

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

Türkiye Halk Bankası Anonim Şirketi

Consolidated Financial Statements
As of and For the Three-Month Period Ended 31 March 2017
With Auditors' Review Report Thereon
*(Convenience Translation of Consolidated
Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish)*

9 May 2017

*This report contains "Limited Review Report"
comprising 2 pages and; "Consolidated
Financial Statements and Related Disclosures
and Footnotes" comprising 99 pages.*

*Convenience Translation of the Report on Review of Interim Financial Information
Originally Issued in Turkish*

REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of Türkiye Halk Bankası AŞ;

Introduction

We have reviewed the accompanying consolidated balance sheet of Türkiye Halk Bankası A.Ş. (“the Bank”) and its consolidated subsidiaries (together will be referred as “the Group”) as at 31 March 2017, and the consolidated statement of income, consolidated statement of income and expense items under shareholders’ equity, consolidated statement of changes in shareholders’ equity and consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Bank management is responsible for the preparation and fair presentation of the accompanying interim financial information in accordance with “the Banking Regulation and Supervision Agency (“BRSA”) Accounting and Financial Reporting Regulations” including the regulation on “The Procedures and Principles Regarding Banks’ Accounting Practices and Maintaining Documents” published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standard 34 “Interim Financial Reporting” principles for the matters not legislated by the aforementioned regulations. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Other Matter

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 and as at and for the three-month period then ended 31 March 2016 were audited and reviewed by another auditor who expressed a unqualified opinion and a unqualified conclusion on 13 February 2017 and 29 April 2017, respectively.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the financial position of Türkiye Halk Bankası A.Ş. and its consolidated subsidiaries as at 31 March 2017, and of the results of their operations and their cash flows for the three-month period then ended in accordance with the BRSA Accounting and Financial Reporting Regulations.

Report on Other Legal and Regulatory Requirements

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information provided in the Management's interim report included in section seven of the accompanying consolidated financial statements, is not presented fairly, in all material respects, and is not consistent with the reviewed interim financial statements and the explanatory notes.

Additional paragraph for English translation:

The effect of the differences between the accounting principles summarized in Section 3 and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Bank's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hasan Kılıç
Partner

İstanbul, 9 May 2017

TÜRKİYE HALK BANKASI AŞ
THE CONSOLIDATED FINANCIAL REPORT
AS OF AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

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

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

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

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

Unless otherwise indicated, these consolidated financial statements and explanatory footnotes and disclosures as of and for the three-month period ended 31 March 2017 are prepared in thousand Turkish Lira and they have been reviewed and presented below in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Banking Regulation and Supervision Agency regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and related communiqués and interpretations including the Banks' records.

İstanbul, 9 May 2017

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

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

Name/Title : Turgay Ayık/Director
Tel/Fax No : 0216 503 52 09 /0212 340 09 90

SECTION ONE

General Information About the Parent Bank

	Page No
I. Establishment Date of the Parent Bank, Initial Articles of Association, History of the Parent Bank Including The Changes of These Articles	3
II. Capital Structure of the Parent Bank, Shareholders That Retain Direct or Indirect Control and Management of the Parent Bank, Solely or Together, Changes About These Issues During the Year and Disclosures About The Group	3
III. Explanations Regarding the Parent Bank's Chairman and Members of Board of Directors, Audit Committee Members, Chief Executive Officer and Executive Vice Presidents and Their Shares Attributable to the Parent Bank, if any	4
IV. Information About the Persons and Institutions That Have Qualified Shares Attributable to the Parent Bank	5
V. Explanations on the Parent Bank's Functions and Lines of Activity	6
VI. Explanation About Companies Within The Scope Of Consolidation	7
VII. Differences Between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and Short Explanation About the Institutions Subject to Line-by-Line Method or Proportional Consolidation and Institutions Which are Deducted From Equity or Not Included in These Three Methods	9
VIII. The Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholder's Equity Between the Parent Bank and Its Subsidiaries or the Reimbursement of Liabilities	9

SECTION TWO

Consolidated Financial Statements

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

SECTION THREE

Explanations on Consolidated Accounting Policies

I. Basis of Presentation	18
II. Explanations on the Strategy of Use of Financial Instruments and Foreign Currency Transactions	18
III. Information About the Consolidated Associates and Subsidiaries	19
IV. Explanations on Futures and Option Contracts and Derivative Instruments	22
V. Explanations on Interest Income and Expenses	22
VI. Explanations on Fee and Commission Income and Expenses	22
VII. Explanations on Financial Assets	22
VIII. Explanations on Impairment of Financial Assets	25
IX. Explanations on Offsetting Financial Instruments	26
X. Explanations on Sales and Repurchase Agreements (Repos) and Transactions on Securities Loaned	26
XI. Explanations on Assets Held For Sale, Assets of Discontinued Operations and Related Liabilities	27
XII. Explanations on Goodwill and Other Intangible Assets	27
XIII. Explanations on Property, Plant and Equipment	27
XIV. Explanations on Investment Properties	28
XV. Explanations on Leasing Transactions	28
XVI. Explanations on Insurance Technical Income and Expense	29
XVII. Explanations on Insurance Technical Provisions	29
XVIII. Explanations on Provisions and Contingent Liabilities	30
XIX. Explanations on Employee Benefit Liabilities	30
XX. Explanations on Taxation	31
XXI. Additional Explanations on Borrowings	34
XXII. Explanations on Shares Issued	34
XXIII. Explanations on Bill Guarantees and Acceptances	34
XXIV. Explanations on Government Incentives	34
XXV. Explanations on Segment Reporting	34
XXVI. Explanations on Other Matters	34

SECTION FOUR

Information Related to Financial Position and Risk Management of the Group

I.	Explanations on Equity	35
II.	Explanations on Consolidated Currency Risk	41
III.	Explanations on the Consolidated Interest Rate Risk	43
IV.	Explanations on the Consolidated Position Risk of Shares	46
V.	Explanations on the Consolidated Liquidity Risk Management and Liquidity Coverage Ratio	47
VI.	Explanations on Consolidated Leverage Ratio	52
VII.	Explanations on Consolidated Business Segmentation	54
VIII.	Explanations on Risk Management and Risk Weighted Amounts	57

SECTION FIVE

Explanations and Notes to the Consolidated Financial Statements

I.	Explanations and Notes Related to the Consolidated Assets	59
II.	Explanations and Notes Related to the Consolidated Liabilities	77
III.	Explanations and Notes Related to the Consolidated Off-Balance Sheet Items	85
IV.	Explanations and Notes Related to the Consolidated Income Statement	86
V.	Explanation Related to the Risk Group of the Parent Bank	91
VI.	Explanations Related to the Subsequent Events	92

SECTION SIX

Limited Review Report

I.	Explanations on the Independent Auditors' Reviewed Report	93
II.	Explanations and Notes Prepared by the Independent Auditors	93

SECTION SEVEN

Information on Interim Annual Report

I.	Interim period activity report included chairman of the board of directors and Ceo's assessments for the interim activities.	94
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TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK

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

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

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

The capital of the Parent Bank is controlled directly by the Türkiye Varlık Fonu A.Ş.

As of 31 March 2017 the shareholders’ structure and their respective ownerships are summarized as follows:

Shareholders	31 March		31 December	
	2017	%	2016	%
Türkiye Varlık Fonu A.Ş. ^(1,2)	638.276	51,06	-	-
Başbakanlık Özelleştirme İdaresi Başkanlığı Public shares ⁽²⁾	-	-	638.276	51,06
Other shareholders ⁽³⁾	611.639	48,93	611.639	48,93
	85	0,01	85	0,01
Total	1.250.000	100	1.250.000	100

⁽¹⁾ The shares belonging to the T.C. Prime Ministry Privatization Administration were transferred to the Türkiye Varlık Fonu A.Ş. on 10 March 2017 pursuant to the Decree of the Higher Council for Privatization No. 2017/1 dated 3 February 2017.

⁽²⁾ The shares of the Türkiye Varlık Fonu A.Ş. amounting to TRY 550 have been included in Public shares. With these shares, the total shares amounting TRY 638.826 held by the Türkiye Varlık Fonu A.Ş. is 51,11% of the total shares.

⁽³⁾ TRY 83 of the shares included in the “Other Shareholders” group belong to shareholders whose shares do not trade on the exchange (though these shareholders have been dematerialized in their own accounts) while TRY 2 of which belong to shareholders whose shares are monitored under the shares not registered under the custody of the Central Securities Depository of Turkey due to the ongoing legal action.

In accordance with the Law No: 6327 dated 13 June 2012 and 3rd sub-article added to the Article 2 of the Law No: 4603, as per the Turkish Commercial Code, the Public shares will be controlled and represented by the Minister the Bank is reporting to, until the sale procedures of the public shares are completed.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

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

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

Name	Title
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors, Independent Member of the Board of Director, Chairman of the Audit Committee
Ali Fuat TAŞKESENLIOĞLU	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Independent Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Mehmet AYTEKİN	Member of the Board of Directors
Ömer AÇIKGÖZ	Member of the Board of Directors
Yahya BAYRAKTAR	Independent Member of the Board of Directors, Member of the Audit Committee
Faruk ÖZÇELİK	Member of the Audit Committee
Zekeriya KAYA	Member of the Audit Committee
Selahattin SÜLEYMANOĞLU	Executive Vice President, Banking Operations (on commission)
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Hakan ATILLA	Executive Vice President, International Banking
Erdal ERDEM	Executive Vice President, Artisans and SME Banking, HR and Organization (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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

SECTION I: GENERAL INFORMATION ABOUT THE BANK (continued)

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

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

None.

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

Name	Title	Date of Leaving
Mehmet Ali GÖKÇE	Member of Board of Directors	23 January 2017

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

Except for the Türkiye Varlık Fonu A.Ş., no person or institute has any qualified shares attributable to the Bank.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

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

V. EXPLANATIONS ON THE PARENT BANK’S FUNCTIONS AND LINES OF ACTIVITY

a) General information about the Parent Bank:

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

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

c) According to Article 2.2 of Law No: 4603, subsequent to the completion of the restructuring procedures, the procedures involved in sale of the shares of the Parent Bank were to be concluded under the provisions of Law No: 4046 based on the “Regulation of Privatization Applications and Amendment of Some Laws and Decrees with the Force of Law”. The procedures relating to restructuring and sale of the shares were going 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 these amendments, the privatization period of the Parent Bank was extended. The Council of Ministers has the authority to extend this period by the half of that period for one time only. The Council of Ministers extended the half of that “10 years” period as published in the Official Gazette by the Decree numbered 2010/964 and dated 6 November 2010. As per the Higher Council of Privatization decision numbered 2006/69 dated 11 August 2006, the public shares were transferred to the Privatization Administration and 99,9% of the Parent Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 to cease the execution of the High Council of Privatization’s decision numbered 2006/69 dated 11 August 2006. Thereupon, as per the decision of the Higher Council of Privatization numbered 2007/8 dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the Parent Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to trade on Borsa İstanbul AŞ as of 10 May 2007 with the base price of TRY full 8,00. As per the decision of the Higher Council of Privatization numbered 2012/150 dated 4 October 2012; 23,92% of the public shares held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

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

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

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

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

As of 31 March 2017, the Parent Bank operates with a total of 966 branches consisting of 961 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic branches include 28 satellite branches. The Bank has also 3 representative offices in England, Singapore and Iran.

VI. EXPLANATION ABOUT COMPANIES WITHIN THE SCOPE OF CONSOLIDATION

The Parent Bank and its subsidiaries;

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

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

The Parent Bank's associates;

- Demir-Halkbank NV
- Kobi Girişim Sermayesi Yatırım Ortaklığı AS
- Türk P ve I Sigorta AS
- are accounted for at "equity method" in the accompanying consolidated financial statements.
- Halk Gayrimenkul Yatırım Ortaklığı AŞ ("Halk GYO"), a subsidiary of the Parent Bank established in 2010, was registered on 18 October 2010. Halk GYO's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Halk GYO's main operational objective is to invest in capital market instruments based on real estates, real estate projects and rights based on real estates, as per the Capital Markets Board's ("CMB") regulation on investment trusts.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

- As at 15 February 2013 28% shares of Halk GYO has been offered to public. After collecting potential investors book building, Halk GYO's shares started to be traded on Borsa İstanbul AŞ since 22 February 2013.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

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

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

Halk Finansal Kiralama AŞ (“Halk Leasing”) was established in September 1991 in Turkey and its main line of business is financial leasing. Halk Leasing operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Parent Bank as of 8 April 2011, operating in Macedonia. The company’s main activities include commercial lending, accepting deposits, retail banking services in the country and abroad.

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

Halk Faktoring AŞ’s (“Halk Faktoring”) main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operation.

Halkbank AD, Beograd is a subsidiary of the Parent Bank as of 28 May 2015. Its main activities include commercial lending, accepting deposits, retail banking services in the country and abroad.

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

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

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

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

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

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

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

There is no investment in shares of 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 Parent Bank has no control.

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD 31 March 2017

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

SECTION II: CONSOLIDATED FINANCIAL STATEMENTS

- I. Consolidated Balance Sheet (Consolidated Statement of Financial Position)
- II. Consolidated Statement of Off-Balance Sheet Items
- III. Consolidated Statement of Income
- IV. Consolidated Statement of Income and Expense Items Accounted under Shareholders' Equity
- V. Consolidated Statement of Changes in Shareholders' Equity
- VI. Consolidated Statement of Cash Flows

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED BALANCE SHEET AS OF 31 March 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)

	Note	Reviewed			Audited		
		Current period			Prior period		
		31 March 2017	31 March 2017	Total	31 December 2016	31 December 2016	Total
ASSETS		TRY	FC		TRY	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	(1)	2,323.160	31.060.195	33.383.355	3.534.389	26.677.577	30.211.966
II. FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)	(2)	41.853	389.498	431.351	88.251	360.675	448.926
2.1 Trading financial assets		41.853	389.498	431.351	88.251	360.675	448.926
2.1.1 Public sector debt securities		9.339	-	9.339	65.538	-	65.538
2.1.2 Share certificates		3.212	753	3.965	2.413	682	3.095
2.1.3 Financial assets held for trading		27	388.552	388.579	4	359.807	359.811
2.1.4 Other marketable securities		29.275	193	29.468	20.296	186	20.482
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. BANKS	(3)	359.459	1.703.136	2.062.595	362.526	1.602.324	1.964.850
IV. MONEY MARKET PLACEMENTS		1.148.575	-	1.148.575	1.072.397	-	1.072.397
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange Money Market placements		1.147.200	-	1.147.200	1.067.712	-	1.067.712
4.3 Receivables from reverse repurchase agreements		1.375	-	1.375	4.685	-	4.685
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	11.946.921	4.950.089	16.897.010	10.915.994	4.565.225	15.481.219
5.1 Share certificates		25.845	41.823	67.668	23.682	36.149	59.831
5.2 Public sector debt securities		11.920.569	4.908.266	16.828.835	10.890.372	4.529.076	15.419.448
5.3 Other marketable securities		507	-	507	1.940	-	1.940
VI. LOANS AND RECEIVABLES	(5)	110.360.939	59.099.702	169.460.641	103.252.263	56.070.896	159.323.159
6.1 Loans and receivables		109.044.342	59.009.665	168.054.007	102.076.226	55.981.809	158.058.035
6.1.1 Loans extended to risk group of the Bank		-	-	-	-	-	-
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		109.044.342	59.009.665	168.054.007	102.076.226	55.981.809	158.058.035
6.2 Loans under follow-up		5.570.837	188.431	5.759.268	5.140.082	180.430	5.320.512
6.3 Specific provisions (-)		4.254.240	98.394	4.352.634	3.964.045	91.343	4.055.388
VII. FACTORING RECEIVABLES		924.055	151.729	1.075.784	849.637	284.891	1.134.528
VIII. HELD TO MATURITY INVESTMENTS (Net)	(6)	16.831.178	2.553.795	19.384.973	15.875.022	2.469.604	18.344.626
8.1 Public sector debt securities		16.779.961	2.553.795	19.333.756	15.841.619	2.469.604	18.311.223
8.2 Other marketable securities		51.217	-	51.217	33.403	-	33.403
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	22.230	283.909	306.139	22.393	270.028	292.421
9.1 Accounted under equity method		15.910	283.909	299.819	16.073	270.028	286.101
9.2 Unconsolidated associates		6.320	-	6.320	6.320	-	6.320
9.2.1 Financial investments		-	-	-	-	-	-
9.2.2 Non-financial investments		6.320	-	6.320	6.320	-	6.320
X. INVESTMENTS IN SUBSIDIARIES (Net)	(8)	41.243	-	41.243	41.243	-	41.243
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		41.243	-	41.243	41.243	-	41.243
XI. JOINT VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Accounted under equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. FINANCE LEASE RECEIVABLES (Net)	(10)	456.965	1.999.861	2.456.826	365.336	1.945.994	2.311.330
12.1 Finance lease receivables		578.976	2.344.231	2.923.207	459.604	2.258.623	2.718.227
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		122.011	344.370	466.381	94.268	312.629	406.897
XIII. DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT	(11)	-	-	-	-	-	-
13.1 Fair value risk hedging		-	-	-	-	-	-
13.2 Cash flow risk hedging		-	-	-	-	-	-
13.3 Net foreign investment risk hedging		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	3,243.194	78.953	3,322.147	3,192.451	74.533	3,266.984
XV. INTANGIBLE ASSETS (Net)	(13)	91.952	20.033	111.985	95.056	20.173	115.229
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		91.952	20.033	111.985	95.056	20.173	115.229
XVI. INVESTMENT PROPERTIES (Net)	(14)	860.770	3.730	864.500	860.521	3.595	864.116
XVII. TAX ASSET	(15)	90.327	1.856	92.183	97.750	1.775	99.525
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		90.327	1.856	92.183	97.750	1.775	99.525
XVIII. ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(16)	1.537	-	1.537	1.537	-	1.537
18.1 Held for sale purpose		1.537	-	1.537	1.537	-	1.537
18.2 Held from discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(17)	3,064.929	390.096	3,455.025	2,203.011	549.200	2,752.211
TOTAL ASSETS		151.809.287	102.686.582	254.495.869	142.829.777	94.896.490	237.726.267

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED BALANCE SHEET AS OF 31 March 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Reviewed			Audited		
		Current period			Prior period		
		31 March 2017			31 December 2016		
		TRY	FC	Total	TRY	FC	Total
I. DEPOSITS	(1)	86.859.528	71.387.951	158.247.479	86.549.173	63.849.704	150.398.877
1.1 Deposits Held by the Risk Group of the Bank		9.735	-	9.735	8.771	-	8.771
1.2 Other		86.849.793	71.387.951	158.237.744	86.540.402	63.849.704	150.390.106
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	32	177.663	177.695	59	224.534	224.593
III. FUNDS BORROWED	(3)	1.152.445	20.178.078	21.330.523	1.171.764	20.417.347	21.589.111
IV. MONEY MARKET BALANCES		22.830.234	1.956.853	24.787.087	17.648.265	1.373.871	19.022.136
4.1 Interbank money market borrowings		21.306.890	-	21.306.890	7.003.306	-	7.003.306
4.2 Istanbul Stock Exchange Takasbank borrowings		1.134.477	-	1.134.477	1.174.218	-	1.174.218
4.3 Funds from repurchase agreements		388.867	1.956.853	2.345.720	9.470.741	1.373.871	10.844.612
V. MARKETABLE SECURITIES ISSUED (Net)	(4)	2.391.143	10.969.843	13.360.986	2.067.703	10.684.708	12.752.411
5.1 Treasury bills		2.391.143	-	2.391.143	2.067.703	-	2.067.703
5.2 Asset-backed securities		-	-	-	-	-	-
5.3 Bonds		-	10.969.843	10.969.843	-	10.684.708	10.684.708
VI. FUNDS	(5)	2.287.662	-	2.287.662	2.339.808	-	2.339.808
6.1 Borrower Funds		21.578	-	21.578	36.600	-	36.600
6.2 Other		2.266.084	-	2.266.084	2.303.208	-	2.303.208
VII. SUNDRY CREDITORS		2.762.784	127.877	2.890.661	2.743.078	123.544	2.866.622
VIII. OTHER LIABILITIES	(6)	2.034.219	476.296	2.510.515	1.503.590	439.963	1.943.553
IX. FACTORING PAYABLES		488	534	1.022	383	205	588
X. FINANCE LEASE PAYABLES	(7)	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT	(8)	-	-	-	-	-	-
11.1 Fair value risk hedging		-	-	-	-	-	-
11.2 Cash flow risk hedging		-	-	-	-	-	-
11.3 Net foreign investment risk hedging		-	-	-	-	-	-
XII. PROVISIONS	(9)	4.711.729	87.569	4.799.298	4.485.747	87.352	4.573.099
12.1 General loan provisions		2.113.982	21.583	2.135.565	2.027.964	21.172	2.049.136
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Employee benefits provisions		808.955	2.998	811.953	728.172	3.287	731.459
12.4 Insurance technical reserves (Net)		1.491.240	-	1.491.240	1.400.148	-	1.400.148
12.5 Other provisions		297.552	62.988	360.540	329.463	62.893	392.356
XIII. TAX LIABILITY	(10)	1.091.115	3.599	1.094.714	639.422	6.527	645.949
13.1 Current tax liability		746.815	1.447	748.262	352.600	4.375	356.975
13.2 Deferred tax liability		344.300	2.152	346.452	286.822	2.152	288.974
XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)	-	-	-	-	-	-
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Held from discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED CAPITAL	(12)	-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	(13)	23.026.421	(18.194)	23.008.227	21.541.471	(171.951)	21.369.520
16.1 Paid-in capital		1.250.000	-	1.250.000	1.250.000	-	1.250.000
16.2 Capital reserves		3.073.852	(286.869)	2.786.983	2.959.599	(427.355)	2.532.244
16.2.1 Share Premium		39.737	-	39.737	39.737	-	39.737
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities revaluation fund		(250.375)	(287.291)	(537.666)	(291.223)	(427.705)	(718.928)
16.2.4 Tangible assets revaluation reserves		2.127.780	371	2.128.151	2.106.979	299	2.107.278
16.2.5 Intangible assets revaluation reserves		-	-	-	-	-	-
16.2.6 Revaluation reserves of real estate for investment purpose		-	-	-	-	-	-
16.2.7 Bonus shares of subsidiaries, associates and joint ventures		4.723	-	4.723	4.723	-	4.723
16.2.8 Hedging Funds (effective portion)		-	-	-	-	-	-
16.2.9 Value Increase on Assets Held for Sale		-	-	-	-	-	-
16.2.10 Other capital reserves		1.151.987	51	1.152.038	1.099.383	51	1.099.434
16.3 Profit reserves		14.563.461	111.407	14.674.868	14.562.537	111.025	14.673.562
16.3.1 Legal reserves		1.559.780	3.313	1.563.093	1.558.859	3.313	1.562.172
16.3.2 Statutory reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		12.956.539	-	12.956.539	12.956.536	-	12.956.536
16.3.4 Other profit reserves		47.142	108.094	155.236	47.142	107.712	154.854
16.4 Profit/Loss		3.951.578	125.996	4.077.574	2.585.417	115.139	2.700.556
16.4.1 Prior years income/loss		2.609.760	115.139	2.724.899	84.650	82.299	166.949
16.4.2 Period profit/loss		1.341.818	10.857	1.352.675	2.500.767	32.840	2.533.607
16.5 Minority shares		187.530	31.272	218.802	183.918	29.240	213.158
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		149.147.800	105.348.069	254.495.869	140.690.463	97.035.804	237.726.267

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS
AS OF 31 March 2017

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

II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS

		Reviewed			Audited		
		Current period			Prior period		
		31 March 2017			31 December 2016		
OFF-BALANCE SHEET ITEMS	Note	TRY	FC	Total	TRY	FC	Total
A. COMMITMENTS AND CONTINGENCIES (I+II+III)		50.565.763	59.111.897	109.677.660	46.265.354	51.600.941	97.866.295
I. GUARANTEES AND SURETYSHIPS	(1)	21.680.690	28.187.783	49.868.473	20.999.538	26.878.181	47.877.719
1.1 Letters of guarantee		20.787.885	21.443.960	42.231.845	20.194.359	19.924.546	40.118.905
1.1.1 Guarantees subject to public procurement law		1.051.852	11.748.118	12.799.970	1.049.993	11.366.716	12.416.709
1.1.2 Guarantees given for foreign trade operations		-	16.530	16.530	-	16.644	16.644
1.1.3 Other letters of guarantee		19.736.033	9.679.312	29.415.345	19.144.366	8.541.186	27.685.552
1.2 Bank loans		72.326	2.313.607	2.385.933	12.876	2.812.590	2.825.466
1.2.1 Import acceptances		-	286.485	286.485	-	320.953	320.953
1.2.2 Other bank acceptances		72.326	2.027.122	2.099.448	12.876	2.491.637	2.504.513
1.3 Letters of credit		10.969	4.288.414	4.299.383	18.091	4.001.009	4.019.100
1.3.1 Documentary letters of credit		10.969	4.255.232	4.266.201	18.091	3.972.450	3.990.541
1.3.2 Other letters of credit		-	33.182	33.182	-	28.559	28.559
1.4 Guaranteed prefinancings		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Purchase guarantees on marketable security issuance		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		809.510	141.802	951.312	774.212	140.036	914.248
1.9 Other suretyships		-	-	-	-	-	-
II. COMMITMENTS	(1)	24.182.346	1.837.743	26.020.089	23.261.724	1.492.636	24.754.360
2.1 Irrevocable commitments		24.182.346	1.224.920	25.407.266	23.261.724	901.095	24.162.819
2.1.1 Forward asset purchase commitments		273.890	654.037	927.927	112.735	304.715	417.450
2.1.2 Forward deposit purchase and sale commitments		-	-	-	-	-	-
2.1.3 Capital commitments to subsidiaries and associates		-	-	-	-	-	-
2.1.4 Loan granting commitments		3.331.674	420.123	3.751.797	3.182.164	398.636	3.580.800
2.1.5 Securities underwriting commitments		-	-	-	-	-	-
2.1.6 Payment commitments for reserve deposits		-	-	-	-	-	-
2.1.7 Payment commitments for cheques		6.191.181	-	6.191.181	5.805.008	-	5.805.008
2.1.8 Tax and fund liabilities from export commitments		29.087	-	29.087	28.864	-	28.864
2.1.9 Commitments for credit card expenditure limits		11.053.849	30.635	11.084.484	10.794.813	29.260	10.824.073
2.1.10 Commitments for credit cards and banking services promotions		41.895	-	41.895	44.328	-	44.328
2.1.11 Receivables from short sale commitments		-	-	-	-	-	-
2.1.12 Payables for short sale commitments		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		3.260.770	120.125	3.380.895	3.293.812	168.484	3.462.296
2.2 Revocable commitments		-	612.823	612.823	-	591.541	591.541
2.2.1 Revocable loan granting commitments		-	49.404	49.404	-	52.315	52.315
2.2.2 Other revocable commitments		-	563.419	563.419	-	539.226	539.226
III. DERIVATIVE FINANCIAL INSTRUMENTS	(1)	4.702.727	29.086.371	33.789.098	2.004.092	23.230.124	25.234.216
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value risk hedging transactions		-	-	-	-	-	-
3.1.2 Cash flow risk hedging transactions		-	-	-	-	-	-
3.1.3 Net foreign investment risk hedging transactions		-	-	-	-	-	-
3.2 Transactions for trading		4.702.727	29.086.371	33.789.098	2.004.092	23.230.124	25.234.216
3.2.1 Forward foreign currency buy/sell transactions		2.681.651	7.064.517	9.746.168	1.162.609	5.842.701	7.005.310
3.2.1.1 Forward foreign currency transactions-buy		1.360.968	4.687.052	6.048.020	564.492	3.958.285	4.522.777
3.2.1.2 Forward foreign currency transactions-sell		1.320.683	2.377.465	3.698.148	598.117	1.884.416	2.482.533
3.2.2 Currency and interest rate swaps		588.150	17.683.503	18.271.653	581.914	14.785.050	15.366.964
3.2.2.1 Currency swap-buy		148.821	3.960.192	4.109.013	148.821	2.707.908	2.856.729
3.2.2.2 Currency swap-sell		439.329	3.546.632	3.985.961	433.093	2.332.612	2.765.705
3.2.2.3 Interest rate swap-buy		-	5.088.340	5.088.340	-	4.872.265	4.872.265
3.2.2.4 Interest rate swap-sell		-	5.088.339	5.088.339	-	4.872.265	4.872.265
3.2.3 Currency, interest rate and marketable securities options		1.432.926	1.537.733	2.970.659	259.569	420.684	680.253
3.2.3.1 Currency call options		716.468	768.851	1.485.319	129.783	210.341	340.124
3.2.3.2 Currency put options		716.458	768.882	1.485.340	129.786	210.343	340.129
3.2.3.3 Interest rate call options		-	-	-	-	-	-
3.2.3.4 Interest rate put options		-	-	-	-	-	-
3.2.3.5 Marketable securities call options		-	-	-	-	-	-
3.2.3.6 Marketable securities put options		-	-	-	-	-	-
3.2.4 Currency futures		-	-	-	-	-	-
3.2.4.1 Currency futures-buy		-	-	-	-	-	-
3.2.4.2 Currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate buy/sell futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		-	2.800.618	2.800.618	-	2.181.689	2.181.689
B. CUSTODY AND PLEDGED ASSETS (IV+V+VI)		687.759.711	166.930.372	854.690.083	661.477.039	156.010.441	817.487.480
IV. CUSTODIES		337.564.928	25.149.609	362.714.537	344.066.173	23.722.398	367.788.571
4.1 Assets under management		-	-	-	-	-	-
4.2 Custody marketable securities		165.038.870	702.899	165.741.769	167.030.333	728.810	167.759.143
4.3 Cheques in collection process		12.546.533	18.498.193	31.044.726	12.751.492	17.280.141	30.031.633
4.4 Commercial notes in collection process		146.618.882	555.216	147.174.098	137.519.788	518.733	138.038.521
4.5 Other assets in collection process		1	-	1	-	-	-
4.6 Underwritten securities		-	-	-	-	-	-
4.7 Other custodies		3.770.130	103.492	3.873.622	3.486.346	98.721	3.585.067
4.8 Custodians		9.590.512	5.289.809	14.880.321	23.278.214	5.095.993	28.374.207
V. PLEDGED ASSETS		350.194.783	140.617.261	490.812.044	317.410.866	131.158.600	448.569.466
5.1 Marketable securities		4.140.731	492.352	4.633.083	4.077.924	476.540	4.554.464
5.2 Collateral notes		7.159.512	892.360	8.051.872	7.297.816	820.012	8.117.828
5.3 Commodity		25.813	-	25.813	-	-	25.813
5.4 Warranty		-	-	-	-	-	-
5.5 Land and buildings		275.553.486	122.628.750	398.182.236	259.332.850	116.459.706	375.792.556
5.6 Other pledged assets		43.881.819	15.235.253	59.117.072	42.616.278	12.035.647	54.651.925
5.7 Pledges		19.433.422	1.368.546	20.801.968	4.060.185	1.366.695	5.426.880
VI. ACCEPTED BILL GUARANTEES AND SURETIES		-	1.163.502	1.163.502	-	1.129.443	1.129.443
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		738.325.474	226.042.269	964.367.743	707.742.393	207.611.382	915.353.775

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF INCOME
AS OF 31 March 2017

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

III. CONSOLIDATED STATEMENT OF INCOME

			Reviewed	Reviewed
			Current period	Prior period
INCOME AND EXPENSES		Note	1 January-31 March 2017	1 January-31 March 2016
I.	INTEREST INCOME	(1)	5.306.440	4.041.460
1.1	Interest on loans		4.090.831	3.234.443
1.2	Interest received from reserve deposits		22.036	15.055
1.3	Interest received from banks		46.225	29.861
1.4	Interest received from money market placements		12.362	78
1.5	Interest income on marketable securities		1.040.717	700.295
1.5.1	Financial assets held for trading		481	1.504
1.5.2	Financial assets at fair value through profit and loss		-	-
1.5.3	Financial assets available-for-sale		413.769	259.842
1.5.4	Investments held-to-maturity		626.467	438.949
1.6	Finance lease income		44.177	35.863
1.7	Other interest income		50.092	25.865
II.	INTEREST EXPENSE	(2)	2.904.784	2.433.177
2.1	Interest on deposits		2.097.023	1.981.162
2.2	Interest on borrowings		138.664	120.323
2.3	Interest on money market borrowings		434.593	179.677
2.4	Interest on bonds issued		196.162	121.777
2.5	Other interest expense		38.342	30.238
III.	NET INTEREST INCOME (I – II)		2.401.656	1.608.283
IV.	NET FEES AND COMMISSIONS INCOME		505.156	247.861
4.1	Fees and commissions income		636.900	374.105
4.1.1	Non-cash loans		91.352	63.080
4.1.2	Other		545.548	311.025
4.2	Fees and commissions expenses		131.744	126.244
4.2.1	Non-cash loans		675	1.086
4.2.2	Other		131.069	125.158
V.	DIVIDEND INCOME	(3)	204	-
VI.	NET TRADING PROFIT (NET)	(4)	75.423	27.886
6.1	Profit/loss from capital market operations		9.248	3.897
6.2	Profit/loss from financial derivative transactions		(143.551)	(211.460)
6.3	Foreign exchange gains/losses		209.726	235.449
VII.	OTHER OPERATING INCOME	(5)	475.531	414.519
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		3.457.970	2.298.549
IX.	LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)	(6)	479.129	276.106
X.	OTHER OPERATING EXPENSES(-)	(7)	1.270.539	1.384.609
XI.	NET OPERATING INCOME/(LOSS) (VIII-IX-X)		1.708.302	637.834
XII.	AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER		-	-
XIII.	PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES		5.048	3.706
XIV.	GAIN / (LOSS) ON NET MONETARY POSITION		-	-
XV.	INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)	(8)	1.713.350	641.540
XVI.	TAX INCOME PROVISION (±)	(9)	(356.705)	(112.404)
16.1	Current tax provision		(305.359)	(193.439)
16.2	Deferred tax provision		(51.346)	81.035
XVII.	NET OPERATING INCOME AFTER TAX (XV±XVI)	(10)	1.356.645	529.136
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1	Property and equipment income held for sale		-	-
18.2	Sale profits from associates, subsidiaries and joint ventures (business partners)		-	-
18.3	Other income from terminated operations		-	-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1	Property and equipment expense held for sale		-	-
19.2	Sale losses from associates, subsidiaries and joint ventures (business partners)		-	-
19.3	Other expenses from discontinued operations		-	-
XX.	INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI.	PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)		-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII.	NET PROFIT/(LOSS) (XVII+XXII)	(11)	1.356.645	529.136
23.1	Group's profit/loss		1.352.675	540.589
23.2	Minority shares profit/loss		3.970	(11.453)
	Earnings/losses per share (Full TRY)		1,08214	0,43247

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY
AS OF 31 March 2017

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

IV. CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY

	Reviewed Current period	Reviewed Prior period
	1 January-31 March 2017	1 January-31 March 2016
STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY		
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS	193.625	277.286
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	21.972	(319)
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	20.562	25.219
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)	-	-
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)	-	-
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS	81.781	(757)
IX. DEFERRED TAX OF VALUATION DIFFERENCES	(13.474)	(20.822)
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	304.466	280.607
XI. PROFIT/LOSS	1.356.645	529.136
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	8.737	2.859
11.2 Reclassification and transfer of derivatives accounted for cash flow hedge purposes to income statement	-	-
11.3 Transfer of hedge of net investments in foreign operations to income statement	-	-
11.4 Other	1.347.908	526.277
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	1.661.111	809.743

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS OF 31 March 2017

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

V. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Reviewed	Note	Paid in capital	Effect of inflation adjustments on paid in capital	Share premium	Share certificate cancellations on profit	Legal reserves	Statutory reserves	Extra-ordinary reserves	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss)	Valuation changes in marketable sec.	Revaluation changes in prop. and equip. and int. assets	Bonus shares from shareholders	Hedging funds	Value change in pro. and equip. held for sale purp./term. op.	Total equity excluding minority shares	Minority shares	Total equity	
1 January 2016 – 31 March 2016																				
I.	Balance at end of prior period	1.250.000	1.220.451	39.488	-	1.393.927	-	11.045.915	140.904	2.317.984	164.806	(285.131)	1.672.931	3.973	-	-	18.965.248	201.426	19.166.674	
	Changes within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
II.	Increase/decrease generated by merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III.	Valuation changes in marketable securities	-	-	-	-	-	-	-	-	-	-	256.353	-	-	-	-	256.353	47	256.400	
IV.	Hedging funds (effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.1	Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.2	Hedges for investment made in foreign countries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
V.	Revaluation changes of property and equipment	-	-	-	-	-	-	-	-	-	-	-	(255)	-	-	-	(255)	-	(255)	
VI.	Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII.	Foreign exchange differences	-	-	-	-	-	-	-	25.204	-	-	-	-	-	-	-	25.204	15	25.219	
IX.	Changes after disposal of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Changes after reclassification of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Effect of changes in shareholders equity of investments and associates to bank's shareholders equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII.	Increase in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.2	From internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII.	Issuance of share certificates at end of period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XV.	Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI.	Other	-	-	23	-	26	-	91	-	-	-	-	-	-	-	-	-	140	(897)	(757)
XVII.	Net profit or losses	-	-	-	-	-	-	-	-	540.589	-	-	-	-	-	-	540.589	(11.453)	529.136	
XVIII.	Profit distribution	-	-	-	-	-	-	-	-	(2.317.984)	2.317.984	-	-	-	-	-	-	-	-	
18.1	Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
18.2	Transfers to legal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
18.3	Other	-	-	-	-	-	-	-	-	(2.317.984)	2.317.984	-	-	-	-	-	-	-	-	
	Closing balance	1.250.000	1.220.451	39.511	-	1.393.953	-	11.046.006	166.108	540.589	2.482.790	(28.778)	1.672.676	3.973	-	-	19.787.279	189.138	19.976.417	
1 January 2017 – 31 March 2017																				
I.	Balance at end of prior period	1.250.000	1.220.451	39.737	-	1.562.172	-	12.956.536	33.837	2.533.607	166.949	(718.928)	2.107.278	4.723	-	-	21.156.362	213.158	21.369.520	
	Changes within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
II.	Increase or decrease generated by merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III.	Valuation changes in marketable securities	-	-	-	-	-	-	-	-	-	-	181.262	-	-	-	-	181.262	(12)	181.250	
IV.	Hedging Funds (effective portion)	-	-	-	-	-	-	-	(22.404)	-	-	-	-	-	-	-	(22.404)	-	(22.404)	
4.1	Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.2	Hedges for investments made in foreign countries	-	-	-	-	-	-	-	(22.404)	-	-	-	-	-	-	-	(22.404)	-	(22.404)	
V.	Revaluation changes of property and equipment	-	-	-	-	-	-	-	-	-	-	-	20.873	-	-	-	20.873	-	20.873	
VI.	Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII.	Foreign exchange differences	-	-	-	-	-	-	-	20.437	-	-	-	-	-	-	-	20.437	125	20.562	
IX.	Changes after disposal of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Changes after reclassification of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Effect of changes in shareholders equity of investments and associates to bank's shareholders equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII.	Increase in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.2	From internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII.	Issuance of share certificates at end of period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XV.	Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI.	Other⁽¹⁾	-	-	-	-	921	-	3	54.953	-	24.343	-	-	-	-	-	80.220	1.561	81.781	
XVII.	Net profit or losses	-	-	-	-	-	-	-	-	1.352.675	-	-	-	-	-	-	1.352.675	3.970	1.356.645	
XVIII.	Profit distribution	-	-	-	-	-	-	-	-	(2.533.607)	2.533.607	-	-	-	-	-	-	-	-	
18.1	Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
18.2	Transfers to legal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
18.3	Other	-	-	-	-	-	-	-	-	(2.533.607)	2.533.607	-	-	-	-	-	-	-	-	
	Closing balance	1.250.000	1.220.451	39.737	-	1.563.093	-	12.956.539	86.823	1.352.675	2.724.899	(537.666)	2.128.151	4.723	-	-	22.789.425	218.802	23.008.227	

(1) Result of the change on the Group shares.

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF CASH FLOWS
AS OF 31 March 2017

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

VI. CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed	Reviewed
	Current period	Prior period
Note	31 March 2017	31 March 2016
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating profit before changes in operating assets and liabilities	1.707.571	1.107.835
1.1.1 Interest received	4.947.987	4.026.545
1.1.2 Interest paid	(2.965.340)	(2.263.784)
1.1.3 Dividend received	204	-
1.1.4 Fees and commissions received	636.900	374.105
1.1.5 Other income	395.115	346.803
1.1.6 Collections from previously written off loans	120.121	187.208
1.1.7 Cash payments to personnel and service suppliers	(519.999)	(487.108)
1.1.8 Taxes paid	(259.205)	(162.261)
1.1.9 Other	(648.212)	(913.673)
1.2 Assets and Liabilities Subject to Banking Operations	329.534	(103.663)
1.2.1 Net decrease in financial assets held for sale	46.276	(29.819)
1.2.2 Net (increase) decrease in financial assets at fair value through profit or loss	-	-
1.2.3 Net (increase) decrease in due from banks and other financial institutions	15.712	-
1.2.4 Net (increase) decrease in loans	(10.103.845)	(5.897.937)
1.2.5 Net (increase) decrease in other assets	(3.314.441)	(1.760.796)
1.2.6 Net increase (decrease) in bank deposits	(2.243.310)	5.011.649
1.2.7 Net increase (decrease) in other deposits	9.993.910	(1.424.723)
1.2.8 Net increase (decrease) in loans borrowed	(270.994)	(926.919)
1.2.9 Net increase (decrease) in matured payables	-	-
1.2.10 Net increase (decrease) in other liabilities	6.206.226	4.924.882
I. Net cash provided from banking operations	2.037.105	1.004.172
B. CASH FLOWS FROM INVESTMENT ACTIVITIES		
II. Net cash provided from/ (used in) investing activities	(2.674.978)	(616.550)
2.1 Cash paid for purchase of joint ventures, associates and subsidiaries	-	-
2.2 Cash obtained from sale of entities joint ventures, associates and subsidiaries	-	-
2.3 Fixed assets purchases	(75.492)	(106.747)
2.4 Fixed assets sales	35.952	61.827
2.5 Cash paid for purchase of financial assets available for sale	(2.632.789)	(1.389.239)
2.6 Cash obtained from sale of financial assets available for sale	1.268.256	892.236
2.7 Cash paid for purchase of investment securities	(1.948.832)	(871.715)
2.8 Cash obtained from sale of investment securities	680.429	804.024
2.9 Other	(2.502)	(6.936)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash used in financing activities	803.170	(462.816)
3.1 Cash obtained from loans borrowed and securities issued	1.264.761	685.058
3.2 Cash used for repayment of loans borrowed and securities issued	(461.591)	(1.147.874)
3.3 Bonds issued	-	-
3.4 Dividends paid	-	-
3.5 Payments for finance leases	-	-
3.6 Other	-	-
IV. Effect of change in foreign exchange rate on cash and cash equivalents	392.217	(77.329)
V. Net increase / (decrease) in cash and cash equivalents	557.514	(152.523)
VI. Cash and cash equivalents at beginning of the period	15.530.596	8.855.902
VII. Cash and cash equivalents at end of the period	16.088.110	8.703.379

The accompanying notes are an integral part of these consolidated financial statements

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The Parent Bank prepares its financial statements in accordance with the BRSA Accounting and Reporting Regulation” which includes the regulation on “The Procedures and Principles Regarding Banks’ Accounting Practices and Maintaining Documents” published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations.

The accompanying unconsolidated financial statements are prepared in accordance with the historical cost basis except for financial instruments at fair value through profit or loss, financial assets available for sale, real estates and investments in affiliates valued at equity basis of accounting.

Accounting policies and accounting estimates on which the accompanying financial statements based are in compliance with “The Banking Regulation and Supervision Agency (“BRSA”) Accounting and Reporting Regulation” and other regulations, circulars and pronouncements published by the BRSA and with Turkish Accounting Standards issued by Public Oversight Agency for the matters not regulated by the aforementioned legislations and have been applied consistently by the Parent Bank as in the financial statements prepared for the year ended 31 December 2016.

New and revised Turkish Accounting Standards effective for annual periods beginning on or after 1 January 2017 have no material effect on the financial statements, financial performance and on Bank’s accounting policies and accounting estimates. New and revised Turkish Accounting Standards issued but not yet effective have no material effect on the financial statements, financial performance and on Bank’s accounting policies and accounting estimates, except for TFRS 9 which will be effective from periods beginning on or after 1 January 2018. The Parent Bank has started projects to comply with TFRS 9.

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

1. The Group’s strategy on financial instruments:

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

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

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

which is the functional currency of the Group and the presentation currency of the financial statements.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

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

2. The Group's explanations on foreign currency transactions (continued):

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

The Group hedged the net investment risk from the foreign currency exchange rate fluctuations on foreign financial investments (Halkbank AD Beograd (subsidiary), Demirhalkbank NV (affiliate) and Halkbank AD, Skopje (subsidiary)) with the foreign currency denominated funds (hedging instrument) as of 1 July, 2015. In this context, exchange differences recorded in profit/loss and arising from funds denominated in foreign currencies that are determined to be effective in the current period will be shown in equity.

III. INFORMATION ABOUT THE CONSOLIDATED ASSOCIATES AND SUBSIDIARIES

1. Basis of consolidation:

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

a. Basis of consolidation of subsidiaries:

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

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

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

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

b. Basis of consolidation of associates:

Investments in associates, Demir-Halkbank NV ("Demir Halk Bank"), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta AŞ are presented in the accompanying financial statements based on the equity method of accounting. An associate is an entity established domestically and abroad in which the Parent Bank invests with a significant influence but no control.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

III. INFORMATION ABOUT THE CONSOLIDATED ASSOCIATES AND SUBSIDIARIES (continued)

1. Basis of consolidation (continued):

b. Basis of consolidation of associates (continued):

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

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

Equity accounting method is an evaluation method of associates by which the Parent Bank's share in the associates' equity is compared with the book value of the associate accounted for in the Parent Bank's balance sheet.

Accounting principles used by the consolidated associates accounted for at equity method, Demir Halkbank NV and Kobi Girişim Sermayesi AŞ and Türk P ve I Sigorta AŞ, are the same of the Parent Bank.

c. Basis of consolidation of joint ventures:

The Parent Bank does not have any joint ventures which subject to consolidation.

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

Accounting for business combinations

From 1 January 2010 the Group applies TFRS 3 Business Combinations (2008) in accounting for business combinations. Change in this accounting policy was applied prospectively and did not have a significant impact on earnings per share (EPS).

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

Acquisitions on or after 1 January 2010

Goodwill at the acquisition date for business combinations on or after 1 January 2010 are measured as below:

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

When this total is negative, the gain on acquisition is recognized immediately in profit or loss.

Fair values of the identifiable acquired assets, liabilities and contingent liabilities if the initial recognition of the combination is to be made temporarily at the end of the period in which the combination takes place since the cost of the combination can be determined only temporarily on the basis of the carrying values, the acquirer accounts for the business combination with temporary amounts. The temporary acquisition value of the combination should be adjusted within 12 months to reflect the completion of the transaction, including adjusting the goodwill.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

III. INFORMATION ABOUT THE CONSOLIDATED ASSOCIATES AND SUBSIDIARIES (continued)

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

Accounting for business combinations (continued)

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

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

IV. EXPLANATIONS ON FUTURES AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

Derivative transactions of the Group consist of foreign currency and interest rate swaps, options and forwards. The Group uses derivatives to avoid economical risks and account for as trading under Turkish Accounting Standard No: 39 “Financial Instruments: Recognition and Measurement” (TAS 39) classification.

Pledges arises derivative transactions are recognized in off balance sheet accounts with their agreement amounts. Derivative transactions are valued at their fair values and the changes in their fair values are recorded on balance sheet under “derivative financial assets held for trading” or “derivative financial liabilities held for trading”, respectively depending on the fair values being positive or negative. Fair value changes for trading derivatives are recorded under income statement. Fair values of derivatives are calculated using discounted cash flow model or market value.

Explanations related to credit derivatives and its risk exposures:

The bank has credit termly derivative transactions as part of its trading transactions. These transactions include credit default swaps which based on treasury of Turkish Republic’s credit risk. As of 31 March 2017, the bank has credit default swap transaction amounting to USD 150 million with 5 year maturity. In this transactions the bank sells protection.

V. EXPLANATIONS ON INTEREST INCOME AND EXPENSES

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

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

VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSES

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

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

VII. EXPLANATIONS ON FINANCIAL ASSETS

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

VII. EXPLANATIONS ON FINANCIAL ASSETS (continued)

The estimated fair values of financial assets have been determined by the Parent 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 measured at fair values after the initial recognition. All gains and losses arising from valuations of trading financial assets are reflected in the income statement. In accordance with descriptions of the uniform chart of accounts, favorable difference between acquisition cost of financial asset and its discounted value are recognized in "Interest Income", in the case of fair value of asset is above its discounted value, favorable difference between them are recognized in "Capital Market Transactions Profits" account, in the case of fair value is below discounted value, unfavorable difference between them are recognized in "Capital Market Transactions Losses" account and the dividends presented under dividend income. In the case of financial asset is sold off before its maturity, consisted gains or losses are accounted within the same principals.

2.2. Financial assets at fair value through profit and loss

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

The Group has no any financial assets at fair value through profit and loss as of 31 March 2017 and 31 December 2016.

3. Investments held to maturity

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

VII. EXPLANATIONS 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 cost 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 cost” using the internal rate of return is regarded as the fair value. 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 impairment of those assets. Fair value differences accounted for under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when proceeds are 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 lastly with the regulation published in the Official Gazette No: 29267 dated 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its financial asset or group of financial assets whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Group determines the related impairment amount. A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event (“loss event”) subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of their high probability of incurrence, future expected losses are not recognized.

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

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

For loans and receivables; the Parent Bank’s management performs consistent loan portfolio reviews and if any doubts on the collectability of the loans arise, the related loans are classified in accordance with legislation on “Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions (“Communiqué”)” published in the Official Gazette numbered 26333 and dated 1 November 2006. The Parent Bank does not book provisions 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 respective 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 type of collaterals defined in the Article 9 of the related legislation. Unindemnified and not reimbursed 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 principal and interest collections are recognized under the “Interest Received from Non-performing Loans” item of the income statement.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS (continued)

The Parent Bank provides general allowances for loan and other receivables in accordance with the Provisioning Regulation. The allowances are recorded in income statement of the related period. Provisions made during the period are recorded under “provision for losses on loans and other receivables”. Provisions booked in the prior periods and released in the current year are recorded under “other operating income”.

IX. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS

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

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

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XI. EXPLANATIONS ON ASSETS HELD FOR SALE ASSETS OF DISCONTINUED OPERATIONS AND RELATED LIABILITIES

Assets that meet the criteria to be classified as held for sale are measured at carrying amount and depreciation of such assets is ceased and they are presented separately in the balance sheet. In order to classify an 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 program to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year.

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

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

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

XIII. EXPLANATIONS ON PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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 Parent 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 independent appraisal companies are reflected to the financial statements. Revaluation differences are recorded in "Tangible assets revaluation reserves" under the shareholders' equity.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Classification of Investment Properties:

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

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

XIV. EXPLANATIONS ON INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

XV. EXPLANATIONS ON LEASING TRANSACTIONS

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

In the cases of the Group as lessor, the net investment of the assets held under financial leases at the initial recognition is recognized as financial lease receivables in the balance sheet. Finance lease income, as the difference between total financial lease receivable and investment value, is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Unrealised finance lease income is recognized in the account of unaccrued interest income in the related period.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XVI. EXPLANATIONS ON INSURANCE TECHNICAL INCOME AND EXPENSE

Insurance premium income is recognised subsequent to the share of reinsurers in policy income is deducted.

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

XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS

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

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

Outstanding claims reserves comprise incurred and accrued but not yet paid claims in the current or prior periods or incurred but not reported claims. Insurance companies may discount net cash outflows from outstanding claims reserves with respect to related insurance legislation, as per the Undersecretariat of Treasury's "Circular on Outstanding Claims Reserves Arising from Discounting of the Net Cash Flow" No. 2016/22 dated 10 June 2016.

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

Effective from 1 January 2005, the insurance entities comply with TFRS 4, Insurance Contracts ("TFRS 4"). TFRS 4 represents the completion of phase I and is a transitional standard until the recognition and measurement of insurance contracts are fully addressed. TFRS 4 requires that all contracts issued by insurance companies are classified as either insurance contracts or investment contracts.

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS (CONTINUED)

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

XVIII. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

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

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

XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES

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

The retirement pay provision of the Parent Bank has been determined by the actuarial report of an independent actuary firm. 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 including employees of the Parent Bank. Provisional article 23 of the Banking Act No: 5411 requires the Parent Bank’s pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution (SII) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers’ decision dated 30 November 2006 and numbered 2006/11345 and accordingly, both pension funds 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.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

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(TGNA) 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 Council of Ministers 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, the authority of the Council of Ministers extending 2 years has been raised to 4 years.

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

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

XX. EXPLANATIONS ON TAXATION

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

Calculated corporate tax as of 31 December 2016 has been paid in February 2017 thereby setting off calculated advanced taxes in previous periods; accrued advance tax as of 31 March 2017 will also be paid in May 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.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XX. EXPLANATIONS ON TAXATION (CONTINUED)

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

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

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

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

Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are subject to 10% of corporate tax and this taxed amount is subject to 15% of income tax. The tax bases for corporate are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in 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.

Tax practices for the consolidated subsidiaries

Halk Gayrimenkul Yatırım Ortaklığı AŞ

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

Halk Banka AD Skopje

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

"Distributions" are split into two components:

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XX. EXPLANATIONS ON TAXATION (continued)

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

Tax practices for the consolidated subsidiaries (continued)

Halk Bank AD Skopje (continued)

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

(i) Tax on dividend distribution:

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

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

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

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

(ii) Tax on non deductible items:

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

Recognition of tax provisions:

In case of tax contingencies, provisions are made in line with TAS 37 adopted in the Republic of Macedonia.

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

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

Halk Bank AD Beograd.

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

The Law on Corporate Income Tax in the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax balance up to 2009 may be used to reduce tax base for future periods, but only for a period not longer than ten years. Tax losses carried forward after 2010 may be used for reduction of tax base for the following accounting periods for a maximum 5 years. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XXI. ADDITIONAL EXPLANATIONS ON BORROWINGS

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

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

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

XXII. EXPLANATIONS ON SHARES ISSUED

Share issuances related to costs are recognised as expenses. Dividends related with the equity shares are determined by the General Assembly of the Parent Bank.

The Parent Bank has not issued any shares in the current and prior period. In accordance with the decision of the Higher Council of Privatization dated 5 February 2007 and numbered 2007/8, the process of public offering for the 25% of shares pertaining to the Privatization Administration was completed and the Parent Bank shares were registered with Capital Market Board as per the CMB decision 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 decision of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

Halk GYO has applied to the CMB on 29 August 2012 to increase its issued capital from TRY 477.000 to TRY 662.500 within TRY 1.500.000 registered capital ceiling, by public offering of the corresponding B group bearer shares of TRY 185.500. Application was approved in accordance with the decision promulgated by the CMB's decision numbered 4/97 dated 8 February 2013. As at 15 February 2013 the public offering of B group bearer shares of TRY 185.500 was made by restricting the preemptive rights of the existing shareholders. After completing the investors book building, Halk GYO's shares started to be traded on Borsa İstanbul AŞ on 22 February 2013.

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

XXIII. EXPLANATIONS ON BILL GUARANTEES AND ACCEPTANCES

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

XXIV. EXPLANATIONS ON GOVERNMENT INCENTIVES

There are no government incentives utilized by the Parent Bank.

XXV. EXPLANATIONS ON SEGMENT REPORTING

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

The information of the Group's business segments is explained in section four disclosure numbered VII.

XXVI. EXPLANATION ON OTHER MATTERS

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS ON EQUITY

Calculation of the amount of equity is made 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". As of 31 March 2017, the Group's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 13,02% (31 December 2016: 12,50%), The equity is calculated as TRY 24.506.220 in accordance with the principles of "Regulation on Equities of Banks" (31 December 2016: TRY 22.857.327).

1. Components of Consolidated Capital:

Current Period	Amount	Amounts related to treatment before 1/1/2014^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	14.606.994	
Other Comprehensive Income according to TAS	1.589.946	
Profit	4.077.574	
Current Period Profit	1.352.675	
Prior Period Profit	2.724.899	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interest	12.682	
Common Equity Tier I Capital Before Deductions	22.802.107	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	-	
Leasehold Improvements on Operational Leases (-)	70.922	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	89.588	111.985
Net Deferred Tax Asset/Liability (-)	-	
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined pension benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	
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 more 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 the 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 I Capital (-)	-	
Excess amount arising from mortgage servicing rights	-	
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 Tier I or Tier II Capitals (-)	-	
Total Deductions From Common Equity Tier I Capital	160.510	
Total Common Equity Tier I Capital	22.641.597	

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS ON EQUITY (continued)

1. Information on Consolidated Equity Components (continued):

ADDITIONAL TIER I CAPITAL	-
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Shares of Third Parties in Additional Tier I Capital	-
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-
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 (-)	-
Items to be Deducted from Tier I Capital During the Transition Period	22.397
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 (-)	22.397
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 (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions from Additional Tier I Capital	-
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	22.619.200
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Third parties' share in the Tier II Capital	-
Third parties' share in the Tier II Capital (Temporary Article 3)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2.128.027
Tier II Capital Before Deductions	2.128.027
Deductions From Tier II Capital	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments in equity instruments issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and having conditions stated in the Article 8 of the Regulation	-
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 more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	2.128.027
Total Capital (The sum of Tier I Capital and Tier II Capital)	24.747.227
Total Tier I Capital and Tier II Capital (Total Equity)	24.506.220
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 (-)	223.984
Other items to be Defined by the BRSA (-)	17.013

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS ON EQUITY (continued)

1. Components of Consolidated Capital (continued):

Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period	
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 Tier I 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 Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I 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 (-)	-
TOTAL CAPITAL	
Total capital	24.506.220
Total risk weighted amounts	188.222.722
Capital Adequacy Ratios	
Core Capital Adequacy Ratio	12,03
Tier I Capital Adequacy Ratio	12,02
Capital Adequacy Ratio	13,02
BUFFERS	
Bank-specific total CET1 Capital Ratio (%)	6,270
Capital Conservation Buffer Ratio (%)	1,250
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)**	0,520
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,020
Amounts Lower Than Excesses as per Deduction Rules	
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	53.047
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 Issued Share Capital (**)	1.563.056
Remaining Mortgage Servicing Rights	
Net Deferred Tax Assets arising from Temporary Differences	289.766
Limits for Provisions Used in Tier II Capital Calculation	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.135.565
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2.128.027
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-

*Amounts in this column represents the amounts of items that are subject to transitional provisions.

**Systemically important banks countercyclical buffers are included in Bank Specific Counter-cyclical Buffer Requirement.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS ON EQUITY (continued)

1. Components of Consolidated Capital (continued):

Prior Period	Amount	Amounts related to treatment before 1/1/2014^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	14.553.153	
Other Comprehensive Income according to TAS	1.387.742	
Profit	2.700.556	
Current Period Profit	2.533.607	
Prior Period Profit	166.949	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interests	16.333	
Common Equity Tier I Capital Before Deductions	21.172.695	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	-	
Leasehold Improvements on Operational Leases (-)	72.880	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	69.137	115.229
Net Deferred Tax Asset/Liability (-)	-	
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined pension benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	
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 more 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 the 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 I Capital (-)	-	
Excess amount arising from mortgage servicing rights	-	
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 Tier I or Tier II Capitals (-)	-	
Total Deductions From Common Equity Tier I Capital	142.017	
Total Common Equity Tier I Capital	21.030.678	

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS ON EQUITY (continued)

1. Components of Consolidated Capital (continued):

ADDITIONAL TIER I CAPITAL	-
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Shares of Third Parties in Additional Tier I Capital	-
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-
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 (-)	-
Items to be Deducted from Tier I Capital During the Transition Period	46.092
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 (-)	46.092
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 (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions from Additional Tier I Capital	-
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	20.984.586
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Third parties' share in the Tier II Capital	-
Third parties' share in the Tier II Capital (Temporary Article 3)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2.049.136
Tier II Capital Before Deductions	2.049.136
Deductions From Tier II Capital	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments in equity instruments issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and having conditions stated in the Article 8 of the Regulation	-
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 more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	2.049.136
Total Capital (The sum of Tier I Capital and Tier II Capital)	23.033.722
Total Tier I Capital and Tier II Capital (Total Equity)	22.857.357
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 (-)	157.617
Other items to be defined by the BRSA (-)	18.738

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS ON EQUITY (continued)

1. Components of Consolidated Capital (continued):

Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period	
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 Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I 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 (-)	-
TOTAL CAPITAL	
Total capital (Total Tier I Capital and Tier II Capital)	22.857.357
Total risk weighted amounts	182.822.490
Capital Adequacy Ratios	
Core Capital Adequacy Ratio	11,50
Tier I Capital Adequacy Ratio	11,48
Capital Adequacy Ratio	12,50
BUFFERS	
Bank-specific total CET1 Capital Ratio (%)	5,387
Capital Conservation Buffer Ratio (%)	0,625
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)**	0,262
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	4,502
Amounts Lower Than Excesses as per Deduction Rules	
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	47.469
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 Issued Share Capital (**)	1.550.920
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	283.637
Limits for Provisions Used in Tier II Capital Calculation	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.049.136
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2.049.136
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-

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

**Systemically important banks countercyclical buffers are included in Bank Specific Counter-cyclical Buffer Requirement.

2. Information about instruments that will be included in total capital calculation:

None.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

II. EXPLANATIONS RELATED TO THE CONSOLIDATED CURRENCY RISK

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

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

Announced current foreign exchange buying rates of the Parent Bank as at 31 March 2017 and the previous five working days in full TRY are as follows:

	24.03.2017	27.03.2017	28.03.2017	29.03.2017	30.03.2017	31.03.2017
USD	3,5800000	3,5900000	3,5900000	3,6300000	3,6000000	3,6300000
CHF	3,6040000	3,6462000	3,6427000	3,6382000	3,6056000	3,6180000
GBP	4,4608000	4,5069000	4,4917000	4,5057000	4,4922000	4,5224000
JPY	0,0321488	0,0324781	0,0325032	0,0326713	0,0322906	0,0324693
EUR	3,8655000	3,9059000	3,9002000	3,9037000	3,8621000	3,8772000

The simple arithmetic averages of the major current foreign exchange buying rates of the Parent Bank for the thirty days before 31 March 2017 are as follows:

	Monthly average
USD	3,6431818
CHF	3,6311500
GBP	4,4873045
JPY	0,0321852
EUR	3,8933409

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

Information related to the consolidated currency risk:

Current Period	EUR	USD	OTHER FC	TOTAL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	6.876.231	19.948.597	4.235.367	31.060.195
Banks	205.169	1.030.538	467.429	1.703.136
Financial assets at fair value through profit and loss ⁽³⁾	90.845	291.646	7.007	389.498
Money market placements	-	-	-	-
Financial assets available-for-sale	453.699	4.124.973	371.417	4.950.089
Loans ⁽²⁾	28.239.418	31.546.524	1.261.185	61.047.127
Subsidiaries, associates and entities under common control	283.909	-	-	283.909
Held-to-maturity investments	5.550	2.395.854	152.391	2.553.795
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	78.953	78.953
Intangible assets	-	-	-	-
Other assets ⁽³⁾	1.421.510	1.074.817	50.851	2.547.178
Total assets	37.576.331	60.412.949	6.624.600	104.613.880
Liabilities				
Bank deposits	7.406.535	2.951.831	1.425.949	11.784.315
Foreign currency deposits	18.699.501	37.778.942	3.125.193	59.603.636
Money market balances	-	1.956.853	-	1.956.853
Funds provided from other financial institutions	9.028.511	11.111.094	38.473	20.178.078
Bonds issued	-	10.969.843	-	10.969.843
Sundry creditors	27.028	94.661	6.188	127.877
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	311.345	291.579	142.737	745.661
Total liabilities	35.472.920	65.154.803	4.738.540	105.366.263
Net balance sheet position	2.103.411	(4.741.854)	1.886.060	(752.383)
Net off-balance sheet position	(2.412.701)	4.576.985	(1.543.001)	621.283
Financial derivative assets ⁽⁴⁾	1.185.603	7.252.377	1.654.526	10.092.506
Financial derivative liabilities ⁽⁴⁾	3.598.304	2.675.392	3.197.527	9.471.223
Non-cash loans ⁽¹⁾	9.721.069	16.758.222	1.708.492	28.187.783
Prior period				
Total assets	35.253.731	55.542.878	5.949.688	96.746.297
Total liabilities	35.268.253	57.378.976	4.543.061	97.190.290
Net balance sheet position	(14.522)	(1.836.098)	1.406.627	(443.993)
Net off-balance sheet position	(285.828)	1.925.895	(1.140.708)	499.359
Financial derivative assets	1.387.874	4.185.717	1.571.243	7.144.834
Financial derivative liabilities	1.673.702	2.259.822	2.711.951	6.645.475
Non-cash loans ⁽¹⁾	8.827.121	16.441.447	1.609.613	26.878.181

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

⁽²⁾ Includes TRY 1.947.425 TL of foreign currency indexed loans and their accruals (31 December 2016: TRY 1.998.635).

⁽³⁾ In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", prepaid expenses TRY 94 in assets; and shareholders' equity TRY (18.194) in liabilities are not taken into consideration in the currency risk measurement.

⁽⁴⁾ Financial derivative assets include forward precious metal purchase transactions amounted to TRY 234.526. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 2.566.092. Besides, derivative transactions under forward foreign currency purchase and sale commitments are included.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

III. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK

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

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

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

The Parent Bank does not allow or limits interest rate mismatch and therefore, significant interest rate risk exposures is not expected.

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

Current period	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Non-bearing interest	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	21.082.633	-	-	-	-	12.300.722	33.383.355
Banks and financial institutions	1.325.953	130.199	6.370	-	-	600.073	2.062.595
Financial assets at fair value through profit and loss	4.659	9.204	7.455	240	86	409.707	431.351
Money market placements	1.032	1.147.543	-	-	-	-	1.148.575
Financial assets available-for-sale	422.988	3.910.728	2.063.955	4.047.308	6.380.911	71.120	16.897.010
Loans	71.224.790	32.102.549	32.676.678	25.597.179	5.373.325	1.079.486	168.054.007
Held-to-maturity investments	956.305	8.969.853	707.532	2.926.651	5.824.632	-	19.384.973
Other assets ⁽¹⁾⁽²⁾	5.660.621	290.617	730.534	1.545.229	266.125	4.640.877	13.134.003
Total assets	100.678.981	46.560.693	36.192.524	34.116.607	17.845.079	19.101.985	254.495.869
Liabilities							
Bank deposits	10.969.023	3.109.916	490.244	-	-	5.987.026	20.556.209
Other deposits	71.306.464	32.282.872	9.765.144	582.921	8.324	23.745.545	137.691.270
Money market balances	21.863.157	1.806.747	1.099.816	-	-	17.367	24.787.087
Sundry creditors	142.260	114.161	351.821	922.246	16	1.360.157	2.890.661
Bonds issued	398.771	901.087	3.812.897	8.146.274	-	101.957	13.360.986
Funds provided from other financial institutions ⁽⁴⁾	1.622.172	4.433.878	9.303.760	4.413.960	1.394.551	162.202	21.330.523
Other liabilities ⁽³⁾	42.966	2.161	1.152.605	94.021	343.793	32.243.587	33.879.133
Total liabilities	106.344.813	42.650.822	25.976.287	14.159.422	1.746.684	63.617.841	254.495.869
Balance sheet long position	-	-	10.216.237	19.957.185	16.098.395	-	46.271.817
Balance sheet short position	(5.665.832)	3.909.871	-	-	-	(44.515.856)	(46.271.817)
Off-balance sheet long position	363.000	2.677.270	48.400	736.372	1.807.798	11.164.325	16.797.165
Off-balance sheet short position	-	(2.495.770)	(48.400)	(1.165.671)	(1.807.798)	(11.128.645)	(16.646.284)
Total position	(5.302.832)	4.091.371	10.216.237	19.527.886	16.098.395	(44.480.176)	150.881

(1) TRY 92.183 of deferred tax assets is disclosed under the non-bearing interest column in other assets and TRY 346.452 of deferred tax liability is disclosed under the non-bearing interest column in other liabilities.

(2) TRY 1.406.634 of non-performing loans with no special provision are disclosed under the non-bearing interest column in other assets.

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

III. EXPLANATIONS ON THE CONSOLIDATED INTEREST RATE RISK (continued)

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

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

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

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

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

⁽⁴⁾ Funds provided from other financial institutions include borrowings.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

III. EXPLANATIONS ON THE CONSOLIDATED INTEREST RATE RISK (continued)

2. Average interest rates applied to financial instruments:

Current period	EUR	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT ⁽⁵⁾	-	0,78	-	4,00
Due from other banks and financial institutions ⁽¹⁾	0,01	0,95	-	10,03
Financial assets at fair value through profit and loss	-	-	-	10,87
Money market placements	-	-	-	-
Available-for-sale financial assets	4,60	5,63	-	14,67
Loans ⁽²⁾	4,50	5,71	-	12,77
Held-to-maturity investments	-	5,88	-	20,31
Liabilities				
Bank deposits	0,57	3,33	-	10,71
Other deposits ⁽⁴⁾	1,39	3,30	0,25	10,00
Money market borrowings	-	2,65	-	8,33
Sundry creditors ⁽³⁾	-	-	-	4,75
Bonds issued	-	4,61	-	10,51
Funds provided from other financial institutions	0,63	2,54	-	7,55
Prior Period				
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT	-	0,49	-	3,30
Due from other banks and financial institutions	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	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
Liabilities				
Bank deposits	0,44	3,17	-	7,82
Other deposits	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55

⁽¹⁾ Interest rates are calculated using weighted average method for placements as of the balance sheet date.

⁽²⁾ Interest rates for loans given as of the balance sheet date are calculated by using client based weighted average interests.

⁽³⁾ Declared maximum deposits interest rate with a maturity of twelve months as of 31 March 2017.

⁽⁴⁾ Customer based calculated interest rates are applied to TRY and FC deposits as of 31 March 2017.

⁽⁵⁾ Average interest rates for reserve requirements of the Central Bank.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

IV. EXPLANATIONS ON THE CONSOLIDATED POSITION RISK OF SHARES

Information about position risk of shares:

Equities	Comparison			The Amount of Capital Requirement
	Balance Sheet Value	Fair Value Change	Market Value	
Stock investment excluding A,B,C,D group	347.382 ^(*)	261.711 ^(**)	-	20.937

(*)Includes TRY 41.243 of unconsolidated subsidiary, TRY 299.819 of associates accounted for under the equity method and TRY 6.320 of unconsolidated associates.

(**)The financial informations about the fair value of Demir-Halkbank NV has been obtained from its valuation report as of 31 March 2017.

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 core capital	Total	Included to total core capital	Included to core capital
1. Private equity investments	-	-	-	-	-	-
2. Share certificates quoted in a stock exchange	-	-	-	-	-	-
3. Other share certificates	-	15.789	15.789	-	-	-
Total	-	15.789	15.789	-	-	-

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

V. EXPLANATIONS ON THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

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

To detect liquidity risk, Bank Liquidity Emergency Action Plan (LEAP) 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 is established.

The Parent Bank's 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 gap analysis on the maturity remained day basis and projected ratios stated in "Liquidity Emergency Plan (LAEP)" are followed within the scope of liquidity risk measurement under this purpose. The Bank's liquidity risk are digitized by daily follow-ups with first and second degree warnings for determined ratios relating to balance-sheet, liquidity deficit in all maturity gap and the Bank's position against such ratios.

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

The extension of the maturity structure of term deposits reflects the primary funding source for the Parent Bank; the development of new products that encourage saving and the protection of core deposit levels have been implemented as a strategic objective. Limits have been determined for issuing bonds based on Turkish Lira to provide long term funding resource for the purposes of extending maturity structure of liabilities besides deposits.

For the purposes of utilizing advantage of the new borrowing facilities in line with the needs of the Parent Bank, alternative fund resources in parallel with the close monitoring of price/cost movements in international capital markets and compliance with the conditions are evaluated.

Effective collateral management structure is provided by the reduction of liquidity risk. The Parent Bank participates in the organized markets (CBRT, BIST and TAKASBANK). Debt upper limits and balance sheet size are determined under certain criteria by the relevant authorities. Existing limits available to use are continuously monitored with the cooperation of Treasury Management Middle Office and Treasury Operations Department thought the Parent Bank's projected and instant liquidity needs under the condition that depositing and/or withdrawing additional collateral.

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 Parent 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.

Moreover, to analyze the withdrawal rates of time deposits, the core deposit analysis is performed relating to deposit items based on each currency type.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

Liquidity ratios and its daily changes monitored under calculated "Liquidity Coverage Ratio" and "Liquidity Emergency Action Plan" within the scope of the Regulation on "Banks' Liquidity Coverage Ratio Calculation" prepared by BRSA and then they are notified to the Parent Bank's Audit Committee and the Asset-Liability Committee regularly.

Throughout the current period, the Parent Bank's Liquidity Coverage Ratio's lowest and highest values and the months these values are monitored are given in the table below:

Liquidity Minimum-Maximum

Liquidity Coverage Ratio	FC		TRY+FC	
	Related Month	(%)	Related Month	(%)
Maximum	February	210,84	February	111,23
Minimum	January	182,08	March	95,32

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

	Rate of "Percentage to be taken into account" not Implemented Total value ⁽¹⁾		Rate of "Percentage to be taken into account" Implemented Total value ⁽¹⁾	
	TRY+FC	FC	TRY+FC	FC
Current Period				
High Quality Liquid Assets				
High Quality Liquid Assets			41.650.349	24.168.472
Cash Outflows				
Retail and Small Business Customers, of which;	76.972.543	33.598.884	6.546.759	3.359.889
Stable Deposits	23.009.913	-	1.150.496	-
Less Stable Deposits	53.962.630	33.598.884	5.396.263	3.359.889
Unsecured wholesale funding , of which;	74.322.212	24.964.872	43.759.716	17.192.534
Operational Deposits	-	-	-	-
Non-operational Deposits	53.198.646	22.227.860	33.284.737	14.823.229
Other Unsecured Funding	21.123.566	2.737.012	10.474.979	2.369.305
Secured Funding			-	-
Other cash outflows, of which;	4.823.580	2.919.866	2.255.730	1.514.741
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	132.027	370.879	132.027	370.879
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.691.553	2.548.987	2.123.703	1.143.862
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	64.832.160	25.457.233	4.878.309	2.044.432
Total Cash Outflows			57.440.514	24.111.596
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	22.778.899	13.362.361	16.302.323	11.694.201
Other Cash Inflows	62.697	14.025	62.697	14.025
Total Cash Inflows	22.841.596	13.376.386	16.365.020	11.708.226
			Total Adjusted Value	
Total HQLA Stock			41.650.349	24.168.472
Total Net Cash Outflows			41.075.494	12.403.370
Liquidity Coverage Ratio (%)			101,36%	195,78%

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

	Rate of "Percentage to be taken into account" not Implemented Total value ⁽¹⁾		Rate of "Percentage to be taken into account" Implemented Total value ⁽¹⁾	
	TRY+FC	FC	TRY+FC	FC
Prior Period				
High Quality Liquid Assets				
High Quality Liquid Assets			40.539.495	20.101.376
Cash Outflows				
Retail and Small Business Customers, of which;	70.691.580	27.305.844	5.937.031	2.730.585
Stable Deposits	22.642.553	-	1.132.128	-
Less Stable Deposits	48.049.027	27.305.844	4.804.903	2.730.585
Unsecured wholesale funding , of which;	82.908.952	32.360.969	48.176.262	21.528.348
Operational Deposits	419.003	-	104.751	-
Non-operational Deposits	73.463.441	31.049.576	43.093.507	20.284.199
Other Unsecured Funding	9.026.508	1.311.393	4.978.004	1.244.149
Secured Funding			-	-
Other cash outflows, of which;	4.483.054	2.911.244	2.067.350	1.627.714
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	66.476	580.489	66.476	580.489
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.416.578	2.330.755	2.000.874	1.047.225
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	59.983.276	24.517.744	4.558.477	1.939.518
Total Cash Outflows			60.739.120	27.826.165
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	19.152.663	10.201.918	12.979.229	8.550.397
Other Cash Inflows	14.194	14.194	14.194	14.194
Total Cash Inflows	19.166.857	10.216.112	12.993.423	8.564.591
			Total Adjusted Value	
Total HQLA Stock			40.539.495	20.101.376
Total Net Cash Outflows			47.745.697	19.261.574
Liquidity Coverage Ratio (%)			84,91%	104,82%

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

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

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
Assets								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	1.667.598	31.611.213	-	55.591	-	-	48.953	33.383.355
Banks	804.617	1.238.049	8.984	8.544	-	595	1.806	2.062.595
Financial assets at fair value through profit and loss	15.012	53.047	25.452	65.254	166.160	102.461	3.965	431.351
Money market placements	-	1.148.575	-	-	-	-	-	1.148.575
Financial assets available-for-sale	-	11.927	430.929	2.087.092	5.996.343	8.303.051	67.668	16.897.010
Loans	962.630	12.232.915	13.117.988	50.946.208	69.991.983	20.792.043	10.240	168.054.007
Held-to-maturity investments	132.858	27.954	12.396	398.695	8.228.427	10.584.329	314	19.384.973
Other assets ^{(2) (3)}	2.590.315	56.589	290.614	730.702	1.551.366	284.419	7.629.998	13.134.003
Total assets	6.173.030	46.380.269	13.886.363	54.292.086	85.934.279	40.066.898	7.762.944	254.495.869
Liabilities								
Bank deposits	5.934.941	11.009.217	3.118.787	493.264	-	-	-	20.556.209
Other deposits	23.080.115	71.757.807	32.375.995	9.852.589	605.986	14.397	4.381	137.691.270
Funds provided from other financial institutions ⁽⁴⁾	5.213	1.476.605	3.245.260	9.878.079	5.204.531	1.520.835	-	21.330.523
Money market balances	-	21.872.509	1.449.224	1.465.354	-	-	-	24.787.087
Bonds issued	-	398.771	928.991	3.886.950	8.146.274	-	-	13.360.986
Sundry creditors	18.607	1.234.971	114.161	424.482	922.245	16	176.179	2.890.661
Other liabilities ⁽¹⁾	765.545	2.996.688	1.153.659	168.429	369.219	1.844.654	26.580.939	33.879.133
Total liabilities	29.804.421	110.746.568	42.386.077	26.169.147	15.248.255	3.379.902	26.761.499	254.495.869
Liquidity gap	(23.631.391)	(64.366.299)	(28.499.714)	28.122.939	70.686.024	36.686.996	(18.998.555)	-
Net off balance sheet position								
Derivative financial assets	-	7.108.079	1.802.603	2.118.404	2.320.535	3.615.597	-	16.965.218
Derivative financial liabilities	-	(7.082.758)	(1.800.221)	(2.121.568)	(2.203.736)	(3.615.597)	-	(16.823.880)
Non-cash loans	17.531.959	1.531.140	5.018.173	14.517.007	9.331.344	1.549.173	389.677	49.868.473
Previous period								
Total assets	9.791.206	39.840.301	12.647.647	52.451.368	78.616.894	37.326.837	7.052.014	237.726.267
Total liabilities	30.251.982	106.793.208	30.356.470	27.055.074	14.585.267	3.803.809	24.880.457	237.726.267
Liquidity gap	(20.460.776)	(66.952.907)	(17.708.823)	25.396.294	64.031.627	33.523.028	(17.828.443)	-
Net off balance sheet position								
Derivative financial assets	-	3.005.140	2.850.328	1.034.659	2.313.274	3.448.208	-	12.651.609
Derivative financial liabilities	-	(3.010.327)	(2.874.399)	(1.033.668)	(2.216.005)	(3.448.208)	-	(12.582.607)
Non-cash loans	17.590.609	2.026.427	4.602.870	13.215.750	8.319.123	1.786.226	336.714	47.877.719

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

⁽²⁾ TRY 1.406.634 of non-performing loans is disclosed under the undistributed column in other assets.

⁽³⁾ Other asset items which are not expected to be converted into cash in short term but required for continuity of banking operations like tangible and intangible assets, office supply inventory, associates and subsidiaries, prepaid expenses, deferred tax assets and overdue loans are disclosed in other assets under the undistributed column.

⁽⁴⁾ Funds provided from other financial institutions include borrowings.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

VI. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO

Leverage ratio calculated according to the article "Regulation Regarding the Measurement and Evaluation of Banks' Leverage Level" published in the Official Gazette No. 28812 dated 5 November 2013 is as follows.

	Current Period ⁽²⁾	Prior Period ⁽²⁾
Total Assets in The Consolidated Financial Statements Prepared in Accordance with TAS ⁽¹⁾	236.653.599	204.158.507
The difference between Total Assets in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks ⁽¹⁾	(17.842.270)	(33.567.760)
The difference between total amount of derivative financial instruments and credit derivatives in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk balances of such instruments	16.581.461	12.750.123
The difference between total amount of risk investment securities or commodity collateral financing transactions in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk amount of such instruments	3.071.636	8.497.311
The difference between total amount of off-balance sheet transactions in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk amount of such items	581.574	499.895
The other differences between amount of assets in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk amount of such items	-	-
Total Risk Amount	329.255.067	304.496.860

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

⁽²⁾ The amounts in the table represent three-month average.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

VI. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO (continued)

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	252.157.350	231.246.177
Assets that are deducted from core capital	(155.708)	(142.844)
Total on balance sheet exposures	252.001.642	231.103.333
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	395.711	426.047
The potential amount of credit risk with derivative financial instruments and credit derivatives	193.071	169.191
The total amount of risk on derivative financial instruments and credit derivatives	588.782	595.238
Investment securities or commodity collateral financing transactions		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	449.143	564.162
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	449.143	564.162
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	76.797.074	72.734.022
Adjustments for conversion to credit equivalent amounts	(581.574)	(499.895)
The total risk of off-balance sheet items	76.215.500	72.234.127
Capital and Total Exposures		
Tier 1 Capital	21.676.010	20.935.086
Total Exposures	329.255.067	304.496.860
Leverage Ratio		
Leverage Ratio	6,58%	6,88%

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

VII. EXPLANATIONS ON CONSOLIDATED BUSINESS SEGMENTATION

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

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

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

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

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

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

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

- Accepting deposits,
- Issuance of cash, noncash loans,
- All kinds of reimbursements and cash receipt operations, including cash and deposit reimbursements, fund transfers, correspondent banking transactions and use of checking accounts,
- Purchasing cheques and bank bills,
- Performing custody services,
- Issuing payment instruments such as; credit cards, cash cards and travel cheques, and performing related transactions,
- Including spot transactions, foreign exchange transactions, trading of money market securities, bullion trading and/or performing the related custody services,
- Trading of forward transaction agreements, option agreements and financial instruments with more than one derivative instrument and performing the related intermediary services based on the economic and financial indicators, capital markets instruments, commodities, precious metals and exchange rates,
- Assuming guarantee transactions such as; warranties and other liabilities in favor of others,
- Having intermediary transactions on Interbank money market transactions,
- 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 organised 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 in the secondary market 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 the Bank's subsidiaries,
- Acting as a custodian in order to keep client's assets related to individual portfolio management of portfolio management companies,
- Acting as a portfolio management agency.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

VII. EXPLANATIONS ON CONSOLIDATED BUSINESS SEGMENTATION (continued)

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

Details of the segment information prepared in accordance with the Act on “Disclosure of Financial Statements of Banks and The Related Presentations and Notes” as of 31 March 2017 are presented in the table below.

Current Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment⁽¹⁾	Other⁽²⁾	Total
OPERATING INCOME / EXPENSES						
Interest income	478.967	669.065	2.903.774	1.160.862	93.772	5.306.440
<i>Interest on loans</i>	478.577	668.325	2.845.615	98.314	-	4.090.831
<i>Interest income on marketable securities</i>	-	-	48.982	983.079	8.656	1.040.717
<i>Interest received from banks</i>	-	-	3.060	42.797	368	46.225
<i>Other interest income</i>	390	740	6.117	36.672	84.748	128.667
Interest expense	301.549	98.908	1.508.498	955.003	40.826	2.904.784
<i>Interest on deposits</i>	301.232	87.053	1.463.639	245.099	-	2.097.023
<i>Interest on borrowings</i>	180	1.572	7.214	93.012	36.686	138.664
<i>Interest on money market borrowings</i>	-	-	10.437	424.156	-	434.593
<i>Interest on marketable bonds issued</i>	-	-	-	192.262	3.900	196.162
<i>Other interest expense⁽²⁾</i>	137	10.283	27.208	474	240	38.342
Net interest income	177.418	570.157	1.395.276	205.859	52.946	2.401.656
Net fees and commissions income / (expense)	58.502	105.337	264.509	128.803	(51.995)	505.156
Net trading profit / (loss)	-	-	-	69.291	6.132	75.423
Dividend income	-	-	-	63	141	204
Other income	24.330	23.503	83.786	42.267	306.693	480.579
Loans and other receivables' impairment loss	1.347	216.661	166.169	93.262	1.690	479.129
Other expenses	7.871	16.471	420.848	617.932	207.417	1.270.539
Income before taxes	251.032	465.865	1.156.554	(264.911)	104.810	1.713.350
Income tax provision	-	-	-	(329.823)	(26.882)	(356.705)
Net profit for the period	251.032	465.865	1.156.554	(594.734)	77.928	1.356.645
SEGMENT ASSETS						
Marketable securities	-	-	3.186.673	32.857.247	280.835	36.324.755
Derivative financial assets held for trading	-	-	78.840	309.475	264	388.579
Banks and money market receivables	-	-	313.856	2.882.690	14.624	3.211.170
Associates and subsidiaries (net)	-	-	-	347.382	-	347.382
Loans	27.280.420	34.794.963	101.488.756	5.896.502	-	169.460.641
Other assets ⁽¹⁾	81.841	438.513	1.753.226	38.478.784	4.010.978	44.763.342
TOTAL ASSETS	27.362.261	35.233.476	106.821.351	80.772.080	4.306.701	254.495.869
SEGMENT LIABILITIES						
Deposits	27.705.833	9.554.637	106.288.079	14.698.930	-	158.247.479
Derivative financial liabilities held for trading	-	-	45.154	115.341	17.200	177.695
Money market balances	-	-	1.956.854	22.830.233	-	24.787.087
Borrowing funding loans	7.549	216.152	819.349	18.359.783	1.927.690	21.330.523
Bonds issued	-	-	-	13.210.986	150.000	13.360.986
Other liabilities	249.616	300.476	5.322.781	1.707.861	109.126	7.689.860
Provisions and tax payable	44.720	58.860	184.340	4.058.259	1.547.833	5.894.012
Shareholders' equity	208.579	451.800	986.360	20.305.090	1.056.398	23.008.227
TOTAL LIABILITIES	28.216.297	10.581.925	115.602.917	95.286.483	4.808.247	254.495.869
OFF BALANCE SHEET ITEMS						
Guarantees and surety ships	13.225.756	11.263.044	13.540.111	11.839.562	-	49.868.473
Commitments	60.127	876.964	11.677.866	13.368.517	36.615	26.020.089
Derivative financial instruments	-	-	6.646.727	26.832.906	309.465	33.789.098

⁽¹⁾ Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the Treasury / Investment column. In this context net tangible assets amounting to TRY 3.322.147, deferred tax assets amounting to TRY 92.183 is presented under the Other column and deferred tax liabilities amounting to TRY 346.452 is presented under the Treasury / Investment column.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

VII. EXPLANATIONS ON CONSOLIDATED 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 March 2016 are presented in the table below.

Prior Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment ⁽¹⁾	Other ⁽²⁾	Total
OPERATING INCOME / EXPENSES						
31 March 2016						
Interest income	344.885	473.018	2.241.963	910.911	70.683	4.041.460
<i>Interest on loans</i>	344.869	472.934	2.239.650	176.990	-	3.234.443
<i>Interest income on marketable securities</i>	-	-	-	692.038	8.257	700.295
<i>Interest received from banks</i>	-	-	-	25.645	4.216	29.861
<i>Other interest income</i>	16	84	2.313	16.238	58.210	76.861
Interest expense	190.709	119.152	1.558.533	533.817	30.966	2.433.177
<i>Interest on deposits</i>	185.436	114.042	1.532.390	149.294	-	1.981.162
<i>Interest on borrowings</i>	203	1.822	5.367	82.228	30.703	120.323
<i>Interest on money market borrowings</i>	-	-	-	179.677	-	179.677
<i>Interest on marketable bonds issued</i>	-	-	-	121.777	-	121.777
<i>Other interest expense</i>	5.070	3.288	20.776	841	263	30.238
Net interest income	154.176	353.866	683.430	377.094	39.717	1.608.283
Net fees and commissions income / (expense)	37.821	47.051	156.739	62.866	(56.616)	247.861
Net trading profit / (loss)	-	-	-	21.107	6.779	27.886
Dividend income	-	-	-	-	-	-
Other income	2.776	8.260	86.743	156.758	163.688	418.225
Loans and other receivables' impairment loss	13.442	31.488	136.577	94.203	396	276.106
Other expenses	4.168	16.713	455.317	515.336	393.075	1.384.609
Income before taxes	177.163	360.976	335.018	8.286	(239.903)	641.540
Income tax provision	-	-	-	(159.428)	47.024	(112.404)
Net profit for the period	177.163	360.976	335.018	(151.142)	(192.879)	529.136
SEGMENT ASSETS						
(31 December 2016)						
Marketable securities	-	-	2.524.561	31.134.471	255.928	33.914.960
Derivative financial assets held for trading	-	-	75.054	284.757	-	359.811
Banks and money market receivables	-	-	244.328	2.782.330	10.589	3.037.247
Associates and subsidiaries (net)	-	-	-	333.664	-	333.664
Loans	24.281.411	32.125.832	97.373.009	5.542.907	-	159.323.159
Other assets ⁽¹⁾	81.246	441.908	1.805.746	34.519.527	3.908.999	40.757.426
TOTAL ASSETS	24.362.657	32.567.740	102.022.698	74.597.656	4.175.516	237.726.267
SEGMENT LIABILITIES						
(31 December 2016)						
Deposits	23.833.195	8.253.723	100.730.184	17.581.775	-	150.398.877
Derivative financial liabilities held for trading	-	-	42.426	169.422	12.745	224.593
Money market balances	-	-	1.373.871	17.648.265	-	19.022.136
Borrowing funding loans	1.445	187.747	830.155	18.562.250	2.007.514	21.589.111
Bonds issued	-	-	-	12.627.411	125.000	12.752.411
Other liabilities	254.825	278.741	5.100.179	1.383.137	133.689	7.150.571
Provisions and tax payable	66.549	57.621	191.543	3.450.920	1.452.415	5.219.048
Shareholders' equity	543.102	1.701.171	3.102.242	15.079.106	943.899	21.369.520
TOTAL LIABILITIES	24.699.116	10.479.003	111.370.600	86.502.286	4.675.262	237.726.267
OFF BALANCE SHEET ITEMS						
(31 December 2016)						
Guarantees and surety ships	13.605.528	10.831.393	12.513.027	10.927.771	-	47.877.719
Commitments	58.048	855.008	11.050.295	12.545.837	245.172	24.754.360
Derivative financial instruments	-	-	6.427.378	18.507.766	299.072	25.234.216

⁽¹⁾ Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the treasury / investment column. In this context net of tangible assets amounting TRY 3,266,984 (net), deferred tax assets amounting TRY 99,525 is presented under the other column.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

VIII. 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 Parent Bank's Risk Management Strategy and Risk Weighted Amounts

The Parent Bank's business model creates a comprehensive risk profile that includes all units of the Parent Bank. Credit risk is a key component of the risk profile. The Parent 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 Parent Bank's strategic objectives, are limited by legal rates therefore the Parent 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 Parent 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 Parent Bank is exposed in relation to its duties.

The Parent 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 Parent 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 by related units to the board of directors, asset-liability and audit committees and to the other committees, in order to manage the risks that the Parent Bank is exposed to more effectively, to support the decision making processes related to them, to create new strategies and policies.

The Parent 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 is made by applying shocks for various risk factors, shows the results on risk weighted assets, own funds and capital adequacy ratio.

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

Overview of RWA:

		Risk Weighted Amounts		Minimum Capital
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk) (CCR)	168.632.988	166.783.094	13.490.639
2	Standardised approach (SA)	168.632.988	166.783.094	13.490.639
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	859.623	380.116	68.770
5	Standardised approach for counterparty credit (SA-CCR)	859.623	380.116	68.770
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity	-	-	-
8	Investments made in collective investment companies –	-	-	-
9	Investments made in collective investment companies –	-	-	-
10	Investments made in collective investment companies -	-	-	-
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	3.256.225	2.225.538	260.498
17	Standardised approach (SA)	3.256.225	2.225.538	260.498
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk	14.724.338	12.718.488	1.177.947
20	Basic Indicator Approach	14.724.338	12.718.488	1.177.947
21	Standart Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity	749.548	715.254	59.964
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	188.222.722	182.822.490	15.057.818

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS

- (1) a) Information on balances with the Central Bank of the Republic of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	979.666	648.093	914.278	628.818
CBRT	1.343.494	30.268.136	2.620.111	25.902.219
Other ⁽¹⁾	-	143.966	-	146.540
Total	2.323.160	31.060.195	3.534.389	26.677.577

⁽¹⁾As of 31 March 2017, required reserve deposits kept in Central Bank of Macedonia amounted TRY 55.428 and amounted TRY 88.534 kept in Central Bank of Serbia (31 December 2016: TRY 146.508).

- b) Information on balances with Central Bank of the Republic of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount ⁽¹⁾	1.277.519	3.621.383	2.563.615	3.345.458
Time unrestricted amount	-	-	-	-
Time restricted amount	628	6.657.600	-	5.359.104
Reserve deposits ⁽²⁾	65.347	19.989.153	56.496	17.197.657
Total	1.343.494	30.268.136	2.620.111	25.902.219

⁽¹⁾Reserve deposits kept in CBRT.

⁽²⁾Blocked reserve deposits kept in CBRT and Central Bank of Cyprus.

As per the Communiqué no. 2013/15 “Reserve Deposits” of the Central Bank of the Republic of Turkey (CBRT), banks keep reserve deposits at the CBRT for their TRY and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 4%-10,5% for TRY deposits and other liabilities between 4%-24% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of the Republic of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 the banks meeting certain conditions receive interests on Turkish Lira reserve requirements at 300 or 500 basis points less than the weighted average funding cost (W AFC) rate announced on the Central Bank website. The interest related to the reserve requirements set as TL is paid at a rate of 400 basis points less than the 1 week repo rate of the CBRT as of 1 January 2017.

With the change dated 23 January 2015, it has been decided to apply a charge on daily account balances and two days notice account denominated in Euro, and collected on a monthly basis, on reserve requirements held by banks commencing on 1 February 2015. As of 27 July 2015 commission ratios have been announced on the CBRT website as zero percent.

With the change on 2 May 2015 made by the CBRT, interest is paid on USD denominated reserve requirements, reserve options and free reserves held at Central Bank of the Republic of Turkey. The interest rate is set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 1% for the reporting period (announced on 21 March 2017).

With the decision No.872 dated 30 January 2014 of the TRNC, reserve requirement ratio is between 5% and 8% for TRY liabilities and for foreign currency liabilities.

With the Board of Directors decision No. 129 dated 2006 of the Central Bank of Macedonia, reserve requirement ratio is 8% for MKD currency liabilities and 15% for foreign currency liabilities.

According to the Official Gazette of Serbia No. 102/2015 of the Central Bank of Serbia, banks maintain reserve requirement of 5% for short term liabilities with maturities less than two years and 0% for long term liabilities with maturities more than two years, 20% for short term foreign currency liabilities with maturities less than two years and 13% for long term foreign liabilities with maturities more than two years.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	3.453	-	2.532	-
Total	3.453	-	2.532	-

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	2.789	-	-	-
Total	2.789	-	-	-

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	120.259	-	120.227
Swap transactions	-	268.160	-	239.460
Futures transactions	-	-	-	-
Options	27	96	4	120
Other	-	37	-	-
Total	27	388.552	4	359.807

(3) Information on banks and other financial institutions:

Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	169.061	76.561	192.757	26.801
Foreign banks	190.398	1.626.575	169.769	1.575.523
Branches and offices abroad	-	-	-	-
Total	359.459	1.703.136	362.526	1.602.324

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (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 sec.	5.187.111	289.998	122.648	365.859
Total	5.187.111	289.998	122.648	365.859

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 sec.	270.505	1.759.107	4.789.610	728.138
Total	270.505	1.759.107	4.789.610	728.138

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

	Current period	Prior period
Debt securities	16.891.599	15.698.700
<i>Quoted on a stock exchange</i>	16.885.216	15.692.826
<i>Not quoted</i>	6.383	5.874
Share certificates	420.615	343.595
<i>Quoted on a stock exchange</i>	56.940	53.292
<i>Not quoted</i>	363.675	290.303
Impairment provision(-)	415.204	561.076
Total	16.897.010	15.481.219

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(5) Information on loans:

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

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	247.079	-	226.188	-
Total	247.079	-	226.188	-

b) Information on the first and second group loans and other receivables including loans that have been restructured or rescheduled:

	Standard loans and other receivables ⁽³⁾			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
Cash loans						
Non-specialized loans	132.218.654	2.478.117	-	4.470.152	2.819.486	-
<i>Corporation loans</i>	88.843.188	1.945.190	-	3.964.593	2.697.410	-
<i>Export loans</i>	4.484.868	62.436	-	10.296	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	2.258.774	-	-	-	-	-
<i>Consumer loans⁽¹⁾</i>	31.172.573	402.486	-	313.794	28.496	-
<i>Credit cards⁽²⁾</i>	3.561.168	68.005	-	132.761	93.580	-
<i>Other</i>	1.898.083	-	-	48.708	-	-
Specialized lending	28.660.352	7.422	-	246.415	144	-
Other receivables	-	-	-	-	-	-
Accruals	2.389.146	36.945	-	69.288	41.911	-
Total	163.268.152	2.522.484	-	4.785.855	2.861.541	-

⁽¹⁾ Includes TRY 192.855 of personnel loans.

⁽²⁾ Includes TRY 54.224 of personnel credit cards.

⁽³⁾ The Bank has a cash loan exposure of USD 160.040.606 related with the acquisition finance of a telecommunication company with a key position where the financing structure includes acquired company's shares. Negotiations on restructuring of the loan have started among the telecommunication company's shareholders, creditor banks and related public authorities, which may also include a change in the shareholder structure of this company.

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Number of modifications made to extend payment plan		
Extended by 1 or 2 times	2.383.588	2.762.356
Extended by 3,4 or 5 times	38.187	12.600
Extended by more than 5 times	63.764	44.674

⁽¹⁾ Accruals amounting to TRY 36.945 are not included in the table above.

⁽²⁾ Accruals amounting to TRY 41.911 are not included in the table above.

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Extended period of time		
0-6 Months	348.242	666.821
6 Months - 12 Months	113.114	72.356
1-2 Years	290.683	175.446
2-5 Years	1.306.671	977.544
5 Years and over	426.829	927.463

⁽¹⁾ Accruals amounting to TRY 36.945 are not included in the table above.

⁽²⁾ Accruals amounting to TRY 41.911 are not included in the table above.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(5) Information on loans: (continued)

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

	Short-term	Medium and long-term	Total
Consumer loans-TRY	328.520	29.387.980	29.716.500
<i>Real estate loans</i>	7.939	16.164.457	16.172.396
<i>Automobile loans</i>	2.159	184.634	186.793
<i>Consumer loans</i>	318.422	13.038.889	13.357.311
<i>Other</i>	-	-	-
Consumer loans- Indexed to FC	1.183	93.567	94.750
<i>Real estate loans</i>	19	816	835
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	1.164	92.751	93.915
<i>Other</i>	-	-	-
Consumer loans- FC	3.521	641.036	644.557
<i>Real estate loans</i>	470	143.039	143.509
<i>Automobile loans</i>	17	2.149	2.166
<i>Consumer loans</i>	2.716	453.873	456.589
<i>Other</i>	318	41.975	42.293
Individual credit cards-TRY	2.680.714	1.455	2.682.169
<i>Installment</i>	1.166.171	-	1.166.171
<i>Non-installment</i>	1.514.543	1.455	1.515.998
Individual credit cards-FC	408	49.834	50.242
<i>Installment</i>	204	49.834	50.038
<i>Non-installment</i>	204	-	204
Personnel loans-TRY	8.738	158.747	167.485
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	8.738	158.747	167.485
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	13	1.390	1.403
<i>Real estate loans</i>	1	10	11
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	12	1.380	1.392
<i>Other</i>	-	-	-
Personnel loans-FC	170	23.797	23.967
<i>Real estate loans</i>	8	10.300	10.308
<i>Automobile loans</i>	5	48	53
<i>Consumer loans</i>	151	13.285	13.436
<i>Other</i>	6	164	170
Personnel credit cards-TRY	53.130	-	53.130
<i>Installment</i>	19.358	-	19.358
<i>Non-installment</i>	33.772	-	33.772
Personnel credit cards-FC	69	1.025	1.094
<i>Installment</i>	4	1.025	1.029
<i>Non-installment</i>	65	-	65
Overdraft accounts-TRY (Retail customer)	797.467	-	797.467
Overdraft accounts-FC (Retail customer)	36.905	3.333	40.238
Total	3.910.838	30.362.164	34.273.002

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(5) Information on loans: (continued)

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

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	9.561	1.041.044	1.050.605
<i>Business residential loans</i>	193	628.745	628.938
<i>Automobile loans</i>	9.368	335.779	345.147
<i>Consumer loans</i>	-	76.520	76.520
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	32.512	48.397	80.909
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	32.512	48.397	80.909
Commercial installment loans - FC	290.176	911.198	1.201.374
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	290.176	911.198	1.201.374
Corporate credit cards-TRY	905.292	-	905.292
<i>Installment</i>	345.652	-	345.652
<i>Non-installment</i>	559.640	-	559.640
Corporate credit cards-FC	158	1.844	2.002
<i>Installment</i>	-	1.844	1.844
<i>Non-installment</i>	158	-	158
Overdraft accounts-TRY (Commercial customer)	972.735	-	972.735
Overdraft accounts-FC (Commercial customer)	9.948	-	9.948
Total ⁽¹⁾	2.220.382	2.002.483	4.222.865

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

e) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	164.378.088	154.670.861
Foreign loans	3.675.919	3.387.174
Total	168.054.007	158.058.035

f) Loans granted to subsidiaries and associates:

None.

g) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	691.316	528.413
Loans and receivables with doubtful collectability	344.952	320.082
Uncollectible loans and receivables	3.316.366	3.206.893
Total	4.352.634	4.055.388

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(5) Information on loans: (continued)

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

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

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period	79.301	15.560	1.281.061
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	79.301	15.560	1.283.061
Prior period	68.585	16.658	1.281.781
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	68.585	16.658	1.281.781

h.2. Information on the movement of non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Prior period end balance	950.477	467.221	3.902.814
Additions (+)	506.241	6.851	46.565
Transfers from other categories of loans under follow-up (+)	-	272.192	194.737
Transfers to other categories of loans under follow-up (-)	284.450	182.479	-
Collections (-)	46.692	21.608	51.821
Write-offs (-)	4	-	776
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	4	-	776
Current period end balance	1.125.572	542.177	4.091.519
Specific provision (-)	691.316	344.952	3.316.366
Net balance on balance sheet	434.256	197.225	775.153

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(5) Information on loans: (continued)

h.3. Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
Balance at the end of the period	382.100	107.785	1.673.860
Specific provisions(-)	267.227	54.771	1.060.290
Net balance in the balance sheet	114.873	53.014	613.570
Prior period			
Balance at the end of the period	240.218	81.699	1.637.222
Specific provisions(-)	146.630	44.779	1.146.049
Net balance in the balance sheet	93.588	36.920	491.173

Foreign currency non-performing loans amounting to TRY 188.431 and their related provisions amounting to TRY 98.394 of the consolidated foreign subsidiaries are recognized under foreign currency accounts and the foreign currency non-performing loans of the Parent Bank's and its domestic subsidiaries are recognized under TRY accounts.

h.4. Gross and net amounts of non-performing loans according to user groups:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period (Net)			
	440.131	190.908	775.595
Loans to granted real persons and legal entities (Gross)	1.130.129	535.333	4.022.660
Specific provisions (-)	689.998	344.425	3.247.065
Loans to granted real persons and legal entities (Net)	440.131	190.908	775.595
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	1.318	527	69.301
Specific provisions (-)	1.318	527	69.301
Other loans and receivables (Net)	-	-	-
Prior period (Net)			
	422.064	147.139	695.921
Loans to granted real persons and legal entities (Gross)	949.476	466.580	3.832.429
Specific provisions (-)	527.412	319.441	3.136.508
Loans to granted real persons and legal entities (Net)	422.064	147.139	695.921
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
Other loans and receivables (Net)	-	-	-

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(5) Information on loans: (continued)

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

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

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

j) Explanations on write-off policy:

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

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

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Government bonds and similar securities	40.350	-	-	-
Treasury Bills	16.088.154	1.072.311	4.471.171	1.048.201
Total	16.128.504	1.072.311	4.471.171	1.048.201

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	128.323	736.456	5.079.533	933.840
Total	128.323	736.456	5.079.533	933.840

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

	Current period	Prior period
Government bonds	19.200.898	18.198.316
Treasury bills	132.858	112.907
Other public sector debt securities	-	-
Total	19.333.756	18.311.223

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	19.384.973	18.344.626
<i>Quoted on a stock exchange</i>	<i>19.252.115</i>	<i>18.231.719</i>
<i>Not quoted</i>	<i>132.858</i>	<i>112.907</i>
Impairment provision (-)	-	-
Total	19.384.973	18.344.626

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

	Current period	Prior period
Beginning balance	18.344.626	16.904.877
Foreign currency differences on monetary assets	80.527	404.431
Purchases during the year ⁽¹⁾	1.640.249	3.731.489
Disposals through sales and redemptions	(680.429)	(2.696.171)
Impairment provision (-) / provision reversal (+)	-	-
Balance at the of the period	19.384.973	18.344.626

⁽¹⁾ Interest income accrual difference between 31 March 2017 amounting to TRY 2.220.551 and 31 December 2016 amounting to TRY 1.911.868 has been included in purchases row.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(7) Information on associates (Net):

a) The reasons behind unconsolidated associates being out of consolidation scope:

The non-financial investments in associates are accounted for under cost method of accounting since reliable fair values cannot be determined.

b) Information on unconsolidated associates:

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Kredi Kayıt Bürosu AŞ ⁽¹⁾	İstanbul	18,18	18,18
2. Bankalararası Kart Merkezi AŞ ⁽²⁾	İstanbul	18,95	18,95

Information related to the associates as sorted above:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value ⁽²⁾
1.	231.094	135.821	154.298	991	-	13.907	6.179	-
2.	79.690	44.312	51.275	359	-	3.416	4.923	-

⁽¹⁾ The financial data is obtained from 31 March 2017 unreviewed financial statements.

⁽²⁾ The financial data is obtained from 31 March 2017 reviewed financial statements.

c) Information on consolidated associates:⁽¹⁾

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Demirhalkbank NV	The Netherlands	30,00	30,00
2. Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47	33,12
3. Türk P ve I Sigorta AŞ	İstanbul	16,67	16,67

Information related to the associates as sorted above:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value ⁽²⁾
1.	7.164.267	946.362	11.430	51.239	3.058	17.368	12.484	261.711
2.	47.681	47.045	116	514	-	(149)	28	-
3.	29.043	5.213	420	86	-	672	(193)	-

⁽¹⁾ The financial data is obtained from 31 March 2017 reviewed financial statements.

⁽²⁾ The financial informations about the fair value of Demir-Halkbank NV has been obtained from its valuation report as of 31 March 2017.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

d) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	292.421	264.031
Movements during the period	13.718	28.390
<i>Purchases</i>	-	-
<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>	13.718	28.390
<i>Provision for impairment (-) / reversals (+)</i>	-	-
Balance at the end of the period	306.139	292.421
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

e) Sectoral information and related carrying amounts of associates:

	Current period	Prior period
Banks	283.909	270.028
Insurance companies	1.105	1.221
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	14.805	14.852
Other non-financial investments	6.320	6.320

f) Associates quoted to a stock exchange:

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(8) Information on consolidated subsidiaries (Net):

a) Information on consolidated subsidiaries:⁽¹⁾

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Banka AD, Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd
CORE CAPITAL									
Paid in Capital	82.000	129.000	277.000	790.000	272.250	11.000	147.843	55.500	53.667
Effect of inflation adjustments on paid in capital	-	-	-	-	-	-	-	-	-
Share Premiums	-	98	-	49.945	-	-	11.633	-	44.552
Reserves	10.536	17.906	43.659	55.024	8.746	1.461	93.896	2.136	65.652
Other Comprehensive Income according to TAS	1.500	(489)	(9.441)	1.481	(95)	(22)	371	(10)	7.497
Profit / Loss	19.297	(69.787)	225.970	52.144	57.558	9.674	29.006	24.284	6.673
<i>Net Profit</i>	5.518	23.160	54.027	9.927	23.879	1.853	4.411	7.841	3.129
<i>Prior Period Profit/Loss</i>	13.779	(92.947)	171.943	42.217	33.679	7.821	24.595	16.443	3.544
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	115	-	-	-	5.511	451	1.757
Intangible Assets (-)	789	3.350	905	264	914	18	3.040	328	1.812
Total Core Capital	113.294	73.378	536.168	948.330	337.545	22.095	274.198	81.131	174.472
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	17.206	-	4.377
CAPITAL	113.294	73.378	536.168	948.330	337.545	22.095	291.404	81.131	178.849
NET AVAILABLE CAPITAL	113.294	73.378	536.168	948.330	337.545	22.095	291.404	81.131	178.849

⁽¹⁾The information is presented from financial statements subject to consolidation as 31 March 2017.

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

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

Paid in capital (foreign) has been indicated as foreign currency in articles of incorporation and registered in trade registry.

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

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

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

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

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(8) Information on subsidiaries (continued)

f) Movement of the subsidiaries:

	Current period	Prior period
Balance at the beginning of the period(before elimination)	2.685.934	2.685.934
Movements during the period	237.976	243.055
<i>Purchases⁽¹⁾</i>	-	-
<i>Bonus shares obtained profit from current year's share</i>	-	171.560
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfer</i>	-	-
<i>Revaluation increase</i>	237.976	71.495
<i>Reversal of provision for impairment (-)</i>	-	-
Share capital elimination of subsidiaries	(2.882.667)	(2.887.746)
Balance at the end of the period	41.243	41.243
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

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

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

	Current period	Prior period
Banks	380.846	363.185
Insurance companies	1.288.582	1.288.582
Factoring companies	95.558	95.558
Leasing companies	415.786	415.786
Financing companies	-	-
Other financial subsidiaries	701.895	673.470
Other non-financial subsidiaries	41.243	41.243

h) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock ^{(1) (2)}	913.935	885.510
Quoted foreign stock exchange	-	-

⁽¹⁾ In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Free Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

⁽²⁾ Halk Gayrimenkul Yatırım Ortaklığı AŞ has been public offering on 22 February 2013 and its shares are traded on the Istanbul Stock Exchange A.Ş.

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

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

a) Maturity structure of investments on financial lease:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	855.290	719.873	815.231	688.075
Between 1-4 years	1.608.482	1.338.576	1.426.002	1.220.074
More than 4 years	459.435	398.377	476.994	403.181
Total	2.923.207	2.456.826	2.718.227	2.311.330

b) Information on gross investments of financial lease:

	Current period	Prior period
Gross financial lease investment	2.923.207	2.718.227
Unearned revenues from financial lease	(466.381)	(406.897)
Total	2.456.826	2.311.330

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

	Current period	Prior period
Financial lease receivables with limited collectability	21.633	32.055
Financial lease receivables with doubtful collectability	26.852	5.418
Uncollectible financial lease receivables	241.633	249.256
Specific provisions	(211.192)	(214.397)
Total	78.926	72.332

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

None.

(12) Information on tangible assets:

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

(13) Information on intangible assets:

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(14) Information on investment property:

	Current Period	Prior Period
Cost		
Opening Balance	934.058	550.093
Acquisitions	7.479	7.118
Transfer	(6.300)	377.348
Disposals	-	-
Impairment Charge/Cancellation(-)	39	501
Ending Balance	935.198	934.058
Accumulated Depreciation		
Opening Balance	69.942	64.499
Amortization Charge (-)	1.337	4.723
Disposals	-	-
Transfer	174	105
Impairment Charge/Cancellation (-)	(407)	615
Ending Balance	70.698	69.942
Net Book Value	864.500	864.116

(*) 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 property.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(15) Information on tax assets:

a) Current tax assets:

As of 31 March 2017, the Group has no current tax asset. (31 December 2016: None).

b) Deferred tax assets:

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

(16) Information on assets held for sale and held from discontinued operations:

	Current period	Prior period
Cost	3.984	3.984
Accumulated Depreciation (-)	(2.447)	(2.447)
Net Book Value	1.537	1.537
Opening Balance	1.537	2.694
Acquisitions (Transfers) (Net)	-	(547)
Disposals (Net)	-	811
Revaluation Increase	-	154
Impairment Charge/Cancellation(-)	-	-
Amortization Charge(-)	-	47
Net Book Value	1.537	1.537

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 3.455.025 and does not exceed 10% of the balance sheet total (31 December 2016: TRY 2.752.211).

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.297.202	-	668.353	30.888.786	1.145.390	368.917	532.213	111.845	40.012.706
Foreign currency deposits	8.169.205	-	3.156.425	34.523.593	6.051.236	2.040.518	4.141.684	10.882	58.093.543
<i>Residents in Turkey</i>	5.729.959	-	2.766.773	33.570.698	5.768.369	1.424.384	2.403.138	10.429	51.673.750
<i>Residents abroad</i>	2.439.246	-	389.652	952.895	282.867	616.134	1.738.546	453	6.419.793
Public sector deposits	2.375.624	-	2.717.903	4.491.703	820.290	3.876.023	52.105	-	14.333.648
Commercial inst. deposits	4.105.860	-	4.349.117	10.731.094	1.695.909	739.911	63.852	-	21.685.743
Other inst. deposits	622.131	-	304.778	927.650	76.192	46.977	77.809	-	2.055.537
Precious metals	1.510.093	-	-	-	-	-	-	-	1.510.093
Interbank deposits	5.934.941	-	4.892.309	9.044.535	245.102	33.323	405.999	-	20.556.209
<i>CBRT</i>	1	-	-	-	-	-	-	-	1
<i>Domestic banks</i>	30.362	-	665.377	5.045.618	7.558	6.227	4.272	-	5.759.414
<i>Foreign banks</i>	5.502.447	-	4.116.897	3.998.917	237.544	27.096	401.727	-	14.284.628
<i>Participation banks</i>	402.131	-	110.035	-	-	-	-	-	512.166
Total	29.015.056	-	16.088.885	90.607.361	10.034.119	7.105.669	5.273.662	122.727	158.247.479

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	6.158.114	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.720
Foreign currency deposits	6.954.391	-	3.245.776	28.684.887	4.915.876	1.531.229	4.036.778	11.016	49.379.953
<i>Residents in Turkey</i>	4.938.313	-	3.020.417	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.894.245
<i>Residents abroad</i>	2.016.078	-	225.359	700.680	331.367	506.513	1.705.304	407	5.485.708
Public sector deposits	2.184.382	-	2.417.784	1.764.160	260.540	2.976.331	87.204	-	9.690.401
Commercial inst. Deposits	4.294.379	-	4.224.273	13.055.676	1.872.533	562.730	39.505	-	24.049.096
Other inst. Deposits	586.039	-	819.701	885.372	52.798	89.853	880	-	2.434.643
Precious metals	1.392.853	-	-	-	-	-	-	-	1.392.853
Interbank deposits	7.867.130	-	3.190.685	10.801.903	238.410	32.863	729.220	-	22.860.211
<i>CBRT</i>	9	-	-	-	-	-	-	-	9
<i>Domestic banks</i>	39.076	-	1.091.898	3.908.323	-	8.227	4.167	-	5.051.691
<i>Foreign banks</i>	7.099.283	-	1.928.707	6.893.580	238.410	24.636	725.053	-	16.909.669
<i>Participation banks</i>	728.762	-	170.080	-	-	-	-	-	898.842
Total	29.437.288	-	14.479.462	86.959.113	8.417.061	5.554.626	5.435.506	115.821	150.398.877

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

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

b.1. Amounts exceeding insurance limit:

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

Saving deposits	Under the guarantee insurance		Exceeding the insurance limit	
	Current period	Prior period	Current period	Prior period
Saving deposits	23.449.356	23.535.650	16.433.713	16.938.565
Foreign currency saving deposits	8.192.925	7.502.986	16.012.706	14.742.676
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	173.899	167.456	-	-
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	270.580	283.157
Deposits and other accounts belonging to dominant partners as well as their fathers, mothers, spouses and children under their custody	-	-
Deposits and other accounts belonging to the chairman and members of the board of directors, general managers and deputy general managers as well as their fathers, mothers, spouses and children under their custody	8.825	8.063
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26/9/2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	99.259	-	137.422
Swap transactions	-	78.137	-	86.857
Future transactions	-	-	-	-
Options	32	229	59	255
Other	-	38	-	-
Total	32	177.663	59	224.534

(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from CBRT	-	-	-	-
Domestic banks and institutions	840.598	2.861.815	843.368	2.503.564
Foreign banks, institutions and funds	311.847	17.316.263	328.396	17.913.783
Total	1.152.445	20.178.078	1.171.764	20.417.347

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	617.355	4.937.373	968.495	4.927.580
Medium and long-term	535.090	15.240.705	203.269	15.489.767
Total	1.152.445	20.178.078	1.171.764	20.417.347

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

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

Main liability of the Group is deposit, which is composed of 25,28% of saving deposits and 36,71% of foreign currency deposits. In order to fulfill the short term liquidity requirements, the Parent Bank borrows loans from interbank money markets. The Parent Bank can borrow loans from overseas institutions especially to be used in the financing of consumer loans. There are funds obtained from the Ministry of Industry and Trade especially for constructing small industrial estates and organized industrial estates.

The Group's 57,33% of banks deposits and 43,29% of other deposits consist of foreign currency deposits.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

- (4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	2.391.143	-	2.067.703	-
Bonds	-	10.969.843	-	10.684.708
Total	2.391.143	10.969.843	2.067.703	10.684.708

- (5) Explanations to the funds:

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

- a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	21.933	2.265.729	37.539	2.302.269

- (6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 2.510.515 and does not exceed 10% of the balance sheet total (31 December 2016: TRY 1.943.553).

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

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

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

- b) Explanation on finance lease payables:

None.

- c) Explanations regarding operational leases:

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

None.

(9) Explanations on provisions:

a) Information on general provisions:

	Current period	Prior period
General provision	2.135.565	2.049.136
Provisions for first group loans and receivables	1.912.769	1.834.503
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for second group loans and receivables	95.099	93.459
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for non cash loans	127.697	121.174
Other	-	-

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

As of 31 March 2017 the Parent Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 3.545 (31 December 2016: TRY 23).

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

As of 31 March 2017, the Parent Bank's specific provision for unindemnified non-cash loans balance is TRY 127.472 (31 December 2016: TRY 139.279).

d) Information on other provisions:

Total other provision balance amounting to TRY 360.540 (31 December 2016: TRY 392.356) consists of TRY 127.752 (31 December 2016: TRY 139.551) for specific provisions for unindemnified non cash loans, TRY 92.146 (31 December 2016: TRY 94.679) for legal cases filed against the Group, TRY 140.642 (31 December 2016: TRY 158.126) of other provisions.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(9) Explanations on provisions: (continued)

e) Liabilities on pension rights

e.1. Liabilities for pension funds established in accordance with “Social Security Institution”:
None.

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

Based on the results of the actuarial report prepared as of 31 December 2016, no technical deficit has been reported for Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı, T.C. Ziraat Bankası and T. Halk Bankası Çalışanları Emekli Sandığı Vakfı.

f) Insurance Technical Provisions (Net):

	Current period	Prior period
Life-Mathematical Provisions	279.177	255.917
Provisions for unearned premium claims	480.714	427.120
Provision for outstanding claims	720.715	696.078
Provisions for unexpired risk reserves	10.634	20.865
Other	-	168
Total	1.491.240	1.400.148

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 March 2017, the Bank’s corporate tax payable is amounting to TRY 304.939 and accounted for under corporate tax provision at the related date.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

a) Information on current tax liability (continued):

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	304.939	64.824
Income on securities tax	312.164	157.179
Property income tax	1.537	1.402
Banking and insurance transactions tax (BITT)	72.873	92.058
Foreign exchange transactions tax	25	48
Value added tax payable	4.105	3.797
Other	20.499	15.271
Total	716.142	334.579

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	653	768
Social insurance premiums-employer	1.346	1.419
Bank social aid pension fund premium-employee	11.393	7.621
Bank social aid pension fund premium-employer	15.699	10.452
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	46	48
Unemployment insurance-employer	129	132
Other	2.854	1.956
Total	32.120	22.396

b) Explanations regarding deferred tax liability:

	Current period	Prior period
Deferred Tax Asset/(Liability)		
Provisions ⁽¹⁾	283.117	277.574
Revaluation of Financial Assets	(440.121)	(375.878)
Other	(97.265)	(91.145)
Deferred Tax Asset /(Liability) (Net):	(254.269)	(189.449)
Deferred tax accounted in shareholders' equity	11.939	(1.535)
Fair value differences for available for sale financial assets	79.280	65.830
Actuarial gains and losses	241	241
Property Revaluation	(67.582)	(67.606)

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

As of 31 March 2017 net deferred tax liability represents TRY 254.269 (31 December 2016: TRY 189.449 deferred tax liability), it consists of deferred tax assets which amount to TRY 92.183 (31 December 2016: TRY 99.525) and deferred tax liabilities amount to TRY 346.452 (31 December 2016: TRY 288.974).

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

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

None.

- (13) Information on shareholders' equity:

- a) Presentation of paid-in capital:

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

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

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

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

None.

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

None.

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

None.

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

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

- g) Information on preferred shares:

None.

- h) Information on marketable securities revaluation fund:

	Current period		Prior period	
	TRY	FC	TRY	FC
From subsidiaries, associates and jointly controlled entities (joint ventures)	10.869	4.920	10.869	39
Revaluation difference	(261.244)	(292.211)	(302.092)	(427.744)
Exchange rate difference	-	-	-	-
Total	(250.375)	(287.291)	(291.223)	(427.705)

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

Types of irrevocable commitments	Current period	Prior period
Commitments for credit card expenditure limits	11.084.484	10.824.073
Payment commitments for cheques	6.191.181	5.805.008
Loan granting commitments	3.751.797	3.580.800
Two days forward foreign exchange buy/sell transactions	927.927	417.450
Commitments for credit cards and banking services promotions	41.895	44.328
Tax and fund liabilities from export commitments	29.087	28.864
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	3.380.895	3.462.296
Total	25.407.266	24.162.819

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

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

	Current period	Prior period
Letters of credit	4.299.383	4.019.100
Bank acceptance loans	2.385.933	2.825.466
Other guarantees	951.312	914.248
Total	7.636.628	7.758.814

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

	Current period	Prior period
Letters of certain guarantees	15.013.011	14.917.475
Letters of advance guarantees	3.531.891	3.501.034
Letters of tentative guarantees	845.035	512.981
Letters of guarantee given to customs offices	882.264	887.159
Other letters of guarantee	21.959.644	20.300.256
Total	42.231.845	40.118.905

b.3. Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	2.615.519	2.256.883
<i>Within one year or less original maturity</i>	625.863	414.973
<i>Within more than one year maturity</i>	1.989.656	1.841.910
Other non-cash loans	47.252.954	45.620.836
Total	49.868.473	47.877.719

c) Explanations related to contingencies and commitments:

Bank's commitments due to cheques given to client is TRY 5.759.836 (31 December 2016: TRY TRY 5.805.008).

d) Services supplied on behalf of others:

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on loans⁽¹⁾				
Short term loans	993.854	55.099	882.744	42.910
Medium and long term loans	2.261.054	765.514	1.821.699	470.557
Interest on non-performing loans	14.559	751	15.993	540
Premiums from resource utilization support fund	-	-	-	-
Total	3.269.467	821.364	2.720.436	514.007

⁽¹⁾ Includes fees and commissions obtained from cash loans.

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
CBRT	17.419	13.751	16.931	2.262
Domestic banks	8.209	343	9.123	235
Overseas banks	2.961	3.542	754	556
Head office and branches	-	-	-	-
Total	28.589	17.636	26.808	3.053

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial assets held for trading	481	-	1.294	210
Financial Assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	343.486	70.283	207.026	52.816
Held-to-maturity investments	589.882	36.585	410.260	28.689
Total	933.849	106.868	618.580	81.715

d) Interest income from associates:

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	31.088	104.011	33.881	79.124
<i>CBRT</i>	-	-	-	-
<i>Domestic banks</i>	23.931	12.116	19.986	7.366
<i>Overseas banks</i>	7.157	91.895	13.895	71.758
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	3	3.562	3	7.315
Total	31.091	107.573	33.884	86.439

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	812	771

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	54.939	141.223	38.532	83.245
Total	54.939	141.223	38.532	83.245

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			
Turkish Lira									
Bank deposits	117	154.798	60.812	655	215	-	-	-	216.597
Saving deposits	2	14.723	785.317	25.326	8.045	10.748	2.362	-	846.523
Public deposits	34	49.320	45.291	10.295	3.402	277	-	-	108.619
Commercial deposits	17	90.091	266.802	45.236	17.706	1.798	-	-	421.650
Other deposits	-	10.641	32.076	2.738	79.511	2.090	-	-	127.056
7 days call accounts	-	-	-	-	-	-	-	-	-
Total	170	319.573	1.190.298	84.250	108.879	14.913	2.362	-	1.720.445
Foreign currency									
Deposits	169	14.492	245.493	49.166	7.727	18.521	81	-	335.649
Bank deposits	1	40.777	58	56	-	37	-	-	40.929
7 days call accounts	-	-	-	-	-	-	-	-	-
Precious metal	-	-	-	-	-	-	-	-	-
Total	170	55.269	245.551	49.222	7.727	18.558	81	-	376.578
Grand total	340	374.842	1.435.849	133.472	116.606	33.471	2.443	-	2.097.023

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(3) Information on dividend income:

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

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

	Current period	Prior period
Profit	7.882.492	3.638.514
Profit from the capital market operations	9.397	4.166
Profit on derivative financial instruments	362.323	353.939
Foreign exchange gains	7.510.772	3.280.409
Loss (-)	7.807.069	3.610.628
Loss from the capital market operations	149	269
Loss on derivative financial instruments	505.874	565.399
Foreign exchange losses	7.301.046	3.044.960

(5) Information on other operating income:

	Current period	Prior period
Adjustments for prior period expenses	118.663	199.559
Life insurance income	296.411	162.404
Receivable from the asset sale on credit terms	25.629	17.838
Rent income	12.500	14.068
Other income	22.328	20.650
Total	475.531	414.519

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	376.952	176.204
<i>Group - III loans and receivables</i>	346.268	149.958
<i>Group - IV loans and receivables</i>	10.199	3.739
<i>Group - V loans and receivables</i>	20.485	22.507
General loan provision expenses	88.119	59.721
Provision expenses for possible losses	-	-
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	14.058	40.181
Total	479.129	276.106

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	512.180	481.527
Reserve for employee termination benefits	30.205	26.458
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	-	-
Depreciation expenses of fixed assets	27.085	28.938
Intangible assets impairment expense	-	-
<i>Goodwill Impairment</i>	-	-
Amortization expenses of intangible assets	11.022	7.618
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	353	410
Amortization expenses of assets that will be disposed of	3.536	982
Impairment expense for property and equipment held for sale	-	-
Other operating expenses	348.498	258.703
<i>Operational leasing expenses</i>	58.114	53.165
<i>Maintenance expenses</i>	13.958	5.668
<i>Advertisement expenses</i>	22.917	18.376
<i>Other expenses</i>	253.509	181.494
Loss on sales of assets	73	565
Other	337.587	579.408
Total	1.270.539	1.384.609

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

- (8) Information on profit/loss from continuing and discontinued operations before taxes:
Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.
- (9) Information on tax provisions for continuing and discontinued operations:
As of 31 March 2017, the Bank’s tax provision amounting to TRY 356.705 (31 March 2016: TRY 112.404) consists of TRY 305.359 (31 March 2016: TRY 193.439) of current tax charge and TRY 51.346 (31 March 2016: TRY 81.035) of deferred tax income.
- (10) Information on net operating income/expense from continuing and discontinued operations after tax:
Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.
- (11) Information on net profit/loss:
- a) Effects of changes in accounting estimates on the current and future periods’ profit/loss: There is no issue to be disclosed.
- b) Profit/Loss from minorities:

	Current Period	Prior Period
Profit/Loss from Minorities	3.970	(11.453)

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

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

a) Current period:

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

Prior period:

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

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

Risk group of the Parent Bank	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Parent Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Deposits						
Beginning balance	8.771	5.823	-	-	-	-
Closing Balance	9.735	8.771	-	-	-	-
Interest expense on deposits	207	123	-	-	-	-

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

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

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

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

(2) Disclosures for risk group:

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

In the normal course of its banking activities, the Parent Bank conducted various business transactions with related parties at commercial terms and at rates which approximate market rates. In addition, the Parent Bank is an intermediary for brokerage services of Halk Yatırım Menkul Değerler A.Ş. within scope of “Brokerage Order Contract”. Additionally, Halk Portföy Yönetimi AŞ is engaging in fund management of Parent Bank’s funds.

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

	Amount	% compared to the amounts in the financial statements
Cash loans	-	-
Non-cash loans	-	-
Deposits	9.735	0,01%
Forward and option contracts	-	-
Banks and financial institutions	-	-

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

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

Explained in b).

d) Transactions accounted under the equity method:

Demir-Halkbank NV, operating in Netherlands, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta AŞ qualified as investments in associates of the Parent Bank, are accounted for in the accompanying consolidated financial statements by the equity method of accounting.

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel by the Group are TRY 5.475 as of 31 March 2017 (31 March 2016: TRY 5.933).

VI. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VI: LIMITED REVIEW REPORT

I. EXPLANATIONS ON THE INDEPENDENT AUDITORS' REVIEWED REPORT

The Bank's publicly available consolidated financial statements and footnotes have been reviewed by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of Deloitte Touche Tohmatsu Limited) and the independent auditors' review report dated 9 May 2017 is presented in front of the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

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

Assessment of Chairman of the Board of Directors

Esteemed Stakeholders,

This new year, which we started with great hopes, comes with an intense agenda filled with items directly affecting the world economy. At the end of the first quarter, factors influencing monetary policy have caused investors worldwide to focus their sights on the central bank meetings of developed countries. This process saw the uncertainties that prevail in foreign exchange markets increase their impact on developing countries such as Turkey and an interest rate hike by the Fed.

The EU, our primary export market, is showing significant signs of economic recovery, but remains fragile due to the Brexit decision, the most momentous event of the last year, and the unpredictable nature of elections in countries such as Germany and France, the core countries of the Eurozone. Increasingly important issues such as anti-refugee and anti-free trade sentiment are being felt across the continent and transform political risks into economic ones.

China is another actor making its presence felt in markets. The nation is experiencing a serious inflation problem and is frequently revising its growth figures, while its bilateral relations with the U.S. is directly influencing world trade. China and the U.S. are still the primary players in global economic growth. The delicate equilibrium between the two countries, both of which are changing their economic policies, concerns not only the Asia-Pacific region but the entire international financial market.

The growth in crude oil reserves has generated ongoing pressure on OPEC member countries. Oil exporting nations have reduced their production and, as a consequence, are being seriously challenged economically. This complex outlook for external markets forces us to develop new strategies for our export-oriented economic plan.

Despite all these developments in international markets, Turkey achieved significant success, and in March exports were 13.7 percent higher than the same month last year. The exports were worth \$14.5 billion, the highest value in a single month in the last three years. The public policies that were put into practice in the second half of last year to encourage economic activity have allowed our economy to rapidly recover.

The banking sector became integral in this period, and incentives that boost exports have become all the more crucial. At the same time, to facilitate financing for SMEs and exporters, a loan guarantee mechanism worth 250 billion Turkish lira in total was introduced through an agreement between the Secretariat of the Treasury and the Credit Guarantee Fund, further enlarging the responsibility of the sector.

Our bank went on with its pioneering work in the sector, continuing to add value for Turkey despite the destructive efforts of certain overseas individuals and organizations. The brand name Halkbank has retained its value in the face of these efforts against Turkey and our institution. Our 79-year history, effective risk management, and strong financial position have power that goes beyond borders. In this context, we will expand across Europe and continue to proudly represent Turkey in every corner the Halkbank name reaches. We will strengthen our relationships with our investors, employees, and customers to write new success stories.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

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

Assessment of Chairman of the Board of Directors (continued)

Esteemed Stakeholders,

Recent research has shown us that European banks are facing two major risks; low returns on equity and high level of capital expenditures. Certain banks have roughly 3 percent return on equity, and capital expenditures running at around 10 percent. However, Turkish banks have preserved their high performance through efficiency and profit-driven activity. Regardless of the global economic and political environments, we intend to retain this level of achievement, and be the leading support of the real economy.

The first quarter of 2017 was the banking sector's best start of the last five years with respect to year-on-year nominal growth in loans. This the result of well-managed structuring carried out to complement economic reforms, and it bolsters the real economy. At Halkbank, we will continue to raise the bar even higher. We are building a powerful Turkey together with our stakeholders, who place their trust in us and stay by our side.

Yours faithfully,
R. Süleyman ÖZDİL
Chairman of the Board of Directors

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

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

Assessment of General Manager ⁽¹⁾

Esteemed Stakeholders,

The arrival of 2017 in itself did not refresh the global economy, which was still under the influence of the stagnation of 2016. The world entered a cloud of fog at the same time it entered 2017 following the ending of quantitative easing in the U.S., interest rate hikes by the Fed, economic and political issues in Europe that gave rise to concerns about the future of the EU, and the uncertainty surrounding Donald Trump and the strategies that he will pursue.

As for domestic markets, the treacherous attempt of July 15 and the terror nourished by war in our region besieged our country last year, not only negatively impacting our internal harmony, but also affecting the economy and financial statements. Adverse developments, both internal and external, placed considerable pressure on investments, exports, and tourism. However, contrary to the uncertainty prevailing in the rest of the world, Turkey will be entering 2017 with guarded optimism.

Despite all the unfavorable experiences we have been through, macroeconomic balances, including the public finance and budgetary balances, the balance of payments, and inflation levels, have remained resolutely unperturbed. Although developments in the global economy are expected to cause a slight increase in borrowing costs, this will make Turkey even more attractive for investors seeking higher returns. Among other initiatives, efforts such as those to improve the investment environment and increase personal savings will have a positive impact on our economy.

The first quarter figures of our bank were finalized in a period in which our economy needed stability in the financial markets more than ever, and the results justified once more all those who believed in us. We work hard to deserve this trust. We are working on new financial support mechanisms that will contribute to the growth of the real economy, enabling our bank to maintain the support we are providing it in 2017, and contributing to a powerful Turkey. We will carry out research this year to take steps towards diversifying our financial resources and minimizing our borrowing costs. We will help markets to breathe easy through campaigns that offer favorable conditions.

Our backing of medium and high technology investment is helping to bring about rapid transformation in the sector, the number one prerequisite for strengthening our country's international competitiveness. We believe that our continued investment in SMEs will significantly contribute to Turkey's economic growth targets. With this in mind, this year we will give priority to supporting those of our customers in export-driven industries.

We added 1,000 new faces to the Halkbank team in the first quarter of the year, to both bolster the employment drive and to raise the bar we set in the banking sector to an even higher level. In coming together to secure the growth targets of our country, we again demonstrated to the world that we have full confidence in the future of Turkey.

Our journey into Europe, which started in 2011 with the purchase of shares in IK Bank, has now expanded into a network of 65 branches. We are confident that with the new steps we are about to take we will become one of the three largest banks in Macedonia and one of the five largest in Serbia. Our ownership of Halkbank A.D. Skopje and Halkbank A.D. Beograd in the Balkans is very important to us as the first part of our European growth strategy. We are enjoying the well-deserved pride of offering our speed and quality internationally as a global brand.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

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

Assessment of General Manager ⁽¹⁾

As we take our activities to the four corners of our country, efficiency will be one of our main focus points. We will show our difference through the productive employment of our resources, power, and energy. With this in mind, we are moving forward in sustainability, developing our financial and human resources in the area of energy efficiency. We became the first Turkish bank to establish methods and procedures for effective energy management, and set up an ISO 50001 Energy Management System to reduce greenhouse gas emissions.

We aim to incorporate principles of sustainability within every aspect of operations. Accordingly, we sponsored the Special Athletes Swimming Championship organized in Alanya by the Turkish Special Athletes Sport Federation. Three hundred and eleven athletes with autism or Down syndrome participated. During the competition, these youngsters with mental and physical challenges showed us what they were capable of achieving after the proper management of differences. We are the people's bank, and we will continue to encourage and embrace our people's children.

Esteemed Stakeholders,

Vested with the power given to us by our nation, we have dedicated ourselves to promoting the sons and daughters of this land for the last 79 years, and have carried out some of the largest projects in the history of the republic. We stand beside our artisans, SMEs, and major investors, offering loans and energizing the market. We believe that in the second half of 2017, markets will be more dynamic, and as long as we take full advantage of opportunities, we will achieve significant returns.

We must proceed with the economic mobilization in domestic markets declared after the July 15 coup attempt with the very same awareness. We are fully conscious that certain disloyal groups, nourished with the ambitions of internal and external forces, will not miss a single chance to halt Turkey's progress. We will not permit these groups to create pressure on anyone intending to invest in our nation, our exporters, or tourism.

We started 2017 with great hopes, and the projects we have engaged in so far have helped us move closer to our targets. Our bank completed the first quarter of the year a net profit of 1,219 million Turkish lira and a 22.4 percent return on equity. Total assets increased to 248 billion Turkish lira, rising 7.1 percent from the end of 2016, while total deposits reached 158 billion Turkish lira. Our bank did not compromise its successful balance sheet figures in the first quarter of the year, with cash loans growing 6.4 percent to 168 billion Turkish lira.

We are pleased to see our operations reflected positively in the financial results from the first quarter of 2017, when we continued to be pioneers in SME banking. Our bank's commercial loan volume, which includes SME loans, grew 6.6 percent, reaching 135 billion Turkish lira by the end the first quarter. The value of our total loans increased to 218 billion Turkish lira, up 5.8 percent. Our loans to cooperatives were worth 21 billion Turkish lira. We will maintain growth in this area for the rest of the year with the help of our innovative products and service approach.

By focusing on customer satisfaction and developing customized services in every area of operation, our operations in retail banking were successful in the first three months of this year. By the end of March, our retail loans were valued at 33,428 million Turkish lira, and the number of Paraf holders hit 3.9 million. In the same time frame, our POS installations increased to 320,000, while member businesses increased to 303,000.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

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

Assessment of General Manager (continued)

We will work with loyalty to the values and the future of our nation, and will succeed in reaching our 2017 annual goals by giving it all we have during the rest of the year.

Yours faithfully,
Ali Fuat Taşkesenlioğlu
General Manager

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

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

SECTION VIII: INFORMATION ON INTERIM ACTIVITY REPORT

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

Major Consolidated Financial Information

Summary Balance			
Sheet (Million TRY)	March 2017	December 2016	Change (%)
Total Assets	254.496	237.726	7,1
Loans	169.461	159.323	6,4
<i>TRY</i>	<i>110.361</i>	<i>103.252</i>	<i>6,9</i>
<i>FC</i>	<i>59.100</i>	<i>56.071</i>	<i>5,4</i>
Marketable Securities	36.325	33.915	7,1
Deposit	158.247	150.399	5,2
<i>TRY</i>	<i>86.860</i>	<i>86.549</i>	<i>0,4</i>
<i>FC</i>	<i>71.388</i>	<i>63.850</i>	<i>11,8</i>
Total Equity	23.008	21.370	7,7

Summary Income Statement (Million TRY)			
	March 2017	March 2016	Change (%)
Interest Income	5.306	4.041	31,3
<i>On Loan</i>	<i>4.091</i>	<i>3.234</i>	<i>26,5</i>
<i>On Securities</i>	<i>1.041</i>	<i>700</i>	<i>48,6</i>
Interest Expense	2.905	2.433	19,4
<i>On Deposit</i>	<i>2.097</i>	<i>1.981</i>	<i>5,8</i>
Net Interest Income	2.402	1.608	49,3
Net Fee and Commission	505	248	103,8
Operating Income	3.458	2.299	50,4
Profit Before Tax	1.713	642	167,1
Net Profit	1.357	529	156,4

Ratio (%)	March 2017	December 2016
Interest Bearing Assets /Total Assets	81,7	82,1
Loans/Total Asset	66,6	67,0
Non-Performing Loans/Total Loans (Gross)	3,3	3,3
Demand Deposit/Total Deposit	18,3	19,6
Loan/Deposit Ratio	107,1	105,9
Average Return on Asset (ROA)	2,5	1,2
Average Return on Equity (ROE)	26,1	12,5
Net Interest Margin	13,00	12,50
Capital Adequacy Ratio	81,7	82,1