	58.048	855.008	11.050.295	11.553.330	23.516.681
Derivative financial instruments	-	-	6.427.378	18.507.436	24.934.814

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

<b>Prior Period</b>	<b>Corporate</b>	<b>Commercial</b>	<b>SME/ Integrated</b>	<b>Treasury / Investment</b>	<b>Total</b>
<b>OPERATING INCOME / EXPENSES</b>					
<b>Interest income</b>	1.293.976	1.566.379	7.834.586	2.961.967	13.656.908
Interest on loans	1.293.944	1.566.211	7.829.954	567.618	11.257.727
Interest income on marketable securities	-	-	-	2.341.046	2.341.046
Interest received from banks	-	-	-	36.033	36.033
Other interest income	32	168	4.632	17.270	22.102
<b>Interest expense</b>	837.538	305.330	4.773.771	2.077.463	7.994.102
Interest on deposits	826.586	294.970	4.705.333	559.506	6.386.395
Interest on borrowings	1.388	9.620	17.423	287.416	315.847
Interest on money market borrowings	-	-	-	726.537	726.537
Interest on marketable securities issued	-	-	-	462.180	462.180
Other interest expense	9.564	740	51.015	41.824	103.143
<b>Net interest income</b>	456.438	1.261.049	3.060.815	884.504	5.662.806
Net fees and commissions income	180.974	227.705	624.468	160.868	1.194.015
Net trading profit / (loss)	-	-	-	(261.630)	(261.630)
Dividend income	-	-	-	188.677	188.677
Other income	6.976	51.758	272.851	530.695	862.280
Loans and other receivables' impairment loss	371.039	81.570	386.691	462.578	1.301.878
Other expenses	19.171	64.802	1.658.274	1.746.380	3.488.627
<b>Income before taxes</b>	<b>254.178</b>	<b>1.394.140</b>	<b>1.913.169</b>	<b>(705.844)</b>	<b>2.855.643</b>
Income tax provision	-	-	-	(540.330)	(540.330)
<b>Net profit for the period</b>	<b>254.178</b>	<b>1.394.140</b>	<b>1.913.169</b>	<b>(1.246.174)</b>	<b>2.315.313</b>
<b>SEGMENT ASSETS</b>					
Marketable securities	-	-	-	27.908.076	27.908.076
Derivative financial assets held for trading	-	-	-	247.055	247.055
Banks and money market receivables	-	-	-	2.513.285	2.513.285
Associates and subsidiaries (net)	-	-	-	2.913.254	2.913.254
Loans	20.160.448	23.941.048	73.389.277	9.254.204	126.744.977
Other assets	411	219.166	994.260	26.188.866	27.402.703
<b>TOTAL ASSETS</b>	<b>20.160.859</b>	<b>24.160.214</b>	<b>74.383.537</b>	<b>69.024.740</b>	<b>187.729.350</b>
<b>SEGMENT LIABILITIES</b>					
Deposits	15.516.346	7.832.679	84.745.717	14.051.223	122.145.965
Derivative financial liabilities held for trading	-	-	-	150.706	150.706
Money market balances	-	-	-	8.410.266	8.410.266
Borrowing funding loans	2.623	178.763	524.629	19.555.601	20.261.616
Bonds issued	-	-	-	8.905.289	8.905.289
Other liabilities	182.692	227.718	3.890.413	1.573.957	5.874.780
Provisions and tax payable	44.141	35.196	165.682	2.311.366	2.556.385
Shareholders' equity	-	-	-	19.424.343	19.424.343
<b>TOTAL LIABILITIES</b>	<b>15.745.802</b>	<b>8.274.356</b>	<b>89.326.441</b>	<b>74.382.751</b>	<b>187.729.350</b>
<b>OFF BALANCE SHEET ITEMS</b>					
Guarantees and surety ships	11.598.690	8.607.657	9.653.785	9.921.118	39.781.250
Commitments	42.388	761.495	8.566.394	12.013.488	21.383.765
Derivative financial instruments	-	-	-	24.373.923	24.373.923

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (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>222.398.875</b>	<b>179.770.481</b>	<b>212.607.360</b>	<b>168.171.951</b>
Cash and Balances with the Central Bank of Turkey	29.999.160	23.324.971	29.999.160	23.324.971
Financial assets fair value changes reflected to income statement <sup>(3)</sup>	362.957	263.129	362.957	263.129
Banks	1.661.030	2.513.285	1.661.189	2.513.278
Money market placements	-	-	-	-
Available for sale financial assets <sup>(1)</sup>	14.974.109	11.193.175	14.974.109	11.193.175
Held to maturity investments	18.156.182	16.676.797	18.114.526	16.292.592
Loans <sup>(2)</sup>	157.178.296	125.799.124	147.495.419	114.584.806
<b>Financial Liabilities</b>	<b>202.424.371</b>	<b>162.192.520</b>	<b>206.314.425</b>	<b>165.477.504</b>
Deposits	150.262.839	122.145.965	150.402.872	122.225.504
Derivative financial liabilities held for trading	211.848	150.706	211.848	150.706
Funds provided from other financial intuitions	18.968.104	20.261.616	23.305.465	23.799.870
Money market borrowings	17.847.063	8.410.266	17.831.425	8.410.266
Securities issued	12.433.742	8.905.289	11.870.313	8.639.579
Miscellaneous payables	2.700.676	2.317.588	2.692.403	2.250.489
Leasing payables	99	1.090	99	1.090

<sup>(1)</sup> As of 31 December 2016, TRY 15.818 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above (31 December 2015: TRY 15.818).

<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 67.141 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

As of 31 December 2016, fair values of Associates and Subsidiaries are shown at section 4 footnote 5. The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

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

*Classification of Fair Value Measurement*

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

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 UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (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> :	62.177	300.780	-	362.957
<i>Debt securities</i>	62.177	-	-	62.177
<i>Derivative financial assets held for trading purpose</i>	-	359.811	-	359.811
Available-for-sale financial assets <sup>(1)</sup>	14.974.109	-	-	14.974.109
<i>Debt securities</i>	14.974.109	-	-	14.974.109
Subsidiaries	517.421	368.089	1.992.314	2.877.824
Association <sup>(3)</sup>	-	-	249.574	249.574
<b>Total Financial Assets</b>	<b>15.553.707</b>	<b>727.900</b>	<b>2.241.888</b>	<b>18.523.495</b>

<b>Financial liabilities at fair value through profit/loss:</b>				
Derivative financial liabilities held for trading purpose	-	211.848	-	211.848
<b>Total Financial Liabilities</b>	<b>-</b>	<b>211.848</b>	<b>-</b>	<b>211.848</b>

<sup>(1)</sup>As of 31 December 2016, share certificates amounting to TRY 15.818 of "securities not quoted on the stock market" in available for sale financial assets are not included in the above table.

<sup>(2)</sup>As of 31 December 2016, marketable securities amounting to TRY 67.141 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

<sup>(3)</sup>Bank's associates which are shown with their cost values in the accompanying financial statements, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ. (TRY 11.518), Bankalararası Kart Merkezi AŞ. (TRY 3.804), Kredi Kayıt Bürosu AŞ. (TRY 2.516) and Türk Pvl Sigorta AŞ. (TRY 1.245) are not included in the table.

<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> :	16.074	247.055	-	263.129
<i>Debt securities</i>	16.074	-	-	16.074
<i>Derivative financial assets held for trading purpose</i>	-	247.055	-	247.055
Available-for-sale financial assets <sup>(1)</sup>	11.193.175	-	-	11.193.175
<i>Debt securities</i>	11.193.175	-	-	11.193.175
Subsidiaries	550.804	346.980	1.788.150	2.685.934
Associates <sup>(3)</sup>	-	-	208.237	208.237
<b>Total Financial Assets</b>	<b>11.760.053</b>	<b>594.035</b>	<b>1.996.387</b>	<b>14.350.475</b>

<b>Financial liabilities at fair value through profit/loss:</b>				
Derivative financial liabilities held for trading purpose	-	150.706	-	150.706
<b>Total Financial Liabilities</b>	<b>-</b>	<b>150.706</b>	<b>-</b>	<b>150.706</b>

<sup>(1)</sup>As of 31 December 2015, share certificates amounting to TRY 15.818 of "securities not quoted on the stock market" in available for sale financial assets are not included in the above table.

<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.

<sup>(3)</sup>Bank's associates which are shown with their cost values in the accompanying financial statements, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ. (TRY 11.518), Bankalararası Kart Merkezi AŞ. (TRY 3.804), Kredi Kayıt Bürosu AŞ. (TRY 2.516) and Türk Pvl Sigorta AŞ. (TRY 1.245) are not included in the table.

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	1.996.387	1.478.464
Purchases during the year	-	30.173
Non-paid up shares	106.525	28.580
Valuation Difference	138.976	105.574
Transfers	-	353.596
<b>Period End Balance</b>	<b>2.241.888</b>	<b>1.996.387</b>



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

The Bank performs buying transactions on behalf of customers, and gives custody, administration and consultancy services. The Bank does not engage in transaction based on trust.

**XI. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS**

**Explanations Related To Risk Management**

The notes under this caption are prepared as per the “Regulation on Calculation of Risk Management

Disclosures” published in the Official Gazette no. 29511 dated 23 October 2015.

**The Bank's Risk Management Strategy and Risk Weighted Amounts**

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

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

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

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

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 UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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)	161.707.382	131.035.534	12.936.591
2	Standardised approach (SA)	161.707.382	131.035.534	12.936.591
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	378.320	513.402	30.266
5	Standardised approach for counterparty credit risk (SA-CCR)	378.320	513.402	30.266
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity position in the banking account	-	-	-
8	Investments made in collective investment companies – look-through approach	-	-	-
9	Investments made in collective investment companies – mandate-based approach (*)	-	-	-
10	Investments made in collective investment companies - %1250 weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach (RBA)	-	-	-
14	IRB Supervisory Formula Approach (SFA)	-	-	-
15	SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	1.947.575	4.635.966	155.806
17	Standardised approach (SA)	1.947.575	4.635.966	155.806
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk	11.297.473	10.978.221	903.798
20	Basic Indicator Approach	11.297.473	10.978.221	903.798
21	Standard Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity (subject to a 250% risk weight)	655.843	552.500	52.468
24	Floor adjustment	-	-	-
25	<b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>175.986.593</b>	<b>147.715.623</b>	<b>14.078.929</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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 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	29.999.160	29.999.160	-	-	-	-
Available-for-Sale Financial Assets	430.098	-	359.811	-	430.098	-
Financial assets at fair value through profit and loss	-	-	-	-	-	-
Banks	1.661.030	1.661.030	-	-	-	-
Receivables from Money markets	-	-	-	-	-	-
Financial assets available for sale (net)	14.989.927	8.576.233	-	-	6.413.694	-
Loans and receivables	158.354.333	158.335.585	-	-	-	18.748
Receivables from factoring	-	-	-	-	-	-
Investments held to maturity (net)	18.156.182	18.156.182	-	-	-	-
Subsidiaries (net)	268.657	268.657	-	-	-	-
Associates (net)	2.877.824	2.877.824	-	-	-	-
Jointly controlled entities (joint ventures) (net)	-	-	-	-	-	-
Finance lease receivables	-	-	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-	-
Tangible Assets (net)	2.314.007	2.089.719	-	-	-	224.288
Intangible Assets (net)	88.593	-	-	-	-	88.593
Real estate for investment purpose (net)	363.321	363.321	-	-	-	-
Tax asset	-	-	-	-	-	-
Assets Held For Sale and Discontinued Operations (net)	740	740	-	-	-	-
Other assets	1.936.946	1.936.800	-	-	146	-
<b>Total Assets</b>	<b>231.440.818</b>	<b>224.265.251</b>	<b>359.811</b>	<b>-</b>	<b>6.843.938</b>	<b>331.629</b>
<b>Liabilities</b>						
Deposits	150.262.839	-	-	-	-	150.262.839
Derivative financial liabilities held for trading	211.848	-	-	-	-	211.848
Loans	18.968.104	-	-	-	-	18.968.104
Money market borrowings	17.847.063	-	10.843.757	-	-	7.003.306
Securities issued	12.433.742	-	-	-	-	12.433.742
Funds	2.339.808	-	-	-	-	2.339.808
Miscellaneous payables	2.700.676	-	-	-	-	2.700.676
Other liabilities	1.691.860	-	-	-	349	1.691.511
Factoring payables	-	-	-	-	-	-
Finance lease payables	99	-	-	-	-	99
Derivative financial liabilities held for risk management	-	-	-	-	-	-
Provisions	3.051.522	-	-	-	-	3.051.522
Tax Liability	616.311	-	-	-	-	616.311
Liabilities regarding assets held for sale and discontinued operations (net)	-	-	-	-	-	-
Subordinated Loans	-	-	-	-	-	-
Shareholders' equity	21.316.946	-	-	-	-	21.316.946
<b>Total liabilities</b>	<b>231.440.818</b>	<b>-</b>	<b>10.843.757</b>	<b>-</b>	<b>-</b>	<b>220.596.712</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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	231.440.818	224.265.251	-	359.811	6.843.938
<b>2</b>	Liabilities carrying value amount under regulatory scope of consolidation	231.440.818	-	-	10.843.757	2.341.090
<b>3</b>	Total net amount under regulatory scope of consolidation	-	224.265.251	-	11.203.568	9.185.028
<b>4</b>	Off-balance Sheet Amounts	71.580.265	30.527.998	-	166.228	25.352.264
<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	-	254.793.249	-	11.369.796	34.537.292

\*Shows total potential credit risk amounts caused by derivative transactions.

**Explanations of differences between accounting and regulatory exposure amounts:**

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

**Explanations Related to Counterparty Credit Risk**

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

**Counterparty Credit Risk (CCR) Approach Analysis**

	Replacement cost	Potential Future exposure	EEPE(Effective Expected Positive Exposure)	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Standardised Approach - CCR (for derivatives)	100.804	166.228		1,4	301.284	209.674
Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					996.260	125.332
Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					349.323	43.314
Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
<b>Total</b>					-	<b>378.320</b>

\*\*Expected effective positive risk amount

**Capital requirement for credit valuation adjustment (CVA)**

	EAD post-CRM	Risk weight amount
Total portfolios subject to the Advanced CVA capital obligation	-	-
(i) VaR component (including the 3×multiplier)	-	-
(ii) Stressed VaR component (including the 3×multiplier)	-	-
All portfolios subject to the Standardised CVA capital obligation	301.284	209.674
Total subject to the CVA capital obligation	301.284	209.674

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

**Standardised Approach - Counterparty Risk Per Risk Classification And Risk Weighted Amounts**

<b>Risk weight / Risk Classifications</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Other</b>	<b>Total Credit Risk</b>
Claims on sovereigns and Central Banks	290.323	1.473	-	-	-	-	-	-	291.796
Claims on regional governments or local authorities	-	4.419	-	-	-	-	-	-	4.419
Claims on administrative bodies and other non-commercial undertakings	-	6.376	-	-	-	-	-	-	6.376
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	-	732.481	94.590	304.930	-	-	-	-	1.132.001
Claims on corporates	-	53.393	-	-	-	122.050	-	-	175.443
Claims included in the regulatory retail portfolios	-	34.697	-	-	2.136	-	-	-	36.833
Claims secured by residential property	-	-	-	-	-	-	-	-	-
Overdue loans	-	-	-	-	-	-	-	-	-
Higher risk categories decided by the Board	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>290.323</b>	<b>832.839</b>	<b>94.590</b>	<b>304.930</b>	<b>2.136</b>	<b>122.050</b>	<b>-</b>	<b>-</b>	<b>1.646.868</b>

**Collaterals for Counterparty Credit Risk**

	<b>Collateral for derivative transactions</b>				<b>Collateral for other transactions</b>	
	<b>Received Collaterals</b>		<b>Given Collaterals</b>		<b>Received Collaterals</b>	<b>Given Collaterals</b>
	<b>Segregated</b>	<b>Unsegregated</b>	<b>Segregated</b>	<b>Unsegregated</b>		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	41.172	-	27.690	-	26.290
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>41.172</b>	<b>-</b>	<b>27.690</b>	<b>-</b>	<b>26.290</b>

**Counterparty Credit Risk-Credit Derivatives:**

None.

**Exposures to Central Counterparties (CCP)**

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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	5.140.082	157.178.296	3.964.045	158.354.333
2	Debt Securities	-	33.777.473	561.077	33.216.396
	Off-balance sheet				
3	exposures	-	71.277.509	-	71.277.509
<b>4</b>	<b>Total</b>	<b>5.140.082</b>	<b>262.233.278</b>	<b>4.525.122</b>	<b>262.848.238</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	3.973.738
2	Loans and debt securities defaulted since the last reporting period	1.625.450
3	Receivables back to non-defaulted status	(41.638)
4	Amounts written off	-
5	Other changes	(417.468)
<b>6</b>	<b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)</b>	<b>5.140.082</b>



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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	1.346.586	11.697.406	10.442.350	48.423.750	65.463.267	19.804.937	157.178.296

**Exposures Provisioned Against By Major Regions**

<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	40.052	40.052
<b>Total</b>	<b>5.140.082</b>	<b>3.964.045</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	1.108.742
60-90 days overdue	660.697
<b>Total</b>	<b>1.769.439</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 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 UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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	102.620.281	54.558.015	44.814.196	457.086	457.086	-	-
2 Debt Instruments	33.216.396	-	-	-	-	-	-
3 Total	135.836.677	54.558.015	44.814.196	457.086	457.086	-	-
4 Of which defaulted	161.827	1.014.210	629.978	10.188	10.188	-	-

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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	67.666.305	140.836	67.860.851	72.231	16.924.363	24,91%
Claims on regional governments or local authorities	2.073.317	61.363	1.882.449	30.682	947.302	49,52%
Claims on administrative bodies and other non-commercial undertakings	573.484	340.239	573.484	166.780	733.223	99,05%
Claims on multilateral development banks	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-
Claims on banks and intermediary institutions	3.309.277	2.829.512	3.331.552	1.551.459	1.398.010	28,63%
Claims on corporates	57.775.810	40.137.646	57.755.504	22.992.477	77.864.897	96,43%
Claims included in the regulatory retail portfolios	48.312.050	25.386.876	48.306.403	4.589.053	38.209.788	72,24%
Claims secured by residential property	25.547.755	860.072	25.547.755	475.148	9.257.717	35,58%
Claims secured by commercial property	17.982.750	1.162.678	17.982.750	805.779	9.394.264	50,00%
Overdue loans	1.175.482	9.061	1.175.482	4.821	1.066.664	90,37%
Higher risk categories decided by the Board	1.333	95.249	1.333	49.245	75.867	150,00%
Secured by mortgages	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-
Other receivables	8.002.644	-	8.002.644	-	3.313.647	41,41%
Equity share investments	3.162.297	-	3.162.297	-	3.555.804	112,44%
<b>Total</b>	<b>235.582.504</b>	<b>71.023.532</b>	<b>235.582.504</b>	<b>30.737.675</b>	<b>162.741.546</b>	<b>61,11%</b>

**Standardised Approach- Claims By Risk Classification And Risk Weights**

Risk Classification/Risk weight amount	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total risk amount (post-CCF and CRM)
Claims on sovereigns and Central Banks	34.083.168	1.473	15	-	33.848.425	-	-	-	-	-	67.933.081
Claims on regional governments or local authorities	14.991	4.419	-	-	1.893.721	-	-	-	-	-	1.913.131
Claims on administrative bodies and other non-commercial undertakings	1.227	6.376	94	-	-	-	732.567	-	-	-	740.264
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	611.030	732.481	2.444.738	-	517.895	-	576.867	-	-	-	4.883.011
Claims on corporates	1.723.619	53.393	978.664	-	656.960	-	77.335.344	-	-	-	80.747.980
Claims included in the regulatory retail portfolios	1.799.154	34.697	163.428	-	-	50.898.177	-	-	-	-	52.895.456
Claims secured by residential property	29.438	-	5.961	25.585.260	-	402.238	6	-	-	-	26.022.903
Claims secured by commercial property	-	-	-	-	18.788.528	-	-	-	-	-	18.788.528
Overdue loans	6.276	-	-	-	214.725	-	959.302	-	-	-	1.180.303
Higher risk categories decided by the Board	-	-	-	-	-	-	-	50.578	-	-	50.578
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	2.899.959	-	-	262.338	3.162.297
Other receivables	4.068.462	-	504.204	-	394.407	79.872	2.955.699	-	-	-	8.002.644
<b>Total</b>	<b>42.337.365</b>	<b>832.839</b>	<b>4.097.104</b>	<b>25.585.260</b>	<b>56.314.661</b>	<b>51.380.287</b>	<b>85.459.744</b>	<b>50.578</b>	<b>-</b>	<b>262.338</b>	<b>266.320.176</b>

\*Secured with real estate mortgage.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

**XI. EXPLANATIONS ON 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)		950.037
Equity risk (general and specific)		169.550
Foreign exchange risk		820.688
Commodity risk		-
<b>Options</b>		
Simplified approach		-
Delta-plus method		7.300
Scenario approach		-
<b>Securitization</b>		-
<b>Total</b>		<b>1.947.575</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</b>	<b>Rate (%)</b>	<b>Total</b>
Gross Income	5.829.772	5.887.155	6.359.029	6.025.319	15	903.798
Value at Operational Risk (Total x % 12.5)						<b>11.297.473</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

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

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

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

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

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

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

In line with the growing and evolving organizational structure of the bank, project work has been initiated with a company in order to compare human resources applications with other banks in the sector. With the completion of the project in mid-2017 as planned, a comprehensive change and revision of the Bank's human resources practices is planned.

**3. Evaluation about how the bank's remuneration processes take the current and future risks into account**

The Bank follows the Risk Management Principles while implementing the remuneration processes.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 POSITION AND RISK MANAGEMENT OF THE BANK (continued)**

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

**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 UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS**

**I. EXPLANATIONS AND NOTES RELATED TO THE ASSETS**

(1) Cash and Central Bank of Turkey:

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	914.121	562.677	924.441	285.614
Central Bank of Turkey	2.620.111	25.902.219	3.414.818	18.700.084
Other	-	32	-	14
<b>Total</b>	<b>3.534.232</b>	<b>26.464.928</b>	<b>4.339.259</b>	<b>18.985.712</b>

b) Information on balances with the 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.

As per the Communiqué no. 2013/15 “Reserve Deposits” of the Central Bank of Turkey (CBT), banks keep reserve deposits at the CBT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 5%-10.5% for TL deposits and other liabilities, between 4%-24% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 by the Central Bank what is held in banks are of certain conditions: Turkish Lira required reserve amount, the Central Bank website published the weighted average funding cost (AOFM) ratio of 300 or 500 basis points missing from the rate. Turkish Liras required reserve amount related interest rates are paid 400 basis points missing from TCMB’s weekly maturity repo funding interest rate being valid from 1 January 2017.

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

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 0,75% for the reporting period.

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

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

None.

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

None.

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	120.227	-	131.503
Swap transactions	-	239.460	-	115.474
Futures transactions	-	-	-	-
Options	4	120	7	71
Other	-	-	-	-
<b>Total</b>	<b>4</b>	<b>359.807</b>	<b>7</b>	<b>247.048</b>

(3) Information on banks and other financial institutions:

a) Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	26.539	21.122	10.080	526.985
Foreign banks	169.769	1.443.600	55.258	1.920.962
Branches and offices abroad	-	-	-	-
<b>Total</b>	<b>196.308</b>	<b>1.464.722</b>	<b>65.338</b>	<b>2.447.947</b>

b) Information on foreign banks:

	Unrestricted Balance		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	1.006.455	1.616.852	-	-
USA and Canada	141.780	165.995	-	-
OECD Countries <sup>(1)</sup>	84.510	37.810	-	-
Offshore Banking Regions	-	-	-	-
Other	380.624	155.563	-	-
<b>Total</b>	<b>1.613.369</b>	<b>1.976.220</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> OECD Countries other than EU countries, USA and Canada.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**I. EXPLANATIONS AND NOTES RELATED TO THE 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	-	354.898	-	700.441
<b>Total</b>	<b>-</b>	<b>354.898</b>	<b>-</b>	<b>700.441</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
Debt securities	15.418.926	11.232.896
<i>Quoted on a stock exchange</i>	15.418.926	11.232.896
<i>Not quoted</i>	-	-
Share certificates	132.077	185.673
<i>Quoted on a stock exchange</i>	97.377	150.973
<i>Not quoted</i>	34.700	34.700
Impairment provision(-)	561.076	209.576
<b>Total</b>	<b>14.989.927</b>	<b>11.208.993</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(5) Information on loans:

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

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	204.282	-	182.849	-
<b>Total</b>	<b>204.282</b>	<b>-</b>	<b>182.849</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			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	122.814.569	2.131.375	-	4.267.934	2.577.626	-
<i>Corporation loans</i>	81.128.869	1.633.583	-	3.793.342	2.484.944	-
<i>Export loans</i>	4.279.445	60.372	-	113.255	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	3.420.586	-	-	-	-	-
<i>Consumer loans<sup>(1)</sup></i>	28.809.362	374.467	-	194.596	8.924	-
<i>Credit cards<sup>(2)</sup></i>	3.415.935	62.953	-	104.915	83.758	-
<i>Other</i>	1.760.372	-	-	61.826	-	-
Specialized lending	27.713.062	6.895	-	265.787	116	-
Other receivables	-	-	-	-	-	-
Accruals	2.055.048	38.690	-	61.896	38.015	-
<b>Total</b>	<b>152.582.679</b>	<b>2.176.960</b>	<b>-</b>	<b>4.595.617</b>	<b>2.615.757</b>	<b>-</b>

<sup>(1)</sup> Includes TRY 154.489 of personnel loans.

<sup>(2)</sup> Includes TRY 49.793 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 38.690 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 UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(5) Information on loans (continued):

c) Information on maturity structure of cash loans:

<b>Current Period</b>	<b>Standard Loans and Other Receivables</b>		<b>Loans and Other Receivables Under Close Monitoring</b>	
	<b>Loans and Other Receivables</b>	<b>Agreement conditions modified</b>	<b>Loans and Other Receivables</b>	<b>Agreement conditions modified</b>
<b>Short Term Loans and Other Receivables</b>	<b>32.101.320</b>	<b>207.303</b>	<b>672.620</b>	<b>225.676</b>
<i>Non-specialized loans</i>	31.367.418	201.323	663.390	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>120.481.359</b>	<b>1.969.657</b>	<b>3.922.997</b>	<b>2.390.081</b>
<i>Non-specialized loans</i>	91.447.151	1.930.052	3.604.544	2.356.626
<i>Specialized lending</i>	27.411.514	6.895	265.616	116
<i>Other receivables</i>	-	-	-	-
<i>Accruals</i>	1.622.694	32.710	52.837	33.339
<b>Prior Period</b>				
<b>Short Term Loans and Other Receivables</b>	<b>26.436.929</b>	<b>376.526</b>	<b>659.830</b>	<b>241.806</b>
<i>Non-specialized loans</i>	25.823.741	358.948	651.334	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>95.906.885</b>	<b>869.658</b>	<b>2.795.480</b>	<b>1.112.382</b>
<i>Non-specialized loans</i>	72.136.683	774.639	2.547.463	1.096.271
<i>Specialized lending</i>	22.543.353	83.894	212.257	1.881
<i>Other receivables</i>	-	-	-	-
<i>Accruals</i>	1.226.849	11.125	35.760	14.230

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**I. EXPLANATIONS AND NOTES RELATED TO THE 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	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Consumer loans- FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Individual credit cards-TRY	2.594.125	1.505	2.595.630
<i>Installment</i>	1.160.330	-	1.160.330
<i>Non-installment</i>	1.433.795	1.505	1.435.300
Individual credit cards-FC	190	-	190
<i>Installment</i>	-	-	-
<i>Non-installment</i>	190	-	190
Personnel loans-TRY	8.463	146.026	154.489
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	8.463	146.026	154.489
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Personnel loans-FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Personnel credit cards-TRY	49.736	-	49.736
<i>Installment</i>	19.319	-	19.319
<i>Non-installment</i>	30.417	-	30.417
Personnel credit cards-FC	57	-	57
<i>Installment</i>	-	-	-
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Retail customer)	719.449	-	719.449
Overdraft accounts-FC (Retail customer)	-	-	-
<b>Total</b>	<b>3.707.408</b>	<b>27.942.163</b>	<b>31.649.571</b>

<sup>(1)</sup> Interest income accruals are not included in the table above.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(5) Information on loans: (continued)

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

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	9.058	1.067.626	1.076.684
<i>Business residential loans</i>	331	639.634	639.965
<i>Automobile loans</i>	8.727	346.572	355.299
<i>Consumer loans</i>	-	81.420	81.420
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Commercial installment loans - FC	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Corporate credit cards-TRY	875.180	-	875.180
<i>Installment</i>	330.986	-	330.986
<i>Non-installment</i>	544.194	-	544.194
Corporate credit cards-FC	57	-	57
<i>Installment</i>	-	-	-
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Commercial customer)	911.532	-	911.532
Overdraft accounts-FC (Commercial customer)	-	-	-
<b>Total</b>	<b>1.795.827</b>	<b>1.067.626</b>	<b>2.863.453</b>

<sup>(1)</sup> Interest and income accruals are not included in table above.

f) Loans by customers:

	Current Period	Prior Period
Public	5.371.347	3.698.907
Private	151.806.949	122.100.217
<b>Total</b>	<b>157.178.296</b>	<b>125.799.124</b>

g) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	155.749.275	124.605.142
Foreign loans	1.429.021	1.193.982
<b>Total</b>	<b>157.178.296</b>	<b>125.799.124</b>

h) Loans granted to subsidiaries and associates:

	Current period	Prior period
Direct loans granted to subsidiaries and associates	1.078.414	1.040.418
Indirect loans granted to subsidiaries and associates	-	-
<b>Total</b>	<b>1.078.414</b>	<b>1.040.418</b>

i) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	518.902	221.458
Loans and receivables with doubtful collectability	305.386	169.213
Uncollectible loans and receivables	3.139.757	2.637.214
<b>Total</b>	<b>3.964.045</b>	<b>3.027.885</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(5) Information on loans: (continued)

i) Information on non-performing loans (Net):

i.1. Information on loans and other receivables included in non-performing loans which are restructured or rescheduled:

	<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>34.480</b>	<b>3.858</b>	<b>1.173.596</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	34.480	3.858	1.173.596
<b>Prior period</b>	<b>24.231</b>	<b>14.063</b>	<b>153.307</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	24.231	14.063	153.307

i.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	335.592	206.401	3.431.745
Additions (+)	1.509.835	19.285	96.330
Transfers from other categories of loans under follow-up (+)	-	763.494	492.179
Transfers to other categories of loans under follow-up (-)	791.383	464.290	-
Collections (-)	139.581	87.715	231.810
Write-offs (-)	-	-	-
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	-
<b>Current period end balance</b>	<b>914.463</b>	<b>437.175</b>	<b>3.788.444</b>
Specific provision (-)	518.902	305.386	3.139.757
<b>Net balance on balance sheet</b>	<b>395.561</b>	<b>131.789</b>	<b>648.687</b>

i.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	204.204	51.653	1.522.852
Specific provisions(-)	137.119	30.083	1.078.913
<b>Net balance in the balance sheet</b>	<b>67.085</b>	<b>21.570</b>	<b>443.939</b>
<b>Prior period</b>			
Balance at the end of the period	44.441	17.260	1.450.081
Specific provisions(-)	20.741	15.661	926.704
<b>Net balance in the balance sheet</b>	<b>23.700</b>	<b>1.599</b>	<b>523.377</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(5) Information on loans: (continued)

i.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>395.561</b>	<b>131.789</b>	<b>648.687</b>
Loans to granted real persons and legal entities (Gross)	913.462	436.534	3.718.059
Specific provisions (-)	517.901	304.745	3.069.372
<b>Loans to granted real persons and legal entities (Net)</b>	<b>395.561</b>	<b>131.789</b>	<b>648.687</b>
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other loans and receivables (Gross)	1.001	641	70.385
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>114.134</b>	<b>37.188</b>	<b>794.531</b>
Loans to granted real persons and legal entities (Gross)	335.222	206.058	3.371.949
Specific provisions (-)	221.088	168.870	2.577.418
<b>Loans to granted real persons and legal entities (Net)</b>	<b>114.134</b>	<b>37.188</b>	<b>794.531</b>
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other loans and receivables (Gross)	370	343	59.796
Specific provisions (-)	370	343	59.796
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

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

k) Explanations on write-off policy:

In compliance with the "Procedure for Write Off and Procedures for Overdue Receivables for Legal Follow-Up" non performing loans which become unrecoverable as a result of legal follow up can be written off to prevent additional legal expenses.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(6) Information on held-to-maturity investments:

a) Information on held-to-maturity investments blocked/given as collateral or subject to repurchase agreement transactions are explained comparatively with net value:

a.1. Held-to-maturity investments blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Government bonds and similar securities	4.419.663	1.048.201	3.390.012	771.973
<b>Total</b>	<b>4.419.663</b>	<b>1.048.201</b>	<b>3.390.012</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 securities	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	18.156.182	16.676.797
Treasury bills	-	-
Other public sector debt securities	-	-
<b>Total</b>	<b>18.156.182</b>	<b>16.676.797</b>

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	18.156.182	16.676.797
<i>Quoted on a stock exchange</i>	18.156.182	16.676.797
<i>Not quoted</i>	-	-
Impairment provision (-)	-	-
<b>Total</b>	<b>18.156.182</b>	<b>16.676.797</b>

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

	Current period	Prior period
Beginning balance	16.676.797	17.763.665
Foreign currency differences on monetary assets	399.176	386.593
Purchases during the year <sup>(1)</sup>	2.389.499	1.006.511
Disposals through sales and redemptions	(1.309.290)	(2.479.972)
Impairment provision (-) / provision reversal (+)	-	-
<b>Balance at the end of the period</b>	<b>18.156.182</b>	<b>16.676.797</b>

<sup>(1)</sup> Interest income accrual difference between 31 December 2016 amounting to TRY 1.907.723 and 31 December 2015 amounting to TRY 1.679.841 has been included in purchases row.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**I. EXPLANATIONS AND NOTES RELATED TO THE 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 Bank is as follows:

	Current period				Prior period			
	Historical cost		Amortized cost		Historical cost		Amortized cost	
	TRY	FC	TRY	FC	TRY	FC	TRY	FC
Obtained from Under secretariat of Treasury of Republic of Turkey	10.863.420	1.606.363	12.237.460	1.636.997	9.940.960	1.177.317	11.211.527	1.197.590
Obtained with the transfer	-	-	-	-	-	-	-	-
Reclassified from other securities portfolios	3.093.277	685.399	3.586.054	695.671	3.158.272	720.407	3.533.802	733.878
Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>13.956.697</b>	<b>2.291.762</b>	<b>15.823.514</b>		<b>13.099.232</b>	<b>1.897.724</b>	<b>14.745.329</b>	<b>1.931.468</b>

(7) Information on associates (Net):

a) Information on associates:

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

b) Information related to the associates as sorted in (a): <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 <sup>(2)</sup>
1.	6.533.210	900.095	15.096	191.505	2.935	56.364	34.505	249.574
2.	47.722	47.193	126	2.602	-	323	698	-
3.	224.364	130.960	138.543	3.839	-	31.051	33.299	224.364
4.	82.182	38.919	50.021	904	-	9.425	3.869	82.182
5.	17.478	5.044	439	341	-	1.379	(539)	-

<sup>(1)</sup> The information is presented from companies' financial statements as of 31 December 2016.

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

c) Movement of associates:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period	227.320	92.553
Movements during the period	41.337	134.767
<i>Purchases</i>	-	1.245 <sup>(1)</sup>
<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>	41.337	133.522
<i>Provision for impairment (-) / reversals (+)</i>	-	-
<b>Balance at the end of the period</b>	<b>268.657</b>	<b>227.320</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

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

d) Sectoral information and related carrying amounts of associates:

	<b>Current period</b>	<b>Prior period</b>
Banks	249.575	208.237
Insurance companies	1.245	1.245
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	11.518	11.518

e) Associates quoted to a stock exchange:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(8) Information on subsidiaries (Net):

a) Information on subsidiaries:

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Bank AD, Skopje	Halk Faktoring 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>	14.388	(64.631)	158.359	42.217	9.518	7.481	24.595	16.122	3.544
<i>Prior Period Profit/Loss</i>	(609)	(28.316)	13.584	-	24.161	340	-	1.265	-
Bonus Shares from Associates, Subsidiaries and Joint Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	115	-	-	-	5.843	251	-
Intangible Assets (-)	868	3.163	854	316	921	18	2.887	323	2.105
<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>DEDUCTIONS FROM CAPITAL</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 has been indicated as Turkish Lira in articles of incorporation and registered in trade registry.

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(8) Information on subsidiaries (continued)

b) Information on subsidiaries: (Net):

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

c) Information related to the subsidiaries as sorted in (b):<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 <sup>(2)</sup>
1.	1.602.560	106.897	1.958	42.124	2.191	14.388	10.876	133.414
2.	1.221.636	50.273	5.107	78.001	2.321	(64.631)	(24.978)	368.089
3.	887.864	480.570	1.837	80.562	22.214	158.359	109.758	920.493
4.	1.135.229	938.351	508.741	7.001	-	42.217	58.360	517.421
5.	2.552.645	313.659	1.415	158.806	-	9.518	6.992	415.786
6.	21.596	20.242	355	1.938	12	7.481	4.530	22.634
7.	2.069.327	273.699	47.688	85.819	8.364	24.595	19.196	272.372
8.	1.146.985	73.510	1.130	132.582	-	16.122	8.586	95.558
9.	37.725	24.170	5.095	397	1.498	4.650	1.467	41.243
10.	1.002.396	169.452	25.393	41.157	4.342	3.544	(3.292)	90.813

<sup>(1)</sup> The financial data is obtained from 31 December 2016 unconsolidated financial statements.

<sup>(2)</sup> The data for Halkbank AD.Skobje ve Halkbank AD Beograd are obtained from the valuation report for the three-month period ended 31 March 2016, the fair values of non-foreign subsidiaries are obtained from the valuation report for the year end period ended 31 December 2015. Halk Gayrimenkul Yatırım Ortaklığı A.Ş is valued by 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> In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Pre-Market Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

<sup>(5)</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 UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

d) Movement of the subsidiaries:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period	2.685.934	2.576.816
Movements during the period	191.890	109.118
<i>Purchase</i>	-	28.907 <sup>(1)</sup>
<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>	20.330	19.176
<i>Provision for impairment (-)</i>	-	-
<b>Balance at the end of the period</b>	<b>2.877.824</b>	<b>2.685.934</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%.

e) 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

f) 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. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company since Halk Sigorta AŞ does not have transaction depth on the Borsa İstanbul AŞ.

<sup>(2)</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.

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

None.

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

None.

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(12) Information on tangible assets:

The fair value of tangible assets are determined by its equivalence value method. Fair value measurement of investment properties which fair values are determined by equivalence value method, are classified as level 2.

<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	1.376.586	5.716	152.240	2.531	(552)	1.532.563
Tangible assets purchased through financial lease	27.741	-	-	945	-	26.796
Office machines	414.575	37.046	-	17.831	-	433.790
Fixed assets obtained due to non-performing loans	570.289	173.235	-	96.513	-	647.011
Lease hold improvements costs	272.403	13.530	-	3.127	-	282.806
Other	135.012	450	-	-	-	135.462
<b>Total Cost</b>	<b>2.796.606</b>	<b>229.977</b>	<b>152.240</b>	<b>120.947</b>	<b>(552)</b>	<b>3.058.428</b>
<b>Accumulated depreciation (-) :</b>						
Immovable	143.151	6.476	-	19.334	-	130.293
Tangible assets purchased through financial lease	26.412	266	-	782	-	25.896
Office machines	219.938	53.627	-	17.782	-	255.783
Fixed assets obtained due to non-performing loans	13.249	6.278	-	2.372	-	17.155
Lease hold improvements costs	218.199	14.322	-	2.860	-	229.661
Other	67.763	27.444	-	26.416	-	68.791
<b>Total accumulated depreciation</b>	<b>688.712</b>	<b>108.413</b>	<b>-</b>	<b>69.546</b>	<b>-</b>	<b>727.579</b>
<b>Provision for impairment (-)</b>						
Immovable	1.313	4.510	-	6	-	5.817
Tangible assets purchased through financial lease	-	-	-	-	-	-
Office machines	-	-	-	-	-	-
Fixed assets obtained due to non-performing loans	7.134	4.476	-	585	-	11.025
<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>2.099.447</b>	<b>112.578</b>	<b>152.240</b>	<b>50.810</b>	<b>(552)</b>	<b>2.314.007</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

12) Information on tangible assets (continued) :

<b>Prior 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	626.664	5.439	1.679.938	507.398	(428.057)	1.376.586
Tangible assets purchased through financial lease	30.787	335	-	3.381	-	27.741
Office machines	346.097	100.195	-	31.717	-	414.575
Fixed assets obtained due to non-performing loans	508.101	1.997.556	-	1.935.368	-	570.289
Lease hold improvements costs	136.567	67.233	-	68.788	-	135.012
Other	252.481	23.688	-	3.766	-	272.403
<b>Total Cost</b>	<b>1.900.697</b>	<b>2.194.446</b>	<b>1.679.938</b>	<b>2.550.418</b>	<b>(428.057)</b>	<b>2.796.606</b>
<b>Accumulated depreciation (-) :</b>						
Immovable	215.579	16.036	154.717	181.430	(61.751)	143.151
Tangible assets purchased through financial lease	29.099	669	-	3.356	-	26.412
Office machines	177.671	54.269	-	12.002	-	219.938
Fixed assets obtained due to non-performing loans	10.676	4.674	-	2.101	-	13.249
Lease hold improvements costs	71.616	26.761	-	30.614	-	67.763
Other	207.696	13.542	-	3.039	-	218.199
<b>Total accumulated depreciation</b>	<b>712.337</b>	<b>115.951</b>	<b>154.717</b>	<b>232.542</b>	<b>(61.751)</b>	<b>688.712</b>
<b>Provision for impairment (-)</b>						
Immovable	1.855	-	-	591	49	1.313
Tangible assets purchased through financial lease	-	-	-	-	-	-
Office machines	-	-	-	-	-	-
Fixed assets obtained due to non-performing loans	6.391	1.872	-	1.129	-	7.134
<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>1.180.114</b>	<b>2.076.623</b>	<b>1.525.221</b>	<b>2.316.156</b>	<b>(366.355)</b>	<b>2.099.447</b>

(13) Information on intangible assets:

<b>Current Period</b>	<b>Balance at the end of the prior period</b>	<b>Current Year Additions</b>	<b>Current Year Disposals</b>	<b>Transfers</b>	<b>Balance at the end of the period</b>
<b>Cost:</b>					
Other intangible assets	109.601	44.325	2.461	-	151.465
<b>Total Cost</b>	<b>109.601</b>	<b>44.325</b>	<b>2.461</b>	<b>-</b>	<b>151.465</b>
<b>Accumulated Depreciation:</b>					
Other intangible assets	32.650	30.223	1	-	62.872
<b>Total Accumulated Depreciation</b>	<b>32.650</b>	<b>30.223</b>	<b>1</b>	<b>-</b>	<b>62.872</b>
<b>Net Book Value</b>	<b>76.951</b>	<b>14.102</b>	<b>2.460</b>	<b>-</b>	<b>88.593</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**I. EXPLANATIONS AND NOTES RELATED TO THE 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	75.132	45.180	10.711	-	109.601
<b>Total Cost</b>	<b>75.132</b>	<b>45.180</b>	<b>10.711</b>	<b>-</b>	<b>109.601</b>
<b>Accumulated Depreciation (-) :</b>					
Other intangible assets	16.189	16.579	118	-	32.650
<b>Total Accumulated Depreciation</b>	<b>16.189</b>	<b>16.579</b>	<b>118</b>	<b>-</b>	<b>32.650</b>
<b>Net Book Value</b>	<b>58.943</b>	<b>28.601</b>	<b>10.593</b>	<b>-</b>	<b>76.951</b>

(14) Information on investment property:

	Current Period	Prior Period
<b>Cost:</b>		
Opening Balance	428.525	-
Acquisitions	1.534	-
Transfer	-	428.525
Disposals	-	-
Impairment Charge/Cancellation(-)	-	-
<b>Ending Balance</b>	<b>430.059</b>	<b>428.525</b>
<b>Accumulated Depreciation</b>		
Opening Balance	63.525	-
Amortization Charge (-)	3.213	-
Transfer	-	63.525
Impairment Charge/Cancellation (-)	-	-
Ending Balance	-	-
<b>Total Accumulated Depreciation</b>	<b>66.738</b>	<b>63.525</b>
<b>Net Book Value</b>	<b>363.321</b>	<b>365.000</b>

(\*)As of December 2015 The Bank's former headquarters building in Ankara that had been evacuated depending upon the personnel moving to Istanbul; has been leased and classified as investment.

Table of fair value of investment properties with cost reflected to financial statements:

	Current Period	Prior Period
Building/Ankara Söğütözü	389.262	365.000

(15) Information on tax assets:

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



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

	<b>Current period</b>	<b>Prior period</b>
Cost	802	1.200
Accumulated Depreciation (-) <sup>(1)</sup>	(62)	(109)
<b>Net Book Value</b>	<b>740</b>	<b>1.091</b>
<b>Opening Balance</b>	<b>1.091</b>	<b>5.516</b>
Acquisitions (Transfers) (Net)	(552)	(468)
Disposals (Net)	-	(6.193)
Revaluation Increase	154	-
Impairment Charge/Cancellation	-	49
Amortization Charge	47	2.187
<b>Net Book Value</b>	<b>740</b>	<b>1.091</b>

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

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 1.936.946 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.535.243).

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**II. EXPLANATIONS AND NOTES RELATED TO THE LIABILITIES**

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.158.073	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.679
Foreign currency deposits	6.364.730	-	3.100.794	28.538.858	4.734.504	1.158.191	3.696.641	11.016	47.604.734
<i>Residents in Turkey</i>	4.976.498	-	3.031.495	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.943.508
<i>Residents abroad</i>	1.388.232	-	69.299	554.651	149.995	133.475	1.365.167	407	3.661.226
Public sector deposits	2.184.382	-	2.417.784	1.764.160	260.540	2.976.331	87.204	-	9.690.401
Commercial inst. deposits	4.322.048	-	4.290.924	14.625.325	1.876.533	562.730	39.505	-	25.717.065
Other inst. deposits	586.039	-	819.701	885.372	52.798	89.853	880	-	2.434.643
Precious metals	1.392.853	-	-	-	-	-	-	-	1.392.853
Interbank deposits	7.862.967	-	3.167.195	10.804.303	238.375	29.404	729.220	-	22.831.464
<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>	7.095.120	-	1.905.217	6.895.980	238.375	21.177	725.053	-	16.880.922
<i>Participation banks</i>	728.762	-	170.080	-	-	-	-	-	898.842
<b>Total</b>	<b>28.871.092</b>	<b>-</b>	<b>14.377.641</b>	<b>88.385.133</b>	<b>8.239.654</b>	<b>5.178.129</b>	<b>5.095.369</b>	<b>115.821</b>	<b>150.262.839</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	4.293.296	-	474.007	28.297.921	1.096.767	366.364	581.833	103.000	35.213.188
Foreign currency deposits	5.795.426	-	3.288.740	18.585.006	2.565.435	987.235	3.177.812	10.680	34.410.334
<i>Residents in Turkey</i>	4.689.558	-	3.254.644	18.013.646	2.459.778	709.667	2.100.420	10.508	31.238.221
<i>Residents abroad</i>	1.105.868	-	34.096	571.360	105.657	277.568	1.077.392	172	3.172.113
Public sector deposits	2.446.626	-	3.016.281	2.937.312	272.240	1.773.372	90.299	-	10.536.130
Commercial inst. deposits	3.228.168	-	3.127.098	16.497.782	816.279	33.215	28.447	-	23.730.989
Other inst. deposits	557.371	-	644.038	1.468.290	8.244	38.413	4.407	-	2.720.763
Precious metals	885.003	-	-	-	-	-	-	-	885.003
Interbank deposits	3.328.282	-	5.519.682	4.577.196	290.993	-	933.405	-	14.649.558
<i>Central Bank of Turkey</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	10.335	-	5.298.361	2.767.451	288.091	-	-	-	8.364.238
<i>Foreign banks</i>	2.367.756	-	221.321	1.809.745	2.902	-	933.405	-	5.335.129
<i>Participation banks</i>	950.191	-	-	-	-	-	-	-	950.191
<b>Total</b>	<b>20.534.172</b>	<b>-</b>	<b>16.069.846</b>	<b>72.363.507</b>	<b>5.049.958</b>	<b>3.198.599</b>	<b>4.816.203</b>	<b>113.680</b>	<b>122.145.965</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

b) Information on saving deposits in the scope of Saving Deposits Insurance Fund:

b.1. Amounts exceeding insurance limit:

b.1.1. Saving deposits under the guarantee of deposit insurance and exceeding the insurance limit:

Saving deposits	Under the guarantee insurance		Exceeding the insurance limit	
	Current period	Prior period	Current period	Prior period
Saving deposits	23.535.650	20.718.253	16.938.565	14.405.969
Foreign currency saving deposits	6.787.330	6.441.824	14.574.636	11.014.043
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	167.456	129.662	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

b.1.2. Saving deposits at foreign branches are excluded from the scope of Saving Deposits Insurance Fund according to the related legislation, and are subject to insurance of foreign authorities in compliance with the foreign legislations.

c) Saving deposits which are not under the guarantee of deposit insurance fund:

	Current period	Prior period
Foreign branches' saving deposits and other accounts	283.157	177.772
Deposits and other accounts belonging to dominant partners as well as their fathers, mothers, spouses and children under their custody	-	-
Deposits and other accounts belonging to the chairman and members of the board of directors, general managers and deputy general managers as well as their fathers, mothers, spouses and children under their custody	2.603	4.771
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26.9.2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(2) Information on derivative financial liabilities held for trading:

Negative differences table related to the derivative financial liabilities held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	137.422	-	84.150
Swap transactions	-	74.112	-	66.184
Future transactions	-	-	-	-
Options	59	255	18	354
Other	-	-	-	-
<b>Total</b>	<b>59</b>	<b>211.789</b>	<b>18</b>	<b>150.688</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	254.679	1.875.919	327.509	1.316.866
Foreign banks, institutions and funds	186.276	16.651.230	496.699	18.120.542
<b>Total</b>	<b>440.955</b>	<b>18.527.149</b>	<b>824.208</b>	<b>19.437.408</b>

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	261.008	4.077.162	323.748	7.485.324
Medium and long-term	179.947	14.449.987	500.460	11.952.084
<b>Total</b>	<b>440.955</b>	<b>18.527.149</b>	<b>824.208</b>	<b>19.437.408</b>

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

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

Main liability of the Bank is deposit, which is composed of 27,01% of saving deposits and 31,68% of foreign currency deposits. In order to fulfill the short term liquidity requirements, the Bank borrows loans from interbank money markets. The Bank can borrow loans from overseas institutions especially to be used in the financing of consumer loans. There are funds obtained from the Ministry of Industry and Trade especially for constructing small industrial estates and organized industrial estates.

The Bank's 57,20% of banks deposits and 37,36% of other deposits consist of foreign currency deposits.

	Current period		Prior period	
	TRY	FC	TRY	FC
<b>From domestic transactions</b>	<b>9.463.439</b>	-	<b>7.474.247</b>	-
<i>Financial inst. and organizations</i>	9.395.444	-	7.408.477	-
<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>9.469.886</b>	<b>1.373.871</b>	<b>7.581.737</b>	<b>728.499</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

- (4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Bonds	1.749.034	-	1.565.442	-
Treasury Bills	-	10.684.708	-	7.339.847
<b>Total</b>	<b>1.749.034</b>	<b>10.684.708</b>	<b>1.565.442</b>	<b>7.339.847</b>

- (5) Explanations to the funds:

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

- a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	37.539	2.302.269	29.572	1.934.127

- (6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 1.691.860 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.592.403).

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

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

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

- b) Explanation on finance lease payables:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	-	-	321	289
Between 1-4 years <sup>(1)</sup>	8	8	702	622
More than 4 years	115	91	220	179
<b>Total</b>	<b>123</b>	<b>99</b>	<b>1.243</b>	<b>1.090</b>

<sup>(1)</sup> Finance lease payables are presented with respect to original maturity.

- c) Explanations regarding operational leases:

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(8) Information on derivative financial liabilities for hedging purposes:

None.

(9) Explanations on provisions:

a) Information on general provisions:

	<b>Current period</b>	<b>Prior period</b>
<b>General provision</b>	<b>2.027.964</b>	<b>1.123.838</b>
Provisions for first group loans and receivables	1.817.380	910.447
<i>Additional provisions for the loans with extended payment plan</i>	-	33.186
Provisions for second group loans and receivables	90.675	108.328
<i>Additional provisions for the loans with extended payment plan</i>	-	66.843
Provisions for non-cash loans	119.909	105.063
Other	-	-

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

As of 31 December 2016 the Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 23 (31 December 2015: TRY 7.222).

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

As of 31 December 2016, the Bank's specific provision for unindemnified non-cash loans balance is TRY 139.279 (31 December 2015: TRY 93.877).

d) Information on other provisions:

d.1) Total other provision balance amounting to TRY 309.826 (31 December 2015: TRY 334.442) consists of TRY 139.279 (31 December 2015: TRY 93.877) for specific provisions for unindemnified non cash loans, TRY 90.793 (31 December 2015: TRY 34.100) for legal cases filed against the Bank and TRY 79.754 (31 December 2015: TRY 82.964) of other provisions. There is no general provision for possible risk in current period (31 December 2015: TRY 123.500).

d.2) Movement of employee termination benefits:

Severance indemnity provision as of 31 December 2016 is calculated by an independent company by using the actuarial conjectures. The amount calculated for the employee termination benefits as a result of the actuarial valuation according to TAS 19, is as follows;

	<b>Current Period</b>	<b>Prior Period</b>
Inflation Rate	7,80%	7,75%
Wage growth	11,20%	10,75%
Estimated Real Wage Growth Rate	8,00%	7,95%

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

Information on other provisions (continued):

Calculated amounts as a result of actuarial conjectures are as follows:

	<b>Current Period</b>	<b>Prior Period</b>
As of January 1	390.587	355.257
Charge for the year	37.372	34.074
Interest Expense	40.720	29.512
Actuarial gain/loss	(21.492)	6.347
Prior period service cost composed current period	459	48
Payment/The limitation of benefits/ Loss ( Gain) therefore discharge	1.546	312
Benefits paid within the period(-)	(49.769)	(34.963)
<b>Total</b>	<b>399.423</b>	<b>390.587</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.

- e) Liabilities arising from retirement benefits:
- e.1. Liabilities of pension funds founded as per the Social Security Institution:  
None.
- e.2. Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees:

Based on the results of the actuarial reports prepared as of 31 December 2016, it was determined that no technical deficit for Türkiye Halk Bankası AŞ Emekli Sandığı, T.C. Ziraat Bankası and Türkiye Halk Bankası Çalışanları Emekli Sandığı Vakfı.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 December 2016, the Bank's corporate tax payable is amounting to TRY 41.636 and this amount has been submitted to account of corporate tax provision at the related date.

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	41.636	105.440
Income on securities tax	157.120	143.352
Property income tax	1.402	1.323
Banking and insurance transactions tax (BITT)	84.974	66.010
Foreign exchange transactions tax	48	9
Value added tax payable	-	-
Other	24.391	23.059
<b>Total</b>	<b>309.571</b>	<b>339.193</b>

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	18	17
Social insurance premiums-employer	21	20
Bank social aid pension fund premium-employee	7.621	7.164
Bank social aid pension fund premium-employer	10.452	9.881
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	-	-
Unemployment insurance-employer	-	-
Other	1.956	1.703
<b>Total</b>	<b>20.068</b>	<b>18.785</b>

b) Deferred tax liability:

	Current period	Prior period
<b>Deferred Tax (Asset) /Liability</b>		
Provisions <sup>(1)</sup>	183.840	162.891
Revaluation of Financial Assets	(376.569)	(224.515)
Other	(93.943)	(7.640)
<b>Deferred Tax Liability:</b>	<b>(286.672)</b>	<b>(69.264)</b>
<b>Deferred tax accounted in shareholders' equity</b>	<b>(454)</b>	<b>(22.850)</b>
Fair value differences for available for sale financial assets	66.911	31.975
Actuarial gains and losses	241	4.566
Subsidiaries Valuation	-	-
Property Revaluation	(67.606)	(59.391)

<sup>(1)</sup> Provisions are comprised of the employee termination benefits and other provisions.



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

None.

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

None.

(13) Information on shareholders' equity:

a) Presentation of paid-in capital:

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

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

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

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

None.

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

None.

e) Capital commitments in the last fiscal year and at the end of the following period, the general purpose of these commitments and projected resources required to meet these commitments:

None.

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

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

g) Information on preferred shares:

None.

h) Information on marketable securities revaluation fund:

	Current period		Prior period	
	TRY	FC	TRY	FC
From subsidiaries, associates and jointly controlled entities (joint ventures)	1.004.257	203.841	1.158.202	92.152
<i>Revaluation difference</i>	1.004.257	203.841	1.158.202	92.152
<i>Exchange rate difference</i>	-	-	-	-
Valuation differences of financial assets available for sale	(297.328)	(428.017)	(188.893)	(94.626)
<i>Revaluation difference</i>	(297.328)	(428.017)	(188.893)	(94.626)
<i>Exchange rate difference</i>	-	-	-	-
<b>Total</b>	<b>706.929</b>	<b>(224.176)</b>	<b>969.309</b>	<b>(2.474)</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(13) Information on shareholders' equity: (continued)

i) Information on legal reserves:

	<b>Current Period</b>	<b>Prior Period</b>
First Legal Reserves	958.017	842.251
Second Legal Reserves	518.693	489.166
Legal reserves appropriated in accordance with the law	5.648	4.448
<b>Total</b>	<b>1.482.358</b>	<b>1.335.865</b>

j) Information on the extraordinary and other profit reserves:

	<b>Current Period</b>	<b>Prior Period</b>
Reserves appropriated by General Assembly	13.104.130	11.166.841
Retained Earnings	47.181	47.181
Accumulated Reserves	-	-
Foreign Currency Translation Differences (-)	-	-
<b>Total</b>	<b>13.151.311</b>	<b>11.214.022</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

<b>Types of irrevocable commitments</b>	<b>Current period</b>	<b>Prior period</b>
Commitments for credit card expenditure limits	10.794.813	11.157.873
Payment commitments for cheques	5.805.008	5.442.458
Loan granting commitments	3.551.904	2.543.438
Two days forward foreign exchange buy/sell transactions	417.450	481.678
Commitments for credit cards and banking services promotions	44.328	46.532
Tax and fund liabilities from export commitments	28.864	20.764
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	2.874.314	1.691.022
<b>Total</b>	<b>23.516.681</b>	<b>21.383.765</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>
Bank acceptance loans	4.011.308	5.002.040
Letters of credit	2.825.466	3.273.781
Other guarantees	956.523	879.817
<b>Total</b>	<b>7.793.297</b>	<b>9.155.638</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	3.430.728	2.934.392
Letters of tentative guarantees	512.981	789.535
Letters of guarantee given to customs offices	887.159	880.741
Other letters of guarantee	20.219.188	12.052.117
<b>Total</b>	<b>39.967.531</b>	<b>30.625.612</b>

c) Total non-cash loans:

	<b>Current period</b>	<b>Prior period</b>
Non-cash loans for providing cash loans	1.920.169	939.782
<i>Within one year or less original maturity</i>	287.627	69.452
<i>Within more than one year maturity</i>	1.632.542	870.330
Other non-cash loans	45.840.659	38.841.468
<b>Total</b>	<b>47.760.828</b>	<b>39.781.250</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**III. EXPLANATIONS AND NOTES RELATED TO THE OFF-BALANCE SHEET ITEMS (continued)**

(1) Information on off-balance sheet liabilities (continued):

c.1. Non-cash loans sectoral risk concentrations:

	Current period				Prior period			
	TRY	(%)	TRY	(%)	TRY	(%)	TRY	(%)
Agricultural	40.378	0,19	24.305	0,09	23.325	0,14	10.271	0,04
<i>Farming and raising livestock</i>	36.311	0,17	21.895	0,08	20.156	0,12	9.340	0,04
<i>Forestry</i>	199	-	-	-	152	-	-	-
<i>Fishing</i>	3.868	0,02	2.410	0,01	3.017	0,02	931	-
Manufacturing	5.006.181	23,76	13.979.682	52,38	4.018.351	24,13	12.303.794	53,20
<i>Mining</i>	140.712	0,67	65.239	0,24	126.501	0,76	48.720	0,21
<i>Production</i>	3.113.471	14,78	11.876.525	44,50	2.843.994	17,08	9.975.408	43,14
<i>Electric, gas and water</i>	1.751.998	8,31	2.037.918	7,64	1.047.856	6,29	2.279.666	9,86
Construction	6.112.235	29,00	6.933.713	25,98	4.317.501	25,92	5.514.203	23,84
Services	9.750.786	46,27	5.454.428	20,44	8.155.736	48,97	5.213.900	22,55
<i>Wholesale and retail trade</i>	4.837.193	22,95	2.258.453	8,46	4.449.349	26,72	1.893.407	8,19
<i>Hotel, food and beverage services</i>	83.860	0,40	176.383	0,66	69.933	0,42	71.913	0,31
<i>Transportation and telecommunication</i>	186.011	0,88	475.790	1,78	151.737	0,91	302.090	1,31
<i>Financial Institutions</i>	3.288.213	15,61	640.160	2,40	2.371.214	14,24	483.850	2,09
<i>Real estate and renting services</i>	1.187.469	5,63	1.834.359	6,88	992.720	5,96	2.410.147	10,42
<i>Self-employment services</i>	17.781	0,08	370	-	10.221	0,06	345	-
<i>Education services</i>	26.483	0,13	44.557	0,17	18.799	0,11	52.133	0,23
<i>Health and social services</i>	123.776	0,59	24.356	0,09	91.763	0,55	15	-
Other	164.040	0,78	295.080	1,11	139.766	0,84	84.403	0,36
<b>Total</b>	<b>21.073.620</b>	<b>100,00</b>	<b>26.687.208</b>	<b>100,00</b>	<b>16.654.679</b>	<b>100,00</b>	<b>23.126.571</b>	<b>100,00</b>

ç.2. Non-cash loans classified in Group I and II:

	Group I		Group II	
	TRY	FC	TRY	FC
<b>Non-cash loans</b>	<b>20.855.517</b>	<b>26.650.415</b>	<b>218.103</b>	<b>36.793</b>
Letters of guarantee	20.050.338	19.663.248	218.103	35.842
Bank acceptances	12.876	2.812.590	-	-
Letters of credit	18.091	3.992.266	-	951
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring commitments	-	-	-	-
Other commitments and contingencies	774.212	182.311	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**III. EXPLANATIONS AND NOTES RELATED TO THE OFF-BALANCE SHEET ITEMS (continued)**

(1) Information on off-balance sheet liabilities (continued):

d) Information on derivative financial instruments:

	Derivative transactions according to purposes			
	Trading		Risk Management	
	Current period	Prior period	Current period	Prior period
Types of trading transactions				
<b>Foreign currency related derivative transactions (I)</b>	<b>13.008.595</b>	<b>15.043.387</b>	-	-
Forward foreign currency buy/sell transactions	7.004.980	6.434.489	-	-
Currency buy/sell swap	5.323.362	8.249.640	-	-
Currency futures	-	-	-	-
Currency put/call options	680.253	359.258	-	-
<b>Interest related derivative transactions (II)</b>	<b>9.744.530</b>	<b>7.580.360</b>	-	-
Interest rate contracts	-	-	-	-
Interest rate buy/sell swap	9.744.530	7.580.360	-	-
Interest rate put/call options	-	-	-	-
Interest rate buy/sell futures	-	-	-	-
<b>Other trading derivative transactions (III)<sup>(1)</sup></b>	<b>2.181.689</b>	<b>1.750.176</b>	-	-
<b>A. Total trading derivative transactions (I+II+III)</b>	<b>24.934.814</b>	<b>24.373.923</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>24.934.814</b>	<b>24.373.923</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.

e) Information on contingent liabilities and assets:

Bank's commitments due to cheques given to client is TRY 5.805.008 (31 December 2015: TRY 5.442.458).

f) Services supplied on behalf of others:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

**IV. EXPLANATIONS AND NOTES RELATED TO THE INCOME STATEMENT**

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
<b>Interest on loans<sup>(1)</sup></b>				
Short term loans	3.769.433	175.855	2.816.169	139.757
Medium and long term loans	8.020.712	2.220.344	6.597.101	1.638.533
Interest on non-performing loans	69.789	-	66.167	-
Premiums from resource utilization support fund	-	-	-	-
<b>Total</b>	<b>11.859.934</b>	<b>2.396.199</b>	<b>9.479.437</b>	<b>1.778.290</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	710	1.329	988	660
Overseas banks	4.071	3.420	3.104	1.969
Head office and branches	-	-	-	-
<b>Total</b>	<b>74.692</b>	<b>17.938</b>	<b>30.773</b>	<b>5.260</b>

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial Assets Held for Trading	4.583	647	2.465	882
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Available-for-Sale Financial Assets	828.538	227.449	621.805	179.711
Held-to-Maturity Investments	1.363.360	113.933	1.433.982	102.201
<b>Total</b>	<b>2.196.481</b>	<b>342.029</b>	<b>2.058.252</b>	<b>282.794</b>

d) Interest income from subsidiaries and associates:

	Current period	Prior period
Interest income from subsidiaries and associates	61.477	41.746

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	38.597	316.195	62.752	253.073
<i>Domestic banks</i>	19.375	21.234	20.596	13.681
<i>Overseas banks</i>	19.222	294.961	42.156	239.392
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	13	15.047	22	-
<b>Total</b>	<b>38.610</b>	<b>331.242</b>	<b>62.774</b>	<b>253.073</b>

b) Interest expenses to subsidiaries and associates:

	Current period	Prior period
Interest expenses to subsidiaries and associates	151.883	85.715

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	162.840	419.627	143.180	319.000
<b>Total</b>	<b>162.840</b>	<b>419.627</b>	<b>143.180</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	310.709	1.761.023	158.883	17.207	2.495	-	2.250.341
Other deposits	1	72.552	164.648	22.757	194.451	9.505	-	463.914
7 days call accounts	-	-	-	-	-	-	-	-
<b>Total</b>	<b>345</b>	<b>1.138.367</b>	<b>5.609.847</b>	<b>339.474</b>	<b>248.649</b>	<b>52.743</b>	<b>8.176</b>	<b>7.397.601</b>
<b>Foreign currency</b>								
Deposits	4	32.500	523.181	56.750	12.929	52.100	-	677.464
Bank deposits	-	105.861	-	-	-	-	-	105.861
7 days call accounts	-	-	-	-	-	-	-	-
Precious metal	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4</b>	<b>138.361</b>	<b>523.181</b>	<b>56.750</b>	<b>12.929</b>	<b>52.100</b>	<b>-</b>	<b>783.325</b>
<b>Grand total</b>	<b>349</b>	<b>1.276.728</b>	<b>6.133.028</b>	<b>396.224</b>	<b>261.578</b>	<b>104.843</b>	<b>8.176</b>	<b>8.180.926</b>

(3) Information on dividend income:

	Current period	Prior period
Financial assets held for trading	-	-
Financial assets at fair value through profit and loss	-	-
Financial assets available-for-sale	30.448	4.340
Other	236.825	184.337
<b>Total</b>	<b>267.273</b>	<b>188.677</b>

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

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

	Current period	Prior period
<b>Profit</b>	<b>14.574.983</b>	<b>19.670.647</b>
Profit from the capital market operations	20.381	32.552
Profit on derivative financial instruments	1.695.430	4.013.970
Foreign exchange gains	12.859.172	15.624.125
<b>Loss (-)</b>	<b>14.425.237</b>	<b>19.932.277</b>
Loss from the capital market operations	1.144	1.230
Loss on derivative financial instruments	1.678.806	3.863.810
Foreign exchange losses	12.745.287	16.067.237

b) Information on derivative financial instruments:

	Current period	Prior period
<b>Profit on derivative financial instruments</b>	<b>1.695.430</b>	<b>4.013.970</b>
Effect of the change in foreign exchange on profit	1.645.017	3.927.388
Effect of the change in interest rate on profit	50.413	86.582
<b>Loss on derivative financial instruments (-)</b>	<b>1.678.806</b>	<b>3.863.810</b>
Effect of the change in foreign exchange on loss	1.629.541	3.807.734
Effect of the change in interest rate on loss	49.265	56.076
<b>Profit/loss on derivative financial instruments</b>	<b>16.624</b>	<b>150.160</b>

(5) Information on other operating income:

	Current period	Prior period
Adjustments for Prior Period Expenses <sup>(1)</sup>	374.069 <sup>(1)</sup>	744.791 <sup>(2)</sup>
Receivable from the asset sale on credit terms	130.104	67.350
Provision for communication expenses	9.571	9.981
Rent income	33.203	11.008
Other income	26.170	29.150
<b>Total</b>	<b>573.117</b>	<b>862.280</b>

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

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

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	1.133.276	844.497
<i>Group - III loans and receivables</i>	521.149	228.199
<i>Group - IV loans and receivables</i>	310.043	180.436
<i>Group - V loans and receivables</i>	302.084	435.862
General loan provision expenses	904.401	285.324
Provision expenses for possible losses	-	123.500
Marketable securities impairment losses	-	-
<i>Financial assets at fair value through profit and loss</i>	-	-
<i>Financial assets available for sale</i>	-	-
Impairment losses from associates, subsidiaries, jointly controlled entities (joint ventures) and investments held-to-maturity	-	-
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Jointly controlled entities (joint ventures)</i>	-	-
<i>Investments held-to-maturity</i>	-	-
Other	68.646	48.557
<b>Total</b>	<b>2.106.323</b>	<b>1.301.878</b>



**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(7) Information on other operating expenses:

	<b>Current period</b>	<b>Prior period</b>
Personnel expenses	1.762.643	1.520.467
Reserve for employee termination benefits	82.341	66.083
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	4.713	-
Depreciation expenses of fixed assets	98.502	98.147
Intangible assets impairment expense	-	-
<i>Goodwill impairment expense</i>	-	-
Amortization expenses of intangible assets	30.223	16.579
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	4.319	1.714
Amortization expenses of assets that will be disposed of	13.372	7.654
Impairment expense for property and equipment held for sale	-	-
Other operating expenses	1.246.068	1.129.670
<i>Operational leasing expenses</i>	208.118	179.380
<i>Maintenance expenses</i>	25.883	25.995
<i>Advertisement expenses</i>	160.145	127.372
<i>Other expenses</i>	851.922	796.923
Loss on sales of assets	1.330	4.394
Other	620.818	643.919
<b>Total</b>	<b>3.864.329</b>	<b>3.488.627</b>

(8) Information on profit/loss from continuing and discontinued operations before taxes:

The Bank's income before tax is due from continuing activities. The amount of profit before tax consists TRY 6.956.718 of net interest income and TRY 1.375.348 of net fees and commissions. The net operating profit before tax of the Bank is amounting to TRY 3.351.550.

(9) Information on tax provisions for continuing and discontinued operations:

As of 31 December 2016, the Bank's tax provision amounting to TRY 793.285 consists of TRY 553.481 of current tax charge and TRY 239.804 of deferred tax income.

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

As of 31 December 2016, the Bank's net operating income after tax is amounting to TRY 2.558.265.

(11) Information on net profit/loss from continuing and discontinued operations:

a) Income and expenses from ordinary banking operations: TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses.

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. has been completed. In acquisition, the Bank has sold its one share in Visa Europe Ltd. with a nominal of EUR 10.00 for a consideration of EUR 22.854.086,82 in cash and 8.299 in "C Type Visa Inc." shares. The income generated from the sale share is recognized under the "Other Operating Income".

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

c) "Other" item under "Fees and Commissions Received" in the Income Statement are composed of fees and commissions received from credit card operations and various banking operations, mainly from capital market operations.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED 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 UNCONSOLIDATED 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 UNCONSOLIDATED 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 10.563.369 increase for the year 2016. The “others” item under operating income composes of fees and commissions paid, foreign exchange gains, other operating income and other operating expenses excluding employee costs, and amounts to TRY 5.256.034 decrease for the year 2016.

For the year ended 31 December 2016, the effect of change in foreign exchange rate on cash and cash equivalents is TRY 1.403.627 increase (31 December 2015: TRY 761.160 increase). The average exchange rate of last five weekday has been taken in consideration as of the balance sheet date when calculating the change in the exchange rate.

- (2) Items of cash and cash equivalents, accounting policies used in the determination of those items: Cash in TRY and cash in foreign currency, Central Bank and bank deposits having maturity less than three months are defined as cash and cash equivalents.
- (3) The effect of any change in accounting policies: None.
- (4) Period beginning cash and cash equivalents balance:

	<b>Current period</b>	<b>Prior period</b>
Cash	23.324.971	20.276.104
<i>Cash in TRY and foreign currency</i>	1.210.055	974.390
<i>Central Bank and others<sup>(1)</sup></i>	22.114.916	19.301.714
Cash equivalents	2.513.285	1.265.660
<i>Demand and Time Deposits Up to 3 Months</i>	2.513.285	1.265.660
<i>Money Market Placements</i>	-	-
<b>Total cash and cash equivalents</b>	<b>25.838.256</b>	<b>21.541.764</b>
Reserve deposits in Central Bank of Turkey	(16.942.148)	(14.549.790)
Accruals on reserve deposits in Central Bank of Turkey	(21.203)	(1.606)
Rediscount from the money market	(290)	(1.124)
Accruals on banks	<b>8.874.615</b>	<b>6.989.244</b>

<sup>(1)</sup> Others items include cheques received.

- (5) Period ending cash and cash equivalents balance:

	<b>Current Period</b>	<b>Prior Period</b>
Cash	29.999.160	23.324.971
<i>Cash in TRY and foreign currency</i>	1.476.798	1.210.055
<i>Central Bank and others<sup>(1)</sup></i>	28.522.362	22.114.916
Cash Equivalents	1.644.687	2.513.285
<i>Demand and Time Deposits Up to 3 Months</i>	1.644.687	2.513.285
<i>Money Market Placements</i>	-	-
<b>Cash and Banks</b>	<b>31.643.847</b>	<b>25.838.256</b>
Reserve deposits in Central Bank of Turkey	(17.217.278)	(16.942.148)
Accruals on reserve deposits in Central Bank of Turkey	(36.875)	(21.203)
Accruals on banks	(901)	(290)
<b>Total Cash and Cash Equivalents</b>	<b>14.388.793</b>	<b>8.874.615</b>

<sup>(1)</sup> Others items include cheques received.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED 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	1.040.418	198.346	-	-	-	-
Closing balance	1.078.414	219.823	-	-	-	-
Interest and commissions income	61.477	765	-	-	-	-

b) Prior period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	675.395	309.393	-	-	-	-
Closing balance	1.040.418	198.346	-	-	-	-
Interest and commissions income	41.746	1.212	-	-	-	-

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

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
<b>Deposits</b>						
Beginning balance	1.019.114	803.623	-	-	-	-
Closing Balance	1.733.533	1.019.114	-	-	-	-
Interest expense on deposits	149.272	83.105	-	-	-	-

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(2) Disclosures for risk group:

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

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

Bank's branches may operate as insurance agencies of Halk Sigorta AŞ and Halk Hayat ve Emeklilik AŞ. Also, the Bank mediates activities of Halk Yatırım Menkul Değerler AŞ within the scope of "Mediation to order Transmission" contract. Besides, Halk Portföy Yönetimi AŞ is engaging in fund management of Bank's funds.

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

	<b>Amount</b>	<b>% compared to the amounts in the financial statements</b>
Cash loans	1.078.414	0,70%
Non-cash loans	219.823	0,46%
Deposits	1.733.533	1,16%
Forward and option contracts	-	-
Banks and financial institutions	-	-

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

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

Explained in b).

d) Transactions accounted under the equity method:

None.

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel are TRY 8.790 as of 31 December 2016 (31 December 2015: TRY 11.158).

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 UNCONSOLIDATED 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		
<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	<b>Total Asstes</b>	<b>Capital Legal</b>
		10	Gazimagosa/TRNC	647.118	-
		9	Kyrenia/TRNC	80.498	-
		2	Pasakoy/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 Bank which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.825 after necessary authorization and being taken out from the scope and programme of the Administration by The Privatization High Council.

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

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

**SECTION VI: OTHER EXPLANATIONS AND NOTES**

**I. OTHER EXPLANATIONS ON THE BANK'S OPERATIONS**

None.

**TÜRKİYE HALK BANKASI AŞ**  
**NOTES TO THE UNCONSOLIDATED 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 unconsolidated financial statements as of and for the year ended 31 December 2016 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Independent Auditors' Report dated 13 February 2017 is presented in the introduction of this report.

**II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENT AUDITORS**

None.