

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

# **Türkiye Halk Bankası Anonim Şirketi**

**Consolidated Financial Statements  
As of and For the Six-Month Period Ended 30 June 2017  
With Auditors' Limited Review Report Thereon**  
*(Convenience Translation of Consolidated  
Financial Statements and Related Disclosures and Footnotes  
Originally Issued in Turkish)*

3 August 2017

*This report contains "Limited Review Report"  
comprising 2 pages and; "Consolidated  
Financial Statements and Related Disclosures  
and Footnotes" comprising 103 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 30 June 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 six-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.

### *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 30 June 2017, and of the results of their operations and their cash flows for the six-month period then ended in accordance with the BRSA Accounting and Financial Reporting Regulations.

### *Other Matter*

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 and as at and for the six-month period then ended 30 June 2016 were audited and reviewed by another auditor who expressed an unqualified opinion and an unqualified conclusion on 13 February 2017 and 8 August 2016, respectively.

### **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, 3 August 2017

**TÜRKİYE HALK BANKASI AŞ**  
**THE CONSOLIDATED FINANCIAL REPORT**  
**AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 six-month period ended financial report designed by the Banking Regulation and Supervision Agency in line with Communiqué on Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures consists of the sections listed below:

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

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

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

Unless otherwise indicated, these consolidated financial statements and explanatory footnotes and disclosures as of and for the six-month period ended 30 June 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, 3 August 2017

R. Süleyman Özgül	Sadık Tiltak	Yahya Bayraktar	Osman Arslan	Selahattin Süleymanoğlu	Kenan Deveci
<i>Chairman of the Board of Directors</i>	<i>Vice Chairman of the Board of Directors, Chairman of the Audit Committee</i>	<i>Member of the Board of Directors, Member of the Audit Committee</i>	<i>Member of the Board of Directors, Chief Executive Officer</i>	<i>Financial Management and Planning Vice Chief Executive Officer(on commission)</i>	<i>Financial Accounting and Reporting Department Head(on commission)</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

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**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 30 June 2017 the shareholders’ structure and their respective ownerships are summarized as follows:

<b>Shareholders</b>	<b>30 June 2017</b>	<b>%</b>	<b>31 December 2016</b>	<b>%</b>
Türkiye Varlık Fonu A.Ş. <sup>(1,2)</sup>	638.276	51,06	-	-
Başbakanlık Özelleştirme İdaresi Başkanlığı	-	-	638.276	51,06
Public shares <sup>(2)</sup>	611.640	48,93	611.639	48,93
Other shareholders <sup>(3)</sup>	84	0,01	85	0,01
<b>Total</b>	<b>1.250.000</b>	<b>100,00</b>	<b>1.250.000</b>	<b>100</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> TRY 82 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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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

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

**III. EXPLANATIONS REGARDING THE PARNET BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE PARENT BANK, IF ANY<sup>(1) (2)</sup>**

<b>Name</b>	<b>Title</b>
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors, Independent Member of the Board of Director, Chairman of the Audit Committee
Osman ARSLAN	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Yahya BAYRAKTAR	Independent Member of the Board of Directors, Member of the Audit Committee
Mehmet Nihat ÖMEROĞLU	Independent Member of the Board of Directors
Maksut SERİM	Member of the Board of Directors
Meltem TAYLAN AYDIN	Member of the Board of Directors
Faruk ÖZÇELİK	Member of the Audit Committee
Yılmaz ÇOLAK	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
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)

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

<sup>(2)</sup> After balance sheet date, 30 June 2017, coupled with the reconstruction of the Organization Scheme of the Head Office; in line with the new organization structure, it is resolved that the Deputy General Managers Murat OKTAY, Erdal ERDEM, Hasan ÜNAL, Mustafa AYDIN, Ömer Faruk ŞENEL and Salim KÖSE be released from their duties; the Deputy General Manager Mehmet Hakan ATILLA and the Chairman of the Board of Inspectors Ali Ulvi SARGON be taken into the service of General Directorate Order; Hasan TUNCAY, Levend TORUSDAĞ, Mustafa ÇÖDEK, Yusuf Duran OCAK, Ergin KAYA, Hakan ERYILMAZ and Metin KÖSTEK be appointed to fill the vacancies in the Deputy General Manager positions, and Kadir YAYLAK to be the Chairman of the Board of Inspectors by the Board of Directors following the approval of the Banking Regulation and Supervision Agency.



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 2017 are listed with titles and dates of assignment.

<b>Name</b>	<b>Title</b>	<b>Assigned Date</b>
Osman ARSLAN	Member of the Board of Directors, Chief Executive Officer	8 June 2017
Mehmet Nihat ÖMEROĞLU	Member of the Board of Directors	8 June 2017
Maksut SERİM	Member of the Board of Directors	8 June 2017
Meltem TAYLAN AYDIN	Member of the Board of Directors	8 June 2017
Yılmaz ÇOLAK	Member of the Audit Committee	8 June 2017

- b) The professionals from the Parent Bank’s top management who have left their position in 2017 are listed with titles and dates of leaving.

<b>Name</b>	<b>Title</b>	<b>Date of Leaving</b>
Mehmet Ali GÖKCE	Member of the Board of Directors	23 January 2017
Ali Fuat TAŞKESENLİOĞLU	Member of the Board of Directors, Chief Executive Officer	8 June 2017
Ömer AÇIKGÖZ	Member of the Board of Directors	8 June 2017
Mehmet AYTEKİN	Member of the Board of Directors	8 June 2017
Zekeriya KAYA	Member of the Audit Committee	8 June 2017

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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. 13<sup>th</sup> 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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 Law No: 25539 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 30 June 2017, the Parent Bank operates with a total of 969 branches consisting of 963 domestic and 6 foreign branches that are 5 in Cyprus and 1 in Bahrain. Domestic branches include 30 satellite branches. The Bank has also 3 representative offices that are 1 in England, 1 in Singapore and 1 in 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-Halk Bank N.V.
- 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.

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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 A.D., Skopje, formerly Export and Credit Bank A.D., 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”.

**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 Dağıtım Kanalları AŞ, is not accounted in the consolidated financial statements. In the financial statements prepared in accordance with International Financial Reporting Standards, the non-financial subsidiary, Bileşim Alternatif Dağıtım Kanalları AŞ is included in the scope of consolidation 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-Halk Bank 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 10% or 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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 30 JUNE 2017**  
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

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

ASSETS	Note	Reviewed			Audited		
		Current period			Prior period		
		30 June 2017	31 December 2016		30 June 2017	31 December 2016	
		TRY	FC	Total	TRY	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	(1)	<b>4.218.625</b>	<b>31.290.792</b>	<b>35.509.417</b>	<b>3.534.389</b>	<b>26.677.577</b>	<b>30.211.966</b>
<b>II. FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)</b>	(2)	<b>71.649</b>	<b>372.490</b>	<b>444.139</b>	<b>88.251</b>	<b>360.675</b>	<b>448.926</b>
2.1 Trading financial assets		71.649	372.490	444.139	88.251	360.675	448.926
2.1.1 Public sector debt securities		48.439	-	48.439	65.538	-	65.538
2.1.2 Share certificates		2.457	767	3.224	2.413	682	3.095
2.1.3 Financial assets held for trading		-	371.530	371.530	4	359.807	359.811
2.1.4 Other marketable securities		20.753	193	20.946	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		-	-	-	-	-	-
<b>III. BANKS</b>	(3)	<b>123.159</b>	<b>2.701.041</b>	<b>2.824.200</b>	<b>362.526</b>	<b>1.602.324</b>	<b>1.964.850</b>
<b>IV. MONEY MARKET PLACEMENTS</b>		<b>1.108.694</b>	<b>-</b>	<b>1.108.694</b>	<b>1.072.397</b>	<b>-</b>	<b>1.072.397</b>
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange Money Market placements		1.106.068	-	1.106.068	1.067.712	-	1.067.712
4.3 Receivables from reverse repurchase agreements		2.626	-	2.626	4.685	-	4.685
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	(4)	<b>12.035.294</b>	<b>5.338.570</b>	<b>17.373.864</b>	<b>10.915.994</b>	<b>4.565.225</b>	<b>15.481.219</b>
5.1 Share certificates		26.751	42.972	69.723	23.682	36.149	59.831
5.2 Public sector debt securities		12.008.543	5.295.598	17.304.141	10.890.372	4.529.076	15.419.448
5.3 Other marketable securities		-	-	-	1.940	-	1.940
<b>VI. LOANS AND RECEIVABLES</b>	(5)	<b>122.309.104</b>	<b>59.436.654</b>	<b>181.745.758</b>	<b>103.252.263</b>	<b>56.070.896</b>	<b>159.323.159</b>
6.1 Loans and receivables		120.953.462	59.348.714	180.302.176	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		120.953.462	59.348.714	180.302.176	102.076.226	55.981.809	158.058.035
6.2 Loans under follow-up		5.736.359	178.059	5.914.418	5.140.082	180.430	5.320.512
6.3 Specific provisions (-)		4.380.717	90.119	4.470.836	3.964.045	91.343	4.055.388
<b>VII. FACTORING RECEIVABLES</b>		<b>984.232</b>	<b>133.428</b>	<b>1.117.660</b>	<b>849.637</b>	<b>284.891</b>	<b>1.134.528</b>
<b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>	(6)	<b>17.856.336</b>	<b>2.509.349</b>	<b>20.365.685</b>	<b>15.875.022</b>	<b>2.469.604</b>	<b>18.344.626</b>
8.1 Public sector debt securities		17.809.730	2.509.349	20.319.079	15.841.619	2.469.604	18.311.223
8.2 Other marketable securities		46.606	-	46.606	33.403	-	33.403
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	(7)	<b>22.165</b>	<b>281.683</b>	<b>303.848</b>	<b>22.393</b>	<b>270.028</b>	<b>292.421</b>
9.1 Accounted under equity method		15.845	281.683	297.528	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
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	(8)	<b>41.243</b>	<b>-</b>	<b>41.243</b>	<b>41.243</b>	<b>-</b>	<b>41.243</b>
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		41.243	-	41.243	41.243	-	41.243
<b>XI. JOINT VENTURES (Net)</b>	(9)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
11.1 Accounted under equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
<b>XII. FINANCE LEASE RECEIVABLES (Net)</b>	(10)	<b>524.856</b>	<b>1.953.182</b>	<b>2.478.038</b>	<b>365.336</b>	<b>1.945.994</b>	<b>2.311.330</b>
12.1 Finance lease receivables		669.090	2.293.486	2.962.576	459.604	2.258.623	2.718.227
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		144.234	340.304	484.538	94.268	312.629	406.897
<b>XIII. DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT</b>	(11)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
13.1 Fair value risk hedging		-	-	-	-	-	-
13.2 Cash flow risk hedging		-	-	-	-	-	-
13.3 Net foreign investment risk hedging		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	(12)	<b>3.277.120</b>	<b>81.710</b>	<b>3.358.830</b>	<b>3.192.451</b>	<b>74.533</b>	<b>3.266.984</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	(13)	<b>88.036</b>	<b>19.814</b>	<b>107.850</b>	<b>95.056</b>	<b>20.173</b>	<b>115.229</b>
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		88.036	19.814	107.850	95.056	20.173	115.229
<b>XVI. INVESTMENT PROPERTIES (Net)</b>	(14)	<b>872.127</b>	<b>4.103</b>	<b>876.230</b>	<b>860.521</b>	<b>3.595</b>	<b>864.116</b>
<b>XVII. TAX ASSET</b>	(15)	<b>95.016</b>	<b>1.975</b>	<b>96.991</b>	<b>97.750</b>	<b>1.775</b>	<b>99.525</b>
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		95.016	1.975	96.991	97.750	1.775	99.525
<b>XVIII. ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)</b>	(16)	<b>1.537</b>	<b>-</b>	<b>1.537</b>	<b>1.537</b>	<b>-</b>	<b>1.537</b>
18.1 Held for sale purpose		1.537	-	1.537	1.537	-	1.537
18.2 Held from discontinued operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	(17)	<b>3.545.353</b>	<b>379.172</b>	<b>3.924.525</b>	<b>2.203.011</b>	<b>549.200</b>	<b>2.752.211</b>
<b>TOTAL ASSETS</b>		<b>167.174.546</b>	<b>104.503.963</b>	<b>271.678.509</b>	<b>142.829.777</b>	<b>94.896.490</b>	<b>237.726.267</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 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		
		30 June 2017			31 December 2016		
LIABILITIES AND SHAREHOLDERS' EQUITY		TRY	FC	Total	TRY	FC	Total
<b>I. DEPOSITS</b>	(1)	<b>97.655.268</b>	<b>74.383.381</b>	<b>172.038.649</b>	<b>86.549.173</b>	<b>63.849.704</b>	<b>150.398.877</b>
1.1 Deposits Held by the Risk Group of the Bank		9.980	-	9.980	8.771	-	8.771
1.2 Other		97.645.288	74.383.381	172.028.669	86.540.402	63.849.704	150.390.106
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	(2)	<b>14</b>	<b>171.851</b>	<b>171.865</b>	<b>59</b>	<b>224.534</b>	<b>224.593</b>
<b>III. FUNDS BORROWED</b>	(3)	<b>1.321.975</b>	<b>18.821.404</b>	<b>20.143.379</b>	<b>1.171.764</b>	<b>20.417.347</b>	<b>21.589.111</b>
<b>IV. MONEY MARKET BALANCES</b>		<b>24.475.254</b>	<b>1.906.251</b>	<b>26.381.505</b>	<b>17.648.265</b>	<b>1.373.871</b>	<b>19.022.136</b>
4.1 Interbank money market borrowings		22.907.717	-	22.907.717	7.003.306	-	7.003.306
4.2 Istanbul Stock Exchange Takasbank borrowings		1.447.845	-	1.447.845	1.174.218	-	1.174.218
4.3 Funds from repurchase agreements		119.692	1.906.251	2.025.943	9.470.741	1.373.871	10.844.612
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>	(4)	<b>3.046.995</b>	<b>10.719.789</b>	<b>13.766.784</b>	<b>2.067.703</b>	<b>10.684.708</b>	<b>12.752.411</b>
5.1 Treasury bills		3.046.995	-	3.046.995	2.067.703	-	2.067.703
5.2 Asset-backed securities		-	-	-	-	-	-
5.3 Bonds		-	10.719.789	10.719.789	-	10.684.708	10.684.708
<b>VI. FUNDS</b>	(5)	<b>2.365.406</b>	<b>-</b>	<b>2.365.406</b>	<b>2.339.808</b>	<b>-</b>	<b>2.339.808</b>
6.1 Borrower Funds		5.764	-	5.764	36.600	-	36.600
6.2 Other		2.359.642	-	2.359.642	2.303.208	-	2.303.208
<b>VII. SUNDRY CREDITORS</b>		<b>3.012.404</b>	<b>159.807</b>	<b>3.172.211</b>	<b>2.743.078</b>	<b>123.544</b>	<b>2.866.622</b>
<b>VIII. OTHER LIABILITIES</b>	(6)	<b>2.841.891</b>	<b>559.507</b>	<b>3.401.398</b>	<b>1.503.590</b>	<b>439.963</b>	<b>1.943.553</b>
<b>IX. FACTORING PAYABLES</b>		<b>996</b>	<b>255</b>	<b>1.251</b>	<b>383</b>	<b>205</b>	<b>588</b>
<b>X. FINANCE LEASE PAYABLES</b>	(7)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
<b>XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT</b>	(8)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
11.1 Fair value risk hedging		-	-	-	-	-	-
11.2 Cash flow risk hedging		-	-	-	-	-	-
11.3 Net foreign investment risk hedging		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(9)	<b>4.920.917</b>	<b>91.297</b>	<b>5.012.214</b>	<b>4.485.747</b>	<b>87.352</b>	<b>4.573.099</b>
12.1 General loan provisions		2.154.859	24.866	2.179.725	2.027.964	21.172	2.049.136
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Employee benefits provisions		711.924	3.769	715.693	728.172	3.287	731.459
12.4 Insurance technical reserves (Net)		1.754.461	-	1.754.461	1.400.148	-	1.400.148
12.5 Other provisions		299.673	62.662	362.335	329.463	62.893	392.356
<b>XIII. TAX LIABILITY</b>	(10)	<b>1.139.528</b>	<b>2.752</b>	<b>1.142.280</b>	<b>639.422</b>	<b>6.527</b>	<b>645.949</b>
13.1 Current tax liability		801.103	600	801.703	352.600	4.375	356.975
13.2 Deferred tax liability		338.425	2.152	340.577	286.822	2.152	288.974
<b>XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)</b>	(11)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Held from discontinued operations		-	-	-	-	-	-
<b>XV. SUBORDINATED CAPITAL</b>	(12)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>XVI. SHAREHOLDERS' EQUITY</b>	(13)	<b>23.977.192</b>	<b>104.375</b>	<b>24.081.567</b>	<b>21.541.471</b>	<b>(171.951)</b>	<b>21.369.520</b>
16.1 Paid-in capital		1.250.000	-	1.250.000	1.250.000	-	1.250.000
16.2 Capital reserves		3.176.148	(180.746)	2.995.402	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		(197.557)	(181.168)	(378.725)	(291.223)	(427.705)	(718.928)
16.2.4 Tangible assets revaluation reserves		2.127.595	371	2.127.966	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		1.201.650	51	1.201.701	1.099.383	51	1,099,434
16.3 Profit reserves		16.865.900	148.131	17.014.031	14.562.537	111.025	14,673,562
16.3.1 Legal reserves		1.722.584	8.560	1.731.144	1.558.859	3.313	1,562,172
16.3.2 Statutory reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		15.096.174	27.317	15,123,491	12,956,536	-	12,956,536
16.3.4 Other profit reserves		47.142	112.254	159.396	47.142	107.712	154,854
16.4 Profit/Loss		2.497.225	103.199	2,600,424	2,585,417	115,139	2,700,556
16.4.1 Prior years income/loss		52.688	87.837	140.525	84.650	82.299	166,949
16.4.2 Period profit/loss		2.444.537	15.362	2,459,899	2,500,767	32,840	2,533,607
16.5 Minority shares		187.919	33.791	221.710	183.918	29.240	213,158
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>164.757.840</b>	<b>106.920.669</b>	<b>271.678.509</b>	<b>140.690.463</b>	<b>97.035.804</b>	<b>237.726.267</b>

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 30 JUNE 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		
		30 June 2017			31 December 2016		
OFF-BALANCE SHEET ITEMS	Note	TRY	FC	Total	TRY	FC	Total
<b>A. COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>51.711.221</b>	<b>52.357.525</b>	<b>104.068.746</b>	<b>46.265.354</b>	<b>51.600.941</b>	<b>97.866.295</b>
<b>I. GUARANTEES AND SURETYSHIPS</b>	(1)	<b>23.380.397</b>	<b>27.609.979</b>	<b>50.990.376</b>	<b>20.999.538</b>	<b>26.878.181</b>	<b>47.877.719</b>
1.1 Letters of guarantee		22.455.541	21.308.257	43.763.798	20.194.359	19.924.546	40.118.905
1.1.1 Guarantees subject to public procurement law		1.096.487	10.819.773	11.916.260	1.049.993	11.366.716	12.416.709
1.1.2 Guarantees given for foreign trade operations		-	17.663	17.663	-	16.644	16.644
1.1.3 Other letters of guarantee		21.359.054	10.470.821	31.829.875	19.144.366	8.541.186	27.685.552
1.2 Bank loans		25.876	2.141.116	2.166.992	12.876	2.812.590	2.825.466
1.2.1 Import acceptances		-	168	228.667	-	320.953	320.953
1.2.2 Other bank acceptances		25.708	1.912.449	1.938.157	12.876	2.491.637	2.504.513
1.3 Letters of credit		8.318	4.014.576	4.022.894	18.091	4.001.009	4.019.100
1.3.1 Documentary letters of credit		8.318	4.014.576	4.022.894	18.091	3.972.450	3.990.541
1.3.2 Other letters of credit		-	-	-	-	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		890.662	146.030	1.036.692	774.212	140.036	914.248
1.9 Other suretyships		-	-	-	-	-	-
<b>II. COMMITMENTS</b>	(1)	<b>25.080.702</b>	<b>1.940.897</b>	<b>27.021.599</b>	<b>23.261.724</b>	<b>1.492.636</b>	<b>24.754.360</b>
2.1 Irrevocable commitments		25.080.702	1.246.717	26.327.419	23.261.724	901.095	24.162.819
2.1.1 Forward asset purchase commitments		275.779	626.602	902.381	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		3.649.997	440.999	4.090.996	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		6.119.896	-	6.119.896	5.805.008	-	5.805.008
2.1.8 Tax and fund liabilities from export commitments		32.895	-	32.895	28.864	-	28.864
2.1.9 Commitments for credit card expenditure limits		11.248.687	32.728	11.281.415	10.794.813	29.260	10.824.073
2.1.10 Commitments for credit cards and banking services promotions		39.708	-	39.708	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		3.713.740	146.388	3.860.128	3.293.812	168.484	3.462.296
2.2 Revocable commitments		-	694.180	694.180	-	591.541	591.541
2.2.1 Revocable loan granting commitments		-	52.284	52.284	-	52.315	52.315
2.2.2 Other revocable commitments		-	641.896	641.896	-	539.226	539.226
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>	(1)	<b>3.250.122</b>	<b>22.806.649</b>	<b>26.056.771</b>	<b>2.004.092</b>	<b>23.230.124</b>	<b>25.234.216</b>
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		3.250.122	22.806.649	26.056.771	2.004.092	23.230.124	25.234.216
3.2.1 Forward foreign currency buy/sell transactions		1.762.331	5.927.368	7.689.699	1.162.609	5.842.701	7.005.310
3.2.1.1 Forward foreign currency transactions-buy		895.512	3.794.269	4.689.781	564.492	3.958.285	4.522.777
3.2.1.2 Forward foreign currency transactions-sell		866.819	2.133.099	2.999.918	598.117	1.884.416	2.482.533
3.2.2 Currency and interest rate swaps		739.426	14.444.826	15.184.252	581.914	14.785.050	15.366.964
3.2.2.1 Currency swap-buy		133.189	2.497.848	2.631.037	148.821	2.707.908	2.856.729
3.2.2.2 Currency swap-sell		606.237	1.944.149	2.550.386	433.093	2.332.612	2.765.705
3.2.2.3 Interest rate swap-buy		-	5.001.414	5.001.414	-	4.872.265	4.872.265
3.2.2.4 Interest rate swap-sell		-	5.001.415	5.001.415	-	4.872.265	4.872.265
3.2.3 Currency, interest rate and marketable securities options		748.365	778.635	1.527.000	259.569	420.684	680.253
3.2.3.1 Currency call options		374.156	389.343	763.499	129.783	210.341	340.124
3.2.3.2 Currency put options		374.209	389.292	763.501	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		-	1.655.820	1.655.820	-	2.181.689	2.181.689
<b>B. CUSTODY AND PLEDGED ASSETS (IV+V+VI)</b>		<b>730.773.766</b>	<b>179.288.292</b>	<b>910.062.058</b>	<b>661.477.039</b>	<b>156.010.441</b>	<b>817.487.480</b>
<b>IV. CUSTODIES</b>		<b>355.992.950</b>	<b>26.153.921</b>	<b>382.146.871</b>	<b>344.066.173</b>	<b>23.722.398</b>	<b>367.788.571</b>
4.1 Assets under management		-	-	-	-	-	-
4.2 Custody marketable securities		167.109.015	682.926	167.791.941	167.030.333	728.810	167.759.143
4.3 Cheques in collection process		13.445.827	19.363.427	32.809.254	12.751.492	17.280.141	30.031.633
4.4 Commercial notes in collection process		164.522.193	494.289	165.016.482	137.519.788	518.733	138.038.521
4.5 Other assets in collection process		-	-	-	-	-	-
4.6 Underwritten securities		-	-	-	-	-	-
4.7 Other custodies		3.895.532	106.981	4.002.513	3.486.346	98.721	3.585.067
4.8 Custodians		7.020.383	5.506.298	12.526.681	23.278.214	5.095.993	28.374.207
<b>V. PLEDGED ASSETS</b>		<b>374.780.816</b>	<b>153.134.371</b>	<b>527.915.187</b>	<b>317.410.866</b>	<b>131.158.600</b>	<b>448.569.466</b>
5.1 Marketable securities		4.225.046	536.446	4.761.492	4.077.924	476.540	4.554.464
5.2 Collateral notes		6.543.972	870.320	7.414.292	7.297.816	820.012	8.117.828
5.3 Commodity		25.813	1.974.000	1.999.813	25.813	-	25.813
5.4 Warranty		-	-	-	-	-	-
5.5 Land and buildings		287.418.028	129.654.934	417.072.962	259.332.850	116.459.706	375.792.556
5.6 Other pledged assets		53.876.560	17.995.792	71.872.352	42.616.278	12.035.647	54.651.925
5.7 Pledges		22.691.397	2.102.879	24.794.276	4.060.185	1.366.695	5.426.880
<b>VI. ACCEPTED BILL GUARANTEES AND SURETIES</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.129.443</b>	<b>1.129.443</b>
<b>TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)</b>		<b>782.484.987</b>	<b>231.645.817</b>	<b>1.014.130.804</b>	<b>707.742.393</b>	<b>207.611.382</b>	<b>915.353.775</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**CONSOLIDATED STATEMENT OF INCOME AS OF 30 JUNE 2017**  
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

**III. CONSOLIDATED STATEMENT OF INCOME**

			Reviewed	Reviewed	Reviewed	Reviewed
			Current period	Prior period	Current period	Prior period
			1 January- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2017	1 April- 30 June 2016
INCOME AND EXPENSES		Note				
<b>I.</b>	<b>INTEREST INCOME</b>	(1)	<b>10.847.572</b>	<b>8.155.418</b>	<b>5.541.132</b>	<b>4.113.958</b>
1.1	Interest on loans		8.481.881	6.704.945	4.391.050	3.470.502
1.2	Interest received from reserve deposits		52.130	30.193	30.094	15.138
1.3	Interest received from banks		115.111	55.486	68.886	25.625
1.4	Interest received from money market placements		23.549	190	11.187	112
1.5	Interest income on marketable securities		1.988.376	1.229.352	947.659	529.057
1.5.1	Financial assets held for trading		1.483	3.659	1.002	2.155
1.5.2	Financial assets at fair value through profit and loss		-	-	-	-
1.5.3	Financial assets available-for-sale		807.883	493.398	394.114	233.556
1.5.4	Investments held-to-maturity		1.179.010	732.295	552.543	293.346
1.6	Finance lease income		90.730	70.556	46.553	34.693
1.7	Other interest income		95.795	64.696	45.703	38.831
<b>II.</b>	<b>INTEREST EXPENSE</b>	(2)	<b>6.385.857</b>	<b>4.885.406</b>	<b>3.481.073</b>	<b>2.452.229</b>
2.1	Interest on deposits		4.611.837	3.953.388	2.514.814	1.972.226
2.2	Interest on borrowings		260.868	236.363	122.204	116.040
2.3	Interest on money market borrowings		1.056.489	399.335	621.896	219.658
2.4	Interest on bonds issued		391.703	248.322	195.541	126.545
2.5	Other interest expense		64.960	47.998	26.618	17.760
<b>III.</b>	<b>NET INTEREST INCOME (I – II)</b>		<b>4.461.715</b>	<b>3.270.012</b>	<b>2.060.059</b>	<b>1.661.729</b>
<b>IV.</b>	<b>NET FEES AND COMMISSIONS INCOME</b>		<b>965.679</b>	<b>549.122</b>	<b>460.523</b>	<b>301.261</b>
4.1	Fees and commissions income		1.246.407	788.958	609.507	414.853
4.1.1	Non-cash loans		187.471	137.171	96.119	74.091
4.1.2	Other		1.058.936	651.787	513.388	340.762
4.2	Fees and commissions expenses		280.728	239.836	148.984	113.592
4.2.1	Non-cash loans		1.973	1.799	1.298	713
4.2.2	Other		278.755	238.037	147.686	112.879
<b>V.</b>	<b>DIVIDEND INCOME</b>	(3)	<b>3.467</b>	<b>39.832</b>	<b>3.263</b>	<b>39.832</b>
<b>VI.</b>	<b>NET TRADING PROFIT (NET)</b>	(4)	<b>122.262</b>	<b>51.684</b>	<b>46.839</b>	<b>23.798</b>
6.1	Profit/loss from capital market operations		19.503	7.928	10.255	4.031
6.2	Profit/loss from financial derivative transactions		(189.887)	(402.934)	(46.336)	(191.474)
6.3	Foreign exchange gains/losses		292.646	446.690	82.920	211.241
<b>VII.</b>	<b>OTHER OPERATING INCOME</b>	(5)	<b>996.165</b>	<b>1.011.570</b>	<b>520.634</b>	<b>597.051</b>
<b>VIII.</b>	<b>TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>6.549.288</b>	<b>4.922.220</b>	<b>3.091.318</b>	<b>2.623.671</b>
<b>IX.</b>	<b>LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)</b>	(6)	<b>741.492</b>	<b>555.451</b>	<b>262.363</b>	<b>279.345</b>
<b>X.</b>	<b>OTHER OPERATING EXPENSES(-)</b>	(7)	<b>2.718.469</b>	<b>2.556.946</b>	<b>1.447.930</b>	<b>1.172.337</b>
<b>XI.</b>	<b>NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>3.089.327</b>	<b>1.809.823</b>	<b>1.381.025</b>	<b>1.171.989</b>
<b>XII.</b>	<b>AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER</b>		-	-	-	-
<b>XIII.</b>	<b>PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES</b>		<b>9.934</b>	<b>8.095</b>	<b>4.886</b>	<b>4.389</b>
<b>XIV.</b>	<b>GAIN / (LOSS) ON NET MONETARY POSITION</b>		-	-	-	-
<b>XV.</b>	<b>INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)</b>	(8)	<b>3.099.261</b>	<b>1.817.918</b>	<b>1.385.911</b>	<b>1.176.378</b>
<b>XVI.</b>	<b>TAX INCOME PROVISION (±)</b>	(9)	<b>(632.651)</b>	<b>(336.627)</b>	<b>(275.946)</b>	<b>(224.223)</b>
16.1	Current tax provision		(601.981)	(434.320)	(296.622)	(240.881)
16.2	Deferred tax provision		(30.670)	97.693	20.676	16.658
<b>XVII.</b>	<b>NET OPERATING INCOME AFTER TAX (XV±XVI)</b>	(10)	<b>2.466.610</b>	<b>1.481.291</b>	<b>1.109.965</b>	<b>952.155</b>
<b>XVIII.</b>	<b>INCOME FROM DISCONTINUED OPERATIONS</b>		-	-	-	-
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		-	-	-	-
<b>XIX.</b>	<b>EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>		-	-	-	-
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		-	-	-	-
<b>XX.</b>	<b>INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)</b>		-	-	-	-
<b>XXI.</b>	<b>PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)</b>		-	-	-	-
21.1	Current tax provision		-	-	-	-
21.2	Deferred tax provision		-	-	-	-
<b>XXII.</b>	<b>NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)</b>		-	-	-	-
<b>XXIII.</b>	<b>NET PROFIT/(LOSS) (XVII+XXII)</b>	(11)	<b>2.466.610</b>	<b>1.481.291</b>	<b>1.109.965</b>	<b>952.155</b>
23.1	Group's profit/loss		2.459.899	1.480.234	1.107.224	939.645
23.2	Minority shares profit/loss		6.711	1.057	2.741	12.510
	Earnings/losses per share (Full TRY)		1,96792	1,18419	0,88578	0,75172

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 30 JUNE 2017**

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

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

	Reviewed	Reviewed
	Current period	Prior period
	1 January- 30 June 2017	1 January- 30 June 2016
<b>STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY</b>		
<b>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS</b>	<b>362.590</b>	<b>430.495</b>
<b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>21.777</b>	<b>(376)</b>
<b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>-</b>	<b>-</b>
<b>IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS</b>	<b>140.328</b>	<b>40.642</b>
<b>V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)</b>	<b>-</b>	<b>-</b>
<b>VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)</b>	<b>-</b>	<b>-</b>
<b>VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES</b>	<b>-</b>	<b>-</b>
<b>VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS</b>	<b>2.951</b>	<b>6.511</b>
<b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>	<b>(23.467)</b>	<b>(54.466)</b>
<b>X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)</b>	<b>504.179</b>	<b>422.806</b>
<b>XI. PROFIT/LOSS</b>	<b>2.466.610</b>	<b>1.481.291</b>
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	18.258	3.640
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	2.448.352	1.477.651
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)</b>	<b>2.970.789</b>	<b>1.904.097</b>

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 30 JUNE 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
<b>I. January 2016 – 30 June 2016</b>																			
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	-	-	-	-	-	-	-	-	-	-	375.866	-	-	-	-	375.866	88	375.954
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	-	-	-	-	-	-	-	-	-	-	-	(301)	-	-	-	(301)	-	(301)
VI.	Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus shares from investment and associates, subsidiaries and joint ventures (business partners).	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Foreign exchange differences	-	-	-	-	-	-	-	40.617	-	-	-	-	-	-	-	40.617	25	40.642
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	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	-	(187)	-	(383)	2.610	-	-	-	-	-	-	-	2.063	4.448	6.511
XVII.	Net profit or losses	-	-	-	-	-	-	-	1.480.234	-	-	-	-	-	-	-	1.480.234	1.057	1.481.291
XVIII.	Profit distribution	-	-	-	-	164.831	-	1.943.833	-	(2.317.984)	(32.439)	-	-	-	-	-	(241.759)	-	(241.759)
18.1	Dividends distributed	-	-	-	-	-	-	-	-	-	(241.759)	-	-	-	-	-	(241.759)	-	(241.759)
18.2	Transfers to legal reserves	-	-	-	-	164.831	-	1.943.833	-	-	(2.108.664)	-	-	-	-	-	-	-	(241.759)
18.3	Other	-	-	-	-	-	-	-	-	(2.317.984)	2.317.984	-	-	-	-	-	-	-	-
	<b>Closing balance</b>	<b>1.250.000</b>	<b>1.220.451</b>	<b>39.511</b>	<b>-</b>	<b>1.558.571</b>	<b>-</b>	<b>12.989.365</b>	<b>184.131</b>	<b>1.480.234</b>	<b>132.367</b>	<b>90.735</b>	<b>1.672.630</b>	<b>3.973</b>	<b>-</b>	<b>-</b>	<b>20.621.968</b>	<b>207.044</b>	<b>20.829.012</b>
<b>I. January 2017 – 30 June 2017</b>																			
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	-	-	-	-	-	-	-	-	-	-	340.203	-	-	-	-	340.203	9	340.212
IV.	Hedging Funds (effective portion)	-	-	-	-	-	-	-	(42.781)	-	-	-	-	-	-	-	(42.781)	-	(42.781)
4.1	Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedges for investments made in foreign countries	-	-	-	-	-	-	-	(42.781)	-	-	-	-	-	-	-	(42.781)	-	(42.781)
V.	Revaluation changes of property and equipment	-	-	-	-	-	-	-	-	-	-	-	20.688	-	-	-	20.688	-	20.688
VI.	Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Bonus shares from investment and associates, subsidiaries and joint ventures (business partners).	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Foreign exchange differences	-	-	-	-	-	-	-	140.144	-	-	-	-	-	-	-	140.144	184	140.328
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	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	-	-	-	-	(257)	-	491	9.446	-	34.404	-	-	-	-	-	44.084	1.648	45.732
XVII.	Net profit or losses	-	-	-	-	-	-	-	2.459.899	-	-	-	-	-	-	-	2.459.899	6.711	2.466.610
XVIII.	Profit distribution	-	-	-	-	169.229	-	2.166.464	-	(2.533.607)	(60.828)	-	-	-	-	-	(258.742)	-	(258.742)
18.1	Dividends distributed	-	-	-	-	-	-	-	-	-	(258.742)	-	-	-	-	-	(258.742)	-	(258.742)
18.2	Transfers to legal reserves	-	-	-	-	169.229	-	2.166.464	-	-	(2.335.693)	-	-	-	-	-	-	-	(258.742)
18.3	Other	-	-	-	-	-	-	-	-	(2.533.607)	2.533.607	-	-	-	-	-	-	-	-
	<b>Closing balance</b>	<b>1.250.000</b>	<b>1.220.451</b>	<b>39.737</b>	<b>-</b>	<b>1.731.144</b>	<b>-</b>	<b>15.123.491</b>	<b>140.646</b>	<b>2.459.899</b>	<b>140.525</b>	<b>(378.725)</b>	<b>2.127.966</b>	<b>4.723</b>	<b>-</b>	<b>-</b>	<b>23.859.857</b>	<b>221.710</b>	<b>24.081.567</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**AS OF 30 JUNE 2017**

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

**VI. CONSOLIDATED STATEMENT OF CASH FLOWS**

	Reviewed Current period	Reviewed Prior period
Note	1 January- 30 June 2017	1 January- 30 June 2016
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>		
<b>1.1 Operating profit before changes in operating assets and liabilities</b>	<b>3.924.428</b>	<b>1.238.858</b>
1.1.1 Interest received	10.460.340	7.682.477
1.1.2 Interest paid	(5.716.311)	(4.868.311)
1.1.3 Dividend received	3.467	39.832
1.1.4 Fees and commissions received	1.246.407	788.958
1.1.5 Other income	826.416	891.666
1.1.6 Collections from previously written off loans	302.430	336.009
1.1.7 Cash payments to personnel and service suppliers	(1.036.596)	(937.066)
1.1.8 Taxes paid	(520.041)	(351.876)
1.1.9 Other	(1.641.684)	(2.342.831)
<b>1.2 Assets and Liabilities Subject to Banking Operations</b>	<b>2.431.938</b>	<b>(3.235.756)</b>
1.2.1 Net decrease in financial assets held for sale	16.143	(45.710)
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	15.497	-
1.2.4 Net (increase) decrease in loans	(22.588.509)	(12.441.072)
1.2.5 Net (increase) decrease in other assets	(4.341.004)	(2.886.853)
1.2.6 Net increase (decrease) in bank deposits	(5.935.607)	2.934.116
1.2.7 Net increase (decrease) in other deposits	26.952.159	5.018.199
1.2.8 Net increase (decrease) in loans borrowed	(1.444.895)	(1.152.363)
1.2.9 Net increase (decrease) in matured payables	-	-
1.2.10 Net increase (decrease) in other liabilities	9.758.154	5.337.927
<b>I. Net cash provided from banking operations</b>	<b>6.356.366</b>	<b>(1.996.898)</b>
<b>B. CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
<b>II. Net cash provided from / (used in) investing activities</b>	<b>(4.659.768)</b>	<b>(121.898)</b>
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	(182.921)	(139.957)
2.4 Fixed assets sales	68.337	66.077
2.5 Cash paid for purchase of financial assets available for sale	(4.724.069)	(1.138.756)
2.6 Cash obtained from sale of financial assets available for sale	2.811.559	446.256
2.7 Cash paid for purchase of investment securities	(3.810.874)	(1.142.029)
2.8 Cash obtained from sale of investment securities	1.176.467	1.794.990
2.9 Other	1.733	(8.479)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>III. Net cash used in financing activities</b>	<b>750.580</b>	<b>(149.139)</b>
3.1 Cash obtained from loans borrowed and securities issued	3.095.680	1.889.764
3.2 Cash used for repayment of loans borrowed and securities issued	(2.086.358)	(1.797.144)
3.3 Bonds issued	-	-
3.4 Dividends paid	(258.742)	(241.759)
3.5 Payments for finance leases	-	-
3.6 Other	-	-
<b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>	<b>33.734</b>	<b>(5.452)</b>
<b>V. Net increase / (decrease) in cash and cash equivalents</b>	<b>2.480.912</b>	<b>(2.273.387)</b>
<b>VI. Cash and cash equivalents at beginning of the period</b>	<b>15.530.596</b>	<b>8.855.902</b>
<b>VII. Cash and cash equivalents at end of the period</b>	<b>18.011.508</b>	<b>6.582.515</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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

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

**I. EXPLANATION ON BASIS OF PRESENTATION**

The Parent Bank prepares its consolidated 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 consolidated 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 consolidated 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 consolidated 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 Group’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 Group’s accounting policies and accounting estimates, except for TFRS 9 which will be effective from periods beginning on or after 1 January 2018. The Group 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 which is the functional currency of the Group and the presentation currency of the financial statements.

**TÜRKİYE HALK BANKASI AŞ**  
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*(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), Demirhalk Bank 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-Halk Bank 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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 a subsidiary'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 Halk Bank 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**  
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*(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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
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*(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 30 June 2017, the bank has credit default swap transaction amounting to USD 200 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**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 30 June 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.

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**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 specific provisions are allocated for those loans. Specific provisions are reflected to “820/821 Provisions and Impairment Expenses 82000/82100 Specific Provisions Expenses” account. Provisions released in same year are recognized as a credit movement under the “Provision Expenses”, released portion of the previous period provisions are recognized under the “Other Operating Income” account.

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

**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.

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**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 AND TRANSACTIONS ON SECURITIES LOANED**

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

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

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

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

**XI. EXPLANATIONS ON ASSETS HELD FOR SALE 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.

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

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

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

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

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

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

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

*Classification of Investment Properties:*

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

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

**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.



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**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.

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**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.

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**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. Moreover, accrued advance tax for 1 January-31 March 2017 period is paid in May 2017 and accrued advance tax for 1 April-30 June 2017 period will also be paid in August 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.

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**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 A.D., 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.

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

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

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

**Tax practices for the consolidated subsidiaries (continued)**

*Halk Bank A.D., 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.

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**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.

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**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 30 June 2017, the Group's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 13,34% (31 December 2016: 12,50%), The equity is calculated as TRY 25.542.847 in accordance with the principles of "Regulation on Equities of Banks" (31 December 2016: TRY 22.857.357).

1. Information on Components of Consolidated Capital:

<b>Current Period</b>	<b>Amount</b>	<b>Amounts related to treatment before 1/1/2014<sup>(*)</sup></b>
<b>COMMON EQUITY TIER I CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	16.995.976	
Other Comprehensive Income according to TAS	1.748.546	
Profit	2.600.424	
Current Period Profit	2.459.899	
Prior Period Profit	140.525	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interest	13.986	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>23.873.843</b>	
<b>Deductions From Common Equity Tier I Capital</b>		
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 (-)	67.386	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	86.280	107.850
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 (-)	-	
<b>Total Deductions From Common Equity Tier I Capital</b>	<b>153.666</b>	
<b>Total Common Equity Tier I Capital</b>	<b>23.720.177</b>	

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

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

1. Information on Consolidated Equity Components (continued):

<b>ADDITIONAL TIER I CAPITAL</b>	
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)	-
<b>Additional Tier I Capital before Deductions</b>	-
<b>Deductions from Additional Tier I Capital</b>	-
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 (-)	-
<b>Items to be Deducted from Tier I Capital During the Transition Period</b>	<b>21.570</b>
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	21.570
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 (-)	-
<b>Total Deductions from Additional Tier I Capital</b>	-
<b>Total Additional Tier I Capital</b>	-
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>23.698.607</b>
<b>TIER II CAPITAL</b>	
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)	2.143.592
<b>Tier II Capital Before Deductions</b>	<b>2.143.592</b>
<b>Deductions From Tier II Capital</b>	-
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 (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>2.143.592</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>25.842.199</b>
<b>Total Tier I Capital and Tier II Capital ( Total Equity)</b>	<b>25.542.847</b>
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	283.597
Other items to be Defined by the BRSA (-)	15.745



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

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

1. Information on Consolidated Equity Components (continued):

<b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period</b>	
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 (-)	-
<b>TOTAL CAPITAL</b>	
Total capital	25.542.847
Total risk weighted amounts	191.501.163
<b>Capital Adequacy Ratios</b>	
Core Capital Adequacy Ratio	12,39
Tier I Capital Adequacy Ratio	12,38
Capital Adequacy Ratio	13,34
<b>BUFFERS</b>	
Bank-specific total CET1 Capital Ratio (%)	6,273
Capital Conservation Buffer Ratio (%)	1,250
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)**	0,523
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,338
<b>Amounts Lower Than Excesses as per Deduction Rules</b>	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	54.695
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 (**)	1.572.432
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	281.250
<b>Limits for Provisions Used in Tier II Capital Calculation</b>	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.179.725
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2.143.592
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	-
<b>Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)</b>	
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.

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

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

1. Information on Consolidated Equity Components (continued):

<b>Prior Period</b>	<b>Amount</b>	<b>Amounts related to treatment before 1/1/2014<sup>(*)</sup></b>
<b>COMMON EQUITY TIER 1 CAPITAL</b>		
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	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>21.172.695</b>	
<b>Deductions From Common Equity Tier I Capital</b>		
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	110.427
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 (-)	-	
<b>Total Deductions From Common Equity Tier I Capital</b>	<b>142.017</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>21.030.678</b>	

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**MANAGEMENT OF THE GROUP (continued)**

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

1. Information on Consolidated Equity Components (continued):

<b>ADDITIONAL TIER I CAPITAL</b>	-
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)	-
<b>Additional Tier I Capital before Deductions</b>	-
<b>Deductions from Additional Tier I Capital</b>	-
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 (-)	-
<b>Items to be Deducted from Tier I Capital During the Transition Period</b>	<b>46.092</b>
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	46.092
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 (-)	-
<b>Total Deductions from Additional Tier I Capital</b>	-
<b>Total Additional Tier I Capital</b>	-
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>20.984.586</b>
<b>TIER II CAPITAL</b>	
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
<b>Tier II Capital Before Deductions</b>	<b>2.049.136</b>
<b>Deductions From Tier II Capital</b>	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments 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 (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>2.049.136</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>23.033.722</b>
<b>Total Tier I Capital and Tier II Capital ( Total Equity)</b>	<b>22.857.357</b>
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	157.617
Other items to be defined by the BRSA (-)	18.738

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

1. Information on Consolidated Equity Components (continued):

<b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period</b>	
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 (-)	-
<b>TOTAL CAPITAL</b>	
Total capital (Total Tier I Capital and Tier II Capital)	22.857.357
Total risk weighted amounts	182.822.490
<b>Capital Adequacy Ratios</b>	
Core Capital Adequacy Ratio	11,50
Tier I Capital Adequacy Ratio	11,48
Capital Adequacy Ratio	12,50
<b>BUFFERS</b>	
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
<b>Amounts Lower Than Excesses as per Deduction Rules</b>	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	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
<b>Limits for Provisions Used in Tier II Capital Calculation</b>	
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	-
<b>Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)</b>	
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.

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

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

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

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

Announced current foreign exchange buying rates of the Parent Bank as at 30 June 2017 and the previous five working days in full TRY are as follows:

	<b>21.06.2017</b>	<b>22.06.2017</b>	<b>23.06.2017</b>	<b>28.06.2017</b>	<b>29.06.2017</b>	<b>30.06.2017</b>
USD	3,5100000	3,5000000	3,4700000	3,5100000	3,5000000	3,5200000
CHF	3,5950000	3,5963000	3,5788000	3,6521000	3,6493000	3,6702000
GBP	4,4359000	4,4282000	4,4107000	4,5409000	4,5388000	4,5554000
JPY	0,0313889	0,0314078	0,0311344	0,0312351	0,0310478	0,0313240
EUR	3,9103000	3,9065000	3,8885000	3,9930000	3,9946000	4,0161000

The simple arithmetic averages of the major current foreign exchange buying rates of the Parent Bank for the thirty days before 30 June 2017 are as follows:

	<b>Monthly average</b>
USD	3,4980000
CHF	3,6096550
GBP	4,4757200
JPY	0,0315198
EUR	3,9306700

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**MANAGEMENT OF THE GROUP (continued)**

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

Information related to the consolidated currency risk:

<b>Current Period</b>	<b>EUR</b>	<b>USD</b>	<b>OTHER FC</b>	<b>TOTAL</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	5.873.068	21.585.404	3.832.320	31.290.792
Banks	359.910	1.930.845	410.286	2.701.041
Financial assets at fair value through profit and loss <sup>(3)</sup>	63.535	302.897	6.058	372.490
Money market placements	-	-	-	-
Financial assets available-for-sale	548.942	4.401.070	388.558	5.338.570
Loans <sup>(2)</sup>	30.819.051	29.046.334	1.358.927	61.224.312
Subsidiaries, associates and entities under common control	281.683	-	-	281.683
Held-to-maturity investments	5.794	2.336.654	166.901	2.509.349
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	81.710	81.710
Intangible assets	-	-	-	-
Other assets <sup>(3)</sup>	1.502.275	918.847	50.531	2.471.653
<b>Total assets</b>	<b>39.454.258</b>	<b>60.522.051</b>	<b>6.295.291</b>	<b>106.271.600</b>
<b>Liabilities</b>				
Bank deposits	5.829.751	3.769.579	1.344.730	10.944.060
Foreign currency deposits	22.300.220	37.588.791	3.550.310	63.439.321
Money market balances	-	1.906.251	-	1.906.251
Funds provided from other financial institutions	9.642.869	9.121.565	56.970	18.821.404
Bonds issued	-	10.719.789	-	10.719.789
Sundry creditors	41.295	103.020	15.492	159.807
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities <sup>(3)</sup>	313.156	365.939	146.567	825.662
<b>Total liabilities</b>	<b>38.127.291</b>	<b>63.574.934</b>	<b>5.114.069</b>	<b>106.816.294</b>
<b>Net balance sheet position</b>	<b>1.326.967</b>	<b>(3.052.883)</b>	<b>1.181.222</b>	<b>(544.694)</b>
<b>Net off-balance sheet position</b>	<b>(1.481.391)</b>	<b>2.814.993</b>	<b>(797.746)</b>	<b>535.856</b>
Financial derivative assets <sup>(4)</sup>	900.475	4.825.456	1.257.208	6.983.139
Financial derivative liabilities <sup>(4)</sup>	2.381.866	2.010.463	2.054.954	6.447.283
Non-cash loans <sup>(1)</sup>	10.476.772	15.583.620	1.549.587	27.609.979
<b>Prior period</b>				
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
<b>Net balance sheet position</b>	<b>(14.522)</b>	<b>(1.836.098)</b>	<b>1.406.627</b>	<b>(443.993)</b>
<b>Net off-balance sheet position</b>	<b>(285.828)</b>	<b>1.925.895</b>	<b>(1.140.708)</b>	<b>499.359</b>
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 <sup>(1)</sup>	8.827.121	16.441.447	1.609.613	26.878.181

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

<sup>(2)</sup> Includes TRY 1.787.658 of foreign currency indexed loans and their accruals (31 December 2016: TRY 1.998.635).

<sup>(3)</sup> In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", prepaid expenses TRY 207 in assets; and shareholders' equity TRY 104.375 in liabilities are not taken into consideration in the currency risk measurement.

<sup>(4)</sup> Financial derivative assets include forward precious metal purchase transactions amounted to TRY 2.171. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 1.653.649. Besides, derivative transactions under forward foreign currency purchase and sale commitments are included.

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**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
<b>Assets</b>							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	24.041.258	-	-	-	-	11.468.159	35.509.417
Banks and financial institutions	1.369.061	465.156	6.390	-	-	983.593	2.824.200
Financial assets at fair value through profit and loss	4	48.042	15.099	11	30	380.953	444.139
Money market placements	1.108.694	-	-	-	-	-	1.108.694
Financial assets available-for-sale	679.001	3.341.405	2.688.146	3.821.590	6.771.336	72.386	17.373.864
Loans	83.726.432	18.032.393	41.472.930	28.526.423	6.181.359	2.362.639	180.302.176
Held-to-maturity investments	400.134	8.324.568	3.529.026	2.145.257	5.966.700	-	20.365.685
Other assets <sup>(1)(2)</sup>	37.008	491.627	612.066	1.401.412	260.320	10.947.901	13.750.334
<b>Total assets</b>	<b>111.361.592</b>	<b>30.703.191</b>	<b>48.323.657</b>	<b>35.894.693</b>	<b>19.179.745</b>	<b>26.215.631</b>	<b>271.678.509</b>
<b>Liabilities</b>							
Bank deposits	8.760.810	1.923.193	179.058	-	-	5.950.733	16.813.794
Other deposits	77.283.952	36.755.723	14.505.203	601.588	8.502	26.069.887	155.224.855
Money market balances	23.346.321	1.600.785	1.418.488	-	-	15.911	26.381.505
Sundry creditors	109.682	110.025	415.046	1.002.579	82	1.534.797	3.172.211
Bonds issued	3.504.488	1.350.909	831.454	7.901.008	-	178.925	13.766.784
Funds provided from other financial institutions <sup>(4)</sup>	4.328.029	4.712.515	7.365.053	2.503.545	1.104.780	129.457	20.143.379
Other liabilities <sup>(3)</sup>	85.924	7.539	1.465.065	343.422	1.842.006	32.432.025	36.175.981
<b>Total liabilities</b>	<b>117.419.206</b>	<b>46.460.689</b>	<b>26.179.367</b>	<b>12.352.142</b>	<b>2,955.370</b>	<b>66.311.735</b>	<b>271.678.509</b>
Balance sheet long position	-	-	22.144.290	23.542.551	16.224.375	-	61.911.216
Balance sheet short position	(6.057.614)	(15.757.498)	-	-	-	(40.096.104)	(61.911.216)
Off-balance sheet long position	352.000	528.000	2.324.707	714.057	1.786.650	10.624.843	16.330.257
Off-balance sheet short position	-	(176.000)	(2.324.707)	(2,845.206)	(1,786.650)	(10,121.810)	(17,254.373)
<b>Total position</b>	<b>(5,705.614)</b>	<b>(15,405.498)</b>	<b>22,144.290</b>	<b>21,411.402</b>	<b>16,224.375</b>	<b>(39,593.071)</b>	<b>(924.116)</b>

(1) TRY 96.991 of deferred tax assets is disclosed under the non-bearing interest column in other assets and TRY 340.577 of deferred tax liability is disclosed under the non-bearing interest column in other liabilities.

(2) TRY 1.443.582 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.

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**III. EXPLANATIONS ON 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
<b>Assets</b>							
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 <sup>(1),(2)</sup>	5.200.663	281.671	673.280	1.400.468	287.219	4.300.947	12.144.248
<b>Total assets</b>	<b>86.598.243</b>	<b>33.093.534</b>	<b>47.302.449</b>	<b>36.447.613</b>	<b>17.415.568</b>	<b>16.868.860</b>	<b>237.726.267</b>
<b>Liabilities</b>							
Bank deposits	12.234.540	2.374.878	383.750	-	-	7.867.043	22.860.211
Other deposits	72.782.836	23.195.563	9.436.652	572.900	8.534	21.542.181	127.538.666
Money market balances	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Sundry creditors	1.250.040	97.688	380.694	877.669	29	260.502	2.866.622
Bonds issued	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Funds provided from other financial institutions <sup>(4)</sup>	4.209.850	5.060.030	8.988.390	2.615.467	696.208	19.166	21.589.111
Other liabilities <sup>(3)</sup>	212.335	2.048.286	1.109.721	-	-	27.726.768	31.097.110
<b>Total liabilities</b>	<b>107.665.549</b>	<b>35.315.225</b>	<b>24.683.654</b>	<b>11.941.408</b>	<b>704.771</b>	<b>57.415.660</b>	<b>237.726.267</b>
Balance sheet long position	-	-	22.618.795	24.506.205	16.710.797	-	63.835.797
Balance sheet short position	(21.067.306)	(2.221.691)	-	-	-	(40.546.800)	(63.835.797)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
<b>Total position</b>	<b>(20.716.306)</b>	<b>(2.046.191)</b>	<b>22.618.795</b>	<b>24.076.905</b>	<b>16.710.797</b>	<b>(40.546.800)</b>	<b>97.200</b>

<sup>(1)</sup> TRY 99.525 of deferred tax assets is disclosed under the non-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.

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

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

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



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**MANAGEMENT OF THE GROUP (continued)**

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

2. Average interest rates applied to financial instruments:

<b>Current period</b>	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>TRY</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT <sup>(5)</sup>	-	0,91	-	4,00
Due from other banks and financial institutions <sup>(1)</sup>	0,04	1,18	-	12,39
Financial assets at fair value through profit and loss	-	-	-	10,32
Money market placements	-	-	-	13,65
Available-for-sale financial assets	4,14	5,53	-	11,91
Loans <sup>(2)</sup>	4,63	5,94	-	13,13
Held-to-maturity investments	0,12	5,89	-	14,03
<b>Liabilities</b>				
Bank deposits	1,11	3,31	-	11,49
Other deposits <sup>(4)</sup>	1,67	3,85	0,25	12,17
Money market borrowings	-	2,73	-	9,95
Sundry creditors <sup>(3)</sup>	-	-	-	4,75
Bonds issued	-	4,61	-	12,20
Funds provided from other financial institutions	1,51	3,44	-	12,79
<b>Prior Period</b>				
<b>Assets</b>				
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
<b>Liabilities</b>				
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

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

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

<sup>(3)</sup> Declared maximum deposits interest rate with a maturity of twelve months as of 30 June 2017.

<sup>(4)</sup> Customer based calculated interest rates are applied to TRY and FC deposits as of 30 June 2017.

<sup>(5)</sup> Average interest rates for reserve requirements of the CBRT.

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

**IV. EXPLANATIONS ON CONSOLIDATED POSITION RISK OF SHARES**

Information about position risk of shares:

<b>Equities</b>	<b>Comparison</b>			<b>The Amount of Capital Requirement</b>
	<b>Balance Sheet Value</b>	<b>Fair Value Change</b>	<b>Market Value</b>	
Stock investment excluding A,B,C,D group	345.091 <sup>(*)</sup>	271.087 <sup>(**)</sup>	-	21.687

(\*)Includes TRY 41.243 of unconsolidated subsidiary, TRY 297.528 of associates accounted for under the equity method and TRY 6.320 of unconsolidated associates.

(\*\*)The financial informations about the fair value of Demir-Halk Bank NV has been obtained from its valuation report as of 30 June 2017.

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

<b>Portfolio</b>	<b>Realized gains (losses) in the current period</b>	<b>Revaluated appreciation in the fair value</b>		<b>Unrealized gains and losses</b>		
		<b>Total</b>	<b>Included to core capital</b>	<b>Total</b>	<b>Included to total core capital</b>	<b>Included to core capital</b>
1. Private equity investments	-	-	-	-	-	-
2. Share certificates quoted on a stock exchange	-	-	-	-	-	-
3. Other share certificates	-	15.946	15.946	-	-	-
<b>Total</b>	-	<b>15.946</b>	<b>15.946</b>	-	-	-

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**V. EXPLANATIONS ON 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.

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**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	April	189,04	June	111,40
Minimum	June	138,92	April	90,24

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

	Rate of "Percentage to be taken into account" not Implemented Total value <sup>(1)</sup>		Rate of "Percentage to be taken into account" Implemented Total value <sup>(1)</sup>	
	TRY+FC	FC	TRY+FC	FC
<b>Current Period</b>				
<b>High Quality Liquid Assets</b>				
High Quality Liquid Assets			38.750.048	23.971.841
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	82.864.280	35.643.506	7.116.455	3.564.350
Stable Deposits	23.399.447	-	1.169.972	-
Less Stable Deposits	59.464.833	35.643.506	5.946.483	3.564.350
Unsecured wholesale funding , of which;	70.148.726	26.103.201	40.719.662	18.479.297
Operational Deposits	-	-	-	-
Non-operational Deposits	50.531.189	22.130.792	29.755.087	14.571.346
Other Unsecured Funding	19.617.537	3.972.409	10.964.575	3.907.951
Secured Funding			-	-
Other cash outflows, of which;	4.877.577	2.926.093	2.242.023	1.538.441
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	57.386	407.016	57.386	407.016
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.820.191	2.519.077	2.184.637	1.131.425
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	68.690.034	24.822.994	5.258.332	2.009.480
<b>Total Cash Outflows</b>			<b>55.336.472</b>	<b>25.591.568</b>
<b>Cash Inflows</b>				
Secured Lending	-	-	-	-
Unsecured Lending	22.391.828	12.122.570	15.709.981	10.752.028
Other Cash Inflows	49.707	10.133	49.707	10.133
<b>Total Cash Inflows</b>	<b>22.441.535</b>	<b>12.132.703</b>	<b>15.759.688</b>	<b>10.762.161</b>
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			<b>38.750.048</b>	<b>23.971.841</b>
<b>Total Net Cash Outflows</b>			<b>39.576.784</b>	<b>14.829.407</b>
<b>Liquidity Coverage Ratio (%)</b>			<b>98,52%</b>	<b>165,49%</b>

<sup>(1)</sup> 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.

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

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

<sup>(1)</sup> 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.

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

**V. EXPLANATIONS ON 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
<b>Assets</b>								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	2.354.368	32.985.888	-	70.102	-	-	99.059	35.509.417
Banks	1.214.542	1.133.342	465.156	10.580	-	580	-	2.824.200
Financial assets at fair value through profit and loss	5.280	21.136	82.668	72.928	151.690	107.213	3.224	444.139
Money market placements	-	1.108.694	-	-	-	-	-	1.108.694
Financial assets available-for-sale	345.623	445.452	291.498	1.705.852	5.823.550	8.692.166	69.723	17.373.864
Loans	985.243	11.605.383	11.760.123	53.061.969	79.173.397	23.716.061	-	180.302.176
Held-to-maturity investments	146.462	1.530	9.030	1.362.387	8.346.008	10.500.268	-	20.365.685
Other assets <sup>(2) (3)</sup>	2.664.270	38.904	487.302	612.066	1.401.412	260.320	8.286.060	13.750.334
<b>Total assets</b>	<b>7.715.788</b>	<b>47.340.329</b>	<b>13.095.777</b>	<b>56.895.884</b>	<b>94.896.057</b>	<b>43.276.608</b>	<b>8.458.066</b>	<b>271.678.509</b>
<b>Liabilities</b>								
Bank deposits	5.916.542	8.788.039	1.928.846	180.367	-	-	-	16.813.794
Other deposits	25.120.758	77.815.654	37.003.717	14.623.714	626.788	28.730	5.494	155.224.855
Funds provided from other financial institutions <sup>(4)</sup>	219	4.278.355	1.905.125	7.116.885	4.547.254	2.295.541	-	20.143.379
Money market balances	-	23.354.313	1.601.263	1.425.929	-	-	-	26.381.505
Bonds issued	-	3.603.367	1.424.748	837.661	7.901.008	-	-	13.766.784
Sundry creditors	19.048	1.444.935	63.775	415.147	1.004.677	84	224.545	3.172.211
Other liabilities <sup>(1)</sup>	375.348	3.638.330	343.735	1.617.521	360.784	1.901.510	27.938.753	36.175.981
<b>Total liabilities</b>	<b>31.431.915</b>	<b>122.922.993</b>	<b>44.271.209</b>	<b>26.217.224</b>	<b>14.440.511</b>	<b>4.225.865</b>	<b>28.168.792</b>	<b>271.678.509</b>
<b>Liquidity gap</b>	<b>(23.716.127)</b>	<b>(75.582.664)</b>	<b>(31.175.432)</b>	<b>30.678.660</b>	<b>80.455.546</b>	<b>39.050.743</b>	<b>(19.710.726)</b>	<b>-</b>
<b>Net off balance sheet position</b>	<b>-</b>	<b>2.920</b>	<b>7.986</b>	<b>9.429</b>	<b>2</b>	<b>98.701</b>	<b>-</b>	<b>119.038</b>
Derivative financial assets	-	2.906.723	3.200.845	1.330.209	2.230.566	3.419.561	-	13.087.904
Derivative financial liabilities	-	(2.903.803)	(3.192.859)	(1.320.780)	(2.230.564)	(3.320.860)	-	(12.968.866)
<b>Non-cash loans</b>	<b>17.391.836</b>	<b>1.447.200</b>	<b>3.175.172</b>	<b>17.451.923</b>	<b>9.477.211</b>	<b>1.669.157</b>	<b>377.877</b>	<b>50.990.376</b>
<b>Prior period</b>								
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
<b>Liquidity gap</b>	<b>(20.460.776)</b>	<b>(66.952.907)</b>	<b>(17.708.823)</b>	<b>25.396.294</b>	<b>64.031.627</b>	<b>33.523.028</b>	<b>(17.828.443)</b>	<b>-</b>
<b>Net off balance sheet position</b>	<b>-</b>	<b>(5.187)</b>	<b>(24.071)</b>	<b>991</b>	<b>97.269</b>	<b>-</b>	<b>-</b>	<b>69.002</b>
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)
<b>Non-cash loans</b>	<b>17.590.609</b>	<b>2.026.427</b>	<b>4.602.870</b>	<b>13.215.750</b>	<b>8.319.123</b>	<b>1.786.226</b>	<b>336.714</b>	<b>47.877.719</b>

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

<sup>(2)</sup> TRY 1.443.582 of non-performing loans is disclosed under the undistributed column in other assets.

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

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

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**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 <sup>(2)</sup>	Prior Period <sup>(2)</sup>
Total Assets in The Consolidated Financial Statements Prepared in Accordance with TAS <sup>(1)</sup>	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 <sup>(1)</sup>	(35.024.910)	(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	14.790.030	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	1.528.238	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	594.559	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	-	-
<b>Total Risk Amount</b>	<b>339.588.988</b>	<b>304.496.860</b>

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

<sup>(2)</sup> The amounts in the table represent three-month average.

	Current Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>On-Balance Sheet Items</b>		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	262.449.088	231.246.177
Assets that are deducted from core capital	(155.057)	(142.844)
<b>Total on balance sheet exposures</b>	<b>262.294.031</b>	<b>231.103.333</b>
<b>Derivative exposures and credit derivatives</b>		
Replacement cost associated with derivative financial instruments and credit derivatives	417.363	426.047
The potential amount of credit risk with derivative financial instruments and credit derivatives	172.590	169.191
<b>The total amount of risk on derivative financial instruments and credit derivatives</b>	<b>589.953</b>	<b>595.238</b>
<b>Investment securities or commodity collateral financing transactions</b>		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	592.001	564.162
Risk amount of exchange brokerage operations	-	-
<b>Total risks related with securities or commodity financing transactions</b>	<b>592.001</b>	<b>564.162</b>
<b>Off -Balance Sheet Items</b>		
Gross notional amount of off-balance sheet items	76.707.562	72.734.022
Adjustments for conversion to credit equivalent amounts	(594.559)	(499.895)
<b>The total risk of off-balance sheet items</b>	<b>76.113.003</b>	<b>72.234.127</b>
<b>Capital and Total Exposures</b>		
Tier 1 Capital	23.530.827	20.935.086
<b>Total Exposures</b>	<b>339.588.988</b>	<b>304.496.860</b>
<b>Leverage Ratio</b>		
<b>Leverage Ratio</b>	<b>6,93%</b>	<b>6,88%</b>

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



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**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 individual 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.

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**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 30 June 2017 are presented in the table below.

<b>Current Period</b>	<b>Corporate</b>	<b>Commercial</b>	<b>SME/ Integrated</b>	<b>Treasury / Investment<sup>(1)</sup></b>	<b>Other<sup>(2)</sup></b>	<b>Total</b>
<b>OPERATING INCOME / EXPENSES</b>						
Interest income	967.706	1.437.094	5.988.353	2.259.495	194.924	10.847.572
<i>Interest on loans</i>	965.980	1.436.132	5.881.436	198.333	-	8.481.881
<i>Interest income on marketable securities</i>	-	-	92.742	1.874.516	21.118	1.988.376
<i>Interest received from banks</i>	-	-	5.610	107.012	2.489	115.111
<i>Other interest income</i>	1.726	962	8.565	79.634	171.317	262.204
Interest expense	644.987	270.177	3.367.232	2.027.169	76.292	6.385.857
<i>Interest on deposits</i>	644.543	247.825	3.284.929	434.540	-	4.611.837
<i>Interest on borrowings</i>	306	3.358	13.748	175.681	67.775	260.868
<i>Interest on money market borrowings</i>	-	-	23.562	1.032.927	-	1.056.489
<i>Interest on marketable bonds issued</i>	-	-	-	383.658	8.045	391.703
<i>Other interest expense<sup>(2)</sup></i>	138	18.994	44.993	363	472	64.960
Net interest income	322.719	1.166.917	2.621.121	232.326	118.632	4.461.715
Net fees and commissions income / (expense)	118.858	233.972	538.695	194.458	(120.304)	965.679
Net trading profit / (loss)	(809)	2.685	51.724	55.068	13.594	122.262
Dividend income	-	-	-	3.326	141	3.467
Other income	33.499	49.943	166.464	88.590	667.603	1.006.099
Loans and other receivables' impairment loss	7.658	285.346	310.103	136.678	1.707	741.492
Other expenses	15.742	33.905	880.158	1.283.386	505.278	2.718.469
<b>Income before taxes</b>	<b>450.867</b>	<b>1.134.266</b>	<b>2.187.743</b>	<b>(846.296)</b>	<b>172.681</b>	<b>3.099.261</b>
Income tax provision	-	-	(1.695)	(585.902)	(45.054)	(632.651)
<b>Net profit for the period</b>	<b>450.867</b>	<b>1.134.266</b>	<b>2.186.048</b>	<b>(1.432.198)</b>	<b>127.627</b>	<b>2.466.610</b>
<b>SEGMENT ASSETS</b>						
Marketable securities	-	-	3.197.012	34.334.605	280.541	37.812.158
Derivative financial assets held for trading	-	-	85.909	285.621	-	371.530
Banks and money market receivables	-	-	239.674	3.676.837	16.383	3.932.894
Associates and subsidiaries (net)	-	-	-	345.091	-	345.091
Loans	27.192.389	38.528.563	109.719.909	6.304.897	-	181.745.758
Other assets <sup>(1)</sup>	90.375	449.616	1.880.101	40.865.894	4.185.092	47.471.078
<b>TOTAL ASSETS</b>	<b>27.282.764</b>	<b>38.978.179</b>	<b>115.122.605</b>	<b>85.812.945</b>	<b>4.482.016</b>	<b>271.678.509</b>
<b>SEGMENT LIABILITIES</b>						
Deposits	26.085.503	14.524.838	118.937.575	12.490.733	-	172.038.649
Derivative financial liabilities held for trading	-	-	53.141	103.132	15.592	171.865
Money market balances	-	-	1.906.251	24.475.254	-	26.381.505
Borrowing funding loans	6.720	204.953	817.302	17.182.669	1.931.735	20.143.379
Bonds issued	-	-	-	13.616.784	150.000	13.766.784
Other liabilities	284.303	296.904	5.640.287	2.520.160	198.612	8.940.266
Provisions and tax payable	48.815	66.722	227.837	3.998.070	1.813.050	6.154.494
Shareholders' equity	395.026	1.135.217	1.999.332	19.415.693	1.136.299	24.081.567
<b>TOTAL LIABILITIES</b>	<b>26.820.367</b>	<b>16.228.634</b>	<b>129.581.725</b>	<b>93.802.495</b>	<b>5.245.288</b>	<b>271.678.509</b>
<b>OFF BALANCE SHEET ITEMS</b>						
Guarantees and surety ships	13.032.902	12.155.675	15.257.772	10.544.027	-	50.990.376
Commitments	56.288	897.380	12.115.271	13.903.625	49.035	27.021.599
Derivative financial instruments	-	-	6.422.365	19.362.031	272.375	26.056.771

<sup>(1)</sup> Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the Treasury / Investment column. In this context net tangible assets amounting to TRY 3.358.830, deferred tax assets amounting to TRY 96.991 is presented under the Other column and deferred tax liabilities amounting to TRY 340.577 is presented under the Treasury / Investment column.

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

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

**VI. 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 30 June 2016 are presented in the table below.

Prior Period	Corporate	Commercial	SME / Integrated	Treasury / Investment <sup>(1)</sup>	Other <sup>(2)</sup>	Total
<b>OPERATING INCOME / EXPENSES</b>						
<b>30 June 2016</b>						
Interest income	687.980	991.902	4.872.296	1.457.677	145.563	8.155.418
<i>Interest on loans</i>	687.954	991.740	4.807.960	217.291	-	6.704.945
<i>Interest income on marketable securities</i>	-	-	58.710	1.160.095	10.547	1.229.352
<i>Interest received from banks</i>	-	-	1.412	48.304	5.770	55.486
<i>Other interest income</i>	26	162	4.214	31.987	129.246	165.635
Interest expense	357.103	214.377	3.015.180	1.239.891	58.855	4.885.406
<i>Interest on deposits</i>	351.585	204.832	2.958.328	438.643	-	3.953.388
<i>Interest on borrowings</i>	447	3.492	11.843	162.206	58.375	236.363
<i>Interest on money market borrowings</i>	-	-	10.089	389.246	-	399.335
<i>Interest on marketable bonds issued</i>	-	-	-	248.322	-	248.322
<i>Other interest expense</i>	5.071	6.053	34.920	1.474	480	47.998
Net interest income	330.877	777.525	1.857.116	217.786	86.708	3.270.012
Net fees and commissions income / (expense)	88.387	98.569	332.775	121.276	(91.885)	549.122
Net trading profit / (loss)	445	2.740	3.500	31.515	13.484	51.684
Dividend income	-	-	-	39.719	113	39.832
Other income	4.128	16.463	153.277	273.051	572.746	1.019.665
Loans and other receivables' impairment loss	45.885	94.025	271.382	143.128	1.031	555.451
Other expenses	8.123	32.675	868.977	1.035.220	611.951	2.556.946
<b>Income before taxes</b>	<b>369.829</b>	<b>768.597</b>	<b>1.206.309</b>	<b>(495.001)</b>	<b>(31.816)</b>	<b>1.817.918</b>
Income tax provision	-	-	(1.580)	(353.410)	18.363	(336.627)
<b>Net profit for the period</b>	<b>369.829</b>	<b>768.597</b>	<b>1.204.729</b>	<b>(848.411)</b>	<b>(13.453)</b>	<b>1.481.291</b>
<b>SEGMENT ASSETS</b>						
<b>(31 December 2016)</b>						
Marketable securities	-	-	2.524.561	31.134.471	255.928	33.914.960
Derivative financial assets held for trading	-	-	75.054	284.757	-	359.811
Banks and money market receivables	-	-	244.328	2.782.330	10.589	3.037.247
Associates and subsidiaries (net)	-	-	-	333.664	-	333.664
Loans	24.281.411	32.125.832	97.373.009	5.542.907	-	159.323.159
Other assets <sup>(1)</sup>	81.246	441.908	1.805.746	34.519.527	3.908.999	40.757.426
<b>TOTAL ASSETS</b>	<b>24.362.657</b>	<b>32.567.740</b>	<b>102.022.698</b>	<b>74.597.656</b>	<b>4.175.516</b>	<b>237.726.267</b>
<b>SEGMENT LIABILITIES</b>						
<b>(31 December 2016)</b>						
Deposits	23.833.195	8.253.723	100.730.184	17.581.775	-	150.398.877
Derivative financial liabilities held for trading	-	-	42.426	169.422	12.745	224.593
Money market balances	-	-	1.373.871	17.648.265	-	19.022.136
Borrowing funding loans	1.445	187.747	830.155	18.562.250	2.007.514	21.589.111
Bonds issued	-	-	-	12.627.411	125.000	12.752.411
Other liabilities	254.825	278.741	5.100.179	1.383.137	133.689	7.150.571
Provisions and tax payable	66.549	57.621	191.543	3.450.920	1.452.415	5.219.048
Shareholders' equity	543.102	1.701.171	3.102.242	15.079.106	943.899	21.369.520
<b>TOTAL LIABILITIES</b>	<b>24.699.116</b>	<b>10.479.003</b>	<b>111.370.600</b>	<b>86.502.286</b>	<b>4.675.262</b>	<b>237.726.267</b>
<b>OFF BALANCE SHEET ITEMS</b>						
<b>(31 December 2016)</b>						
Guarantees and surety ships	13.605.528	10.831.393	12.513.027	10.927.771	-	47.877.719
Commitments	58.048	855.008	11.050.295	12.545.837	245.172	24.754.360
Derivative financial instruments	-	-	6.427.378	18.507.766	299.072	25.234.216

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

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

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**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 Approach 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 BRSB 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.

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**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 Requirements
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk) (CCR)*	169.418.103	166.783.094	13.553.448
2	Standardised approach (SA)	169.418.103	166.783.094	13.553.448
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1.325.452	380.116	106.036
5	Standardised approach for counterparty credit (SA-CCR)	1.325.452	380.116	106.036
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity	-	-	-
8	Investments made in collective investment companies – look-through approach	-	-	-
9	Investments made in collective investment companies – mandate-based approach (*)	-	-	-
10	Investments made in collective investment companies - %1250 weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach (RBA)	-	-	-
14	IRB Supervisory Formula Approach (SFA)	-	-	-
15	SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	5.289.450	2.225.538	423.156
17	Standardised approach (SA)	5.289.450	2.225.538	423.156
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	743.820	715.254	59.506
24	Floor adjustment	-	-	-
25	<b>Total ( 1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>191.501.163</b>	<b>182.822.490</b>	<b>15.320.093</b>

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

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

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

**Analysis of counterparty credit risk (CCR) exposure by approach**

	Replacement cost	Potential future exposure	EEPE*	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Standard Approach-CCR (for derivatives)	102.894	176.406		1,4	318.881	229.569
Internal Model Method (for derivative financial instruments, repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					2.573.428	627.636
Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					1.758.659	467.783
Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
<b>Total</b>						<b>1.324.988</b>

(\*) Expected effective amount of risk

**Credit valuation adjustment (CVA) capital charge**

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) VaR component (including the 3×multiplier)	-	-
(ii) Stressed VaR component (including the 3×multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	318.881	229.569
<b>Total subject to the CVA capital charge</b>	<b>318.881</b>	<b>229.569</b>

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

(continued)

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

<b>Risk Weight /Regulatory Portfolio</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Other</b>	<b>Total Credit Risk</b>
Sovereigns and their central banks	2	20.060	-	-	-	738	-	-	20.800
Non-central government public sector entities	303	12.140	-	-	-	-	-	-	12.443
Regional governments or local authorities	568	7.648	-	-	-	-	-	-	8.216
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-
Multilateral development banks	1.282.962	-	2.113.521	477.280	-	522.013	-	-	4.395.776
Corporate	176	2.695	-	-	-	130.501	-	-	133.372
Regulatory retail portfolios	34.508	42.360	-	-	3.029	-	-	-	79.897
Secured by residential property	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-
Investments on securities	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other assets*	-	-	463	-	-	1	-	-	464
<b>Total</b>	<b>1.318.519</b>	<b>84.903</b>	<b>2.113.984</b>	<b>477.280</b>	<b>3.029</b>	<b>653.253</b>	<b>-</b>	<b>-</b>	<b>4.650.968</b>

\* CCR is included in other assets.

**Composition of collateral for CCR exposure**

	<b>Collateral used in derivative transactions</b>				<b>Collateral used in SFTs</b>	
	<b>Fair value of collateral received</b>		<b>Fair value of posted collateral</b>		<b>Fair value of collateral received</b>	<b>Fair value of posted collateral</b>
	<b>Segregated</b>	<b>Unsegregated</b>	<b>Segregated</b>	<b>Unsegregated</b>		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	48.576	-	27.202	-	50.618
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	<b>48.576</b>	-	<b>27.202</b>	-	<b>50.618</b>

**Credit derivatives exposures**

None.

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

**Exposures to central counterparties (CCP)**

	EAD post-CRM	RWA
Exposure to Qualified Central Counterparties(QCCPs)		464
Exposures for trades at QCCPs(excluding initial margin and default fund contributions); of which	2.314	463
(i) OTC Derivatives	-	-
(ii) Exchange-traded Derivatives	2.314	463
(iii) Securities financing transactions	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	9.626	
Non-segregated initial margin	-	-
Pre-funded default fund contributions	198	1
Unfunded default fund contributions	-	-
Exposure to non-QCCPs(total)		-
Exposures for	-	-
Exposures for trades at non-QCCPs(excluding initial margin and default fund contributions); of which	-	-
(i) OTC Derivatives	-	-
(ii) Exchange-traded Derivatives	-	-
(iii) Securities financing transactions	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Pre-funded default fund contributions	-	-

**Credit quality of assets**

		Gross Carrying Values of TAS		Allowances / amortization and impairments**	Net Values
		Defaulted exposures*	Non-defaulted exposures		
1	Loans	5.914.418	180.302.176	4.470.836	181.745.758
2	Debt Securities	-	37.980.543	168.385	37.812.158
3	Off-balance exposure	-	78.011.975	-	78.011.975
<b>4</b>	<b>Total</b>	<b>5.914.418</b>	<b>296.294.694</b>	<b>4.639.221</b>	<b>297.569.891</b>

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

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

**Changes in stock of defaulted loans and debt securities**

1	Defaulted loans and debt securities at end of the previous reporting period	5.320.512
2	Loans and debt securities that have defaulted since the last reporting period	897.415
3	Returned to non-defaulted status	(27.364)
4	Amounts written off	1.079
5	Other changes	(277.224)
	<b>Defaulted loans and debt securities at end of the reporting period</b>	
<b>6</b>	<b>(1+2-3-4±5)</b>	<b>5.914.418</b>



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

**Credit risk mitigation techniques – Overview**

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1 Loans	115.958.676	64.343.500	49.960.376	402.158	402.158	-	-
2 Debt Securities	37.808.934	-	-	-	-	-	-
3 Total	153.767.610	64.343.500	49.960.376	402.158	402.158	-	-
4 Of which defaulted	246.714	1.196.868	813.540	10.248	10.248	-	-

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

Asset Classes	Exposures before Credit Conversion Factor and Credit Risk Mitigation		Exposures post-Credit Conversion Factor and Credit Risk Mitigation		Risk Weighted Average and Risk Weighted Average Density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	65.000.262	156.400	75.709.191	578.306	9.553.840	12,52%
Non-central government public sector entities	2.393.088	67.883	2.393.088	33.942	1.200.468	49,46%
Regional governments or local authorities	607.313	1.540.556	607.313	766.625	1.363.917	99,27%
Multilateral development banks	-	-	-	-	-	0,00%
International organizations	-	-	-	-	-	0,00%
Banks and intermediary institutions	8.478.058	2.740.317	8.493.496	1.514.987	2.921.063	29,19%
Corporates	68.881.227	41.745.876	64.001.944	23.217.139	85.536.604	98,07%
Regulatory retail portfolios	57.864.006	28.193.121	52.019.024	4.995.628	41.114.987	72,11%
Secured by residential property	29.871.216	1.142.662	29.871.114	622.007	10.876.146	35,67%
Secured by commercial real estate	19.924.112	1.571.021	19.924.112	1.133.197	10.528.654	50,00%
Past-due loans	1.444.502	9.167	1.444.502	4.771	1.298.301	89,58%
Higher-risk categories	55.099	137.245	55.099	86.438	212.305	150,00%
Secured by mortgages	-	-	-	-	-	0,00%
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	0,00%
Undertakings for collective investments in mutual funds	-	-	-	-	-	0,00%
Other assets	11.919.977	-	11.919.977	-	6.068.298	50,91%
Investment on securities	366.500	-	366.500	-	812.792	221,77%
<b>Total</b>	<b>266.805.360</b>	<b>77.304.248</b>	<b>266.805.360</b>	<b>32.953.040</b>	<b>171.487.375</b>	<b>57,21%</b>

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

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

**Standardised approach – exposures by asset classes and risk weights**

Risk Classes/ Risk weight	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	57.304.801	20.060	-	-	18.821.605	-	141.031	-	-	-	76.287.497
Non-central government public sector entities	16.382	12.140	-	-	2.398.508	-	-	-	-	-	2.427.030
Regional governments or local authorities	3.015	7.648	154	-	-	-	1.363.121	-	-	-	1.373.938
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-	-	-
Banks and intermediary institutions	1.282.962	-	6.598.118	-	1.051.927	-	1.075.476	-	-	-	10.008.483
Corporates	754.871	2.695	879.201	-	443.643	-	85.138.673	-	-	-	87.219.083
Regulatory retail portfolios	1.995.439	42.360	221.616	-	-	54.755.237	-	-	-	-	57.014.652
Secured by residential property	35.538	-	9.477	29.904.571	-	543.535	-	-	-	-	30.493.121
Secured by commercial real estate	-	-	-	-	21.057.309	-	-	-	-	-	21.057.309
Past-due loans	13.605	-	-	-	274.735	-	1.160.933	-	-	-	1.449.273
Higher-risk categories	-	-	-	-	-	-	-	141.537	-	-	141.537
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Investment on securities	-	-	-	-	-	-	68.972	-	-	297.528	366.500
Other Receivables	5.130.724	-	953.166	-	160.242	95.145	5.483.710	-	-	96.990	11.919.977
<b>Total</b>	<b>66.537.337</b>	<b>84.903</b>	<b>8.661.732</b>	<b>29.904.571</b>	<b>44.207.969</b>	<b>55.393.917</b>	<b>94.431.916</b>	<b>141.537</b>	<b>-</b>	<b>394.518</b>	<b>299.758.400</b>

\*Secured by mortgages

**Market risk under standardised approach**

	RWA
<b>Outright products</b>	
Interest rate risk (general and specific)	1.660.863
Equity risk (general and specific)	120.612
Foreign exchange risk	3.430.000
Commodity risk	-
<b>Options</b>	
Simplified approach	-
Delta-plus method	77.975
Scenario approach	-
Securitization	-
<b>Total</b>	<b>5.289.450</b>

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**SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**I. EXPLANATION 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	1.111.873	1.238.743	914.278	628.818
CBRT	3.106.752	29.883.205	2.620.111	25.902.219
Other <sup>(1)</sup>	-	168.844	-	146.540
<b>Total</b>	<b>4.218.625</b>	<b>31.290.792</b>	<b>3.534.389</b>	<b>26.677.577</b>

<sup>(1)</sup>As of 30 June 2017, required reserve deposits kept in Central Bank of Macedonia amounted TRY 69.773 and amounted TRY 99.059 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 <sup>(1)</sup>	3.024.227	3.667.323	2.563.615	3.345.458
Time unrestricted amount	-	-	-	-
Time restricted amount	1.044	5.379.220	-	5.359.104
Reserve deposits <sup>(2)</sup>	81.481	20.836.662	56.496	17.197.657
<b>Total</b>	<b>3.106.752</b>	<b>29.883.205</b>	<b>2.620.111</b>	<b>25.902.219</b>

<sup>(1)</sup>Reserve deposits kept in CBRT.

<sup>(2)</sup>Blocked reserve deposits kept in CBRT and Central Bank of TRNC.

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 (WAFC) rate announced on the Central Bank website. The interest related to the reserve requirements set as TRY 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 1,25% for the reporting period (announced at 16 June 2017).

With the decision No.872 dated 30 January 2014 of the Central Bank of 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.

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**I. EXPLANATION 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.	5.554	-	2.532	-
<b>Total</b>	<b>5.554</b>	<b>-</b>	<b>2.532</b>	<b>-</b>

c) 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.	8.088	-	-	-
<b>Total</b>	<b>8.088</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	125.370	-	120.227
Swap transactions	-	246.075	-	239.460
Futures transactions	-	-	-	-
Options	-	67	4	120
Other	-	18	-	-
<b>Total</b>	<b>-</b>	<b>371.530</b>	<b>4</b>	<b>359.807</b>

(3) Information on banks and other financial institutions:

Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	55.301	242.740	192.757	26.801
Foreign banks	67.858	2.458.301	169.769	1.575.523
Branches and offices abroad	-	-	-	-
<b>Total</b>	<b>123.159</b>	<b>2.701.041</b>	<b>362.526</b>	<b>1.602.324</b>

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**SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**I. EXPLANATION 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.	7.364.163	292.128	122.648	365.859
<b>Total</b>	<b>7.364.163</b>	<b>292.128</b>	<b>122.648</b>	<b>365.859</b>

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

	Current Period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	-	1.769.529	4.789.610	728.138
<b>Total</b>	<b>-</b>	<b>1.769.529</b>	<b>4.789.610</b>	<b>728.138</b>

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

	Current period	Prior period
Debt securities	17.449.168	15.698.700
<i>Quoted on a stock exchange</i>	17.103.545	15.692.826
<i>Not quoted</i>	345.623	5.874
Share certificates	93.081	343.595
<i>Quoted on a stock exchange</i>	53.008	53.292
<i>Not quoted</i>	40.073	290.303
Impairment provision(-)	168.385	561.076
<b>Total</b>	<b>17.373.864</b>	<b>15.481.219</b>

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**SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**I. EXPLANATION 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	258.140	-	226.188	-
<b>Total</b>	<b>258.140</b>	<b>-</b>	<b>226.188</b>	<b>-</b>

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

	Standard loans and other receivables <sup>(3)</sup>			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
<b>Cash loans</b>						
Non-specialized loans	143.839.849	2.725.254	-	4.161.425	2.683.690	-
<i>Corporation loans</i>	98.223.067	2.256.927	-	3.691.910	2.560.942	-
<i>Export loans</i>	3.766.462	24.640	-	9.637	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	2.078.762	-	-	-	-	-
<i>Consumer loans<sup>(1)</sup></i>	33.862.725	393.059	-	280.831	29.035	-
<i>Credit cards<sup>(2)</sup></i>	3.739.477	50.628	-	119.387	93.713	-
<i>Other</i>	2.169.356	-	-	59.660	-	-
Specialized lending	29.654.409	7.264	-	269.478	234	-
Other receivables	-	-	-	-	-	-
Accruals	2.317.261	36.911	-	59.754	36.103	-
<b>Total</b>	<b>175.811.519</b>	<b>2.769.429</b>	<b>-</b>	<b>4.490.657</b>	<b>2.720.027</b>	<b>-</b>

<sup>(1)</sup> Includes TRY 202.722 of personnel loans.

<sup>(2)</sup> Includes TRY 55.418 of personnel credit cards.

<sup>(3)</sup> 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 <sup>(1)</sup>	Loans and Other Receivables Under Close Monitoring <sup>(2)</sup>
<b>Number of modifications made to extend payment plan</b>		
Extended by 1 or 2 times	2.668.987	2.627.767
Extended by 3,4 or 5 times	37.556	11.675
Extended by more than 5 times	25.975	44.482

<sup>(1)</sup> Accruals amounting to TRY 36.911 are not included in the table above.

<sup>(2)</sup> Accruals amounting to TRY 36.103 are not included in the table above.

	Standard Loans and Other Receivables <sup>(1)</sup>	Loans and Other Receivables Under Close Monitoring <sup>(2)</sup>
<b>Extended period of time</b>		
0-6 Months	297.168	414.862
6 Months - 12 Months	122.646	115.738
1-2 Years	333.256	195.753
2-5 Years	1.376.149	1.012.357
5 Years and over	603.299	945.214

<sup>(1)</sup> Accruals amounting to TRY 36.911 are not included in the table above.

<sup>(2)</sup> Accruals amounting to TRY 36.103 are not included in the table above.

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**I. EXPLANATION 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	354.909	31.919.986	32.274.895
<i>Real estate loans</i>	8.465	17.505.245	17.513.710
<i>Automobile loans</i>	4.398	224.192	228.590
<i>Consumer loans</i>	342.046	14.190.549	14.532.595
<i>Other</i>	-	-	-
Consumer loans- Indexed to FC	1.283	114.474	115.757
<i>Real estate loans</i>	20	1.039	1.059
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	1.263	113.435	114.698
<i>Other</i>	-	-	-
Consumer loans- FC	3.508	709.190	712.698
<i>Real estate loans</i>	644	183.529	184.173
<i>Automobile loans</i>	40	3.084	3.124
<i>Consumer loans</i>	2.398	473.531	475.929
<i>Other</i>	426	49.046	49.472
Individual credit cards-TRY	2.755.279	2.504	2.757.783
<i>Installment</i>	1.181.471	-	1.181.471
<i>Non-installment</i>	1.573.808	2.504	1.576.312
Individual credit cards-FC	589	51.752	52.341
<i>Installment</i>	192	51.752	51.944
<i>Non-installment</i>	397	-	397
Personnel loans-TRY	9.707	167.645	177.352
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	9.707	167.645	177.352
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	18	1.493	1.511
<i>Real estate loans</i>	-	7	7
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	18	1.486	1.504
<i>Other</i>	-	-	-
Personnel loans-FC	140	23.719	23.859
<i>Real estate loans</i>	5	11.361	11.366
<i>Automobile loans</i>	3	47	50
<i>Consumer loans</i>	127	12.198	12.325
<i>Other</i>	5	113	118
Personnel credit cards-TRY	54.201	-	54.201
<i>Installment</i>	21.103	-	21.103
<i>Non-installment</i>	33.098	-	33.098
Personnel credit cards-FC	63	1.154	1.217
<i>Installment</i>	4	1.154	1.158
<i>Non-installment</i>	59	-	59
Overdraft accounts-TRY (Retail customer)	794.774	-	794.774
Overdraft accounts-FC (Retail customer)	39.151	3.559	42.710
<b>Total</b>	<b>4.013.622</b>	<b>32.995.476</b>	<b>37.009.098</b>

\*Interest income accruals are not included in the table above.

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

(5) Information on loans: (continued)

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

	<b>Short-term</b>	<b>Medium and long-term</b>	<b>Total</b>
Commercial installment loans-TRY	739.240	18.646.207	19.385.447
<i>Business residential loans</i>	49	634.539	634.588
<i>Automobile loans</i>	9.087	334.974	344.061
<i>Consumer loans</i>	730.104	17.676.694	18.406.798
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	26.412	43.345	69.757
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	26.412	43.345	69.757
Commercial installment loans - FC	356.621	9.114.137	9.470.758
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	12.080	8.101.062	8.113.142
<i>Other</i>	344.541	1.013.075	1.357.616
Corporate credit cards-TRY	991.249	-	991.249
<i>Installment</i>	387.955	-	387.955
<i>Non-installment</i>	603.294	-	603.294
Corporate credit cards-FC	140	1.933	2.073
<i>Installment</i>	-	1.933	1.933
<i>Non-installment</i>	140	-	140
Overdraft accounts-TRY (Commercial customer)	1.028.145	-	1.028.145
Overdraft accounts-FC (Commercial customer)	10.014	-	10.014
<b>Total*</b>	<b>3.151.821</b>	<b>27.805.622</b>	<b>30.957.443</b>

\*Interest and income accruals are not included in table above.

e) Domestic and foreign loans:

	<b>Current period</b>	<b>Prior period</b>
Domestic loans	176.400.213	154.670.861
Foreign loans	3.901.963	3.387.174
<b>Total</b>	<b>180.302.176</b>	<b>158.058.035</b>

f) Loans granted to subsidiaries and associates:

None.

g) Specific provisions provided against loans:

	<b>Current period</b>	<b>Prior period</b>
Specific provisions		
Loans and receivables with limited collectability	490.368	528.413
Loans and receivables with doubtful collectability	529.560	320.082
Uncollectible loans and receivables	3.450.908	3.206.893
<b>Total</b>	<b>4.470.836</b>	<b>4.055.388</b>



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

(5) Information on loans: (continued)

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

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period</b>	<b>56.354</b>	<b>14.166</b>	<b>1.229.010</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	56.354	14.166	1.229.010
<b>Prior period</b>	<b>68.585</b>	<b>16.658</b>	<b>1.281.781</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	68.585	16.658	1.281.781

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
Prior period end balance	950.477	467.221	3.902.814
Additions (+)	805.823	15.284	76.308
Transfers from other categories of loans under follow-up (+)	-	840.719	427.848
Transfers to other categories of loans under follow-up (-)	856.269	412.298	-
Collections (-)	91.183	64.081	147.166
Write-offs (-)	-	-	1.079
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	1.079
<b>Current period end balance</b>	<b>808.848</b>	<b>846.845</b>	<b>4.258.725</b>
Specific provision (-)	490.368	529.560	3.450.908
<b>Net balance on balance sheet</b>	<b>318.480</b>	<b>317.285</b>	<b>807.817</b>

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

(5) Information on loans: (continued)

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period</b>			
Balance at the end of the period	223.387	226.591	1.713.042
Specific provisions(-)	159.809	142.321	1.078.695
<b>Net balance in the balance sheet</b>	<b>63.578</b>	<b>84.270</b>	<b>634.347</b>
<b>Prior period</b>			
Balance at the end of the period	240.218	81.699	1.637.222
Specific provisions(-)	146.630	44.779	1.146.049
<b>Net balance in the balance sheet</b>	<b>93.588</b>	<b>36.920</b>	<b>491.173</b>

Foreign currency non-performing loans amounting to TRY 178.059 and their related provisions amounting to TRY 90.119 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:

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period (Net)</b>			
<b>Loans to granted real persons and legal entities (Gross)</b>	<b>807.809</b>	<b>845.936</b>	<b>4.189.096</b>
Specific provisions (-)	489.329	528.651	3.381.279
<b>Loans to granted real persons and legal entities (Net)</b>	<b>318.480</b>	<b>317.285</b>	<b>807.817</b>
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other loans and receivables (Gross)	1.039	909	69.629
Specific provisions (-)	1.039	909	69.629
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Prior period (Net)</b>			
<b>Loans to granted real persons and legal entities (Gross)</b>	<b>949.476</b>	<b>466.580</b>	<b>3.832.429</b>
Specific provisions (-)	527.412	319.441	3.136.508
<b>Loans to granted real persons and legal entities (Net)</b>	<b>422.064</b>	<b>147.139</b>	<b>695.921</b>
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**FINANCIAL STATEMENTS (continued)**

**I. EXPLANATION 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.

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**I. EXPLANATION 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	41.398	-	-	-
Treasury Bills	17.443.637	1.049.714	4.471.171	1.048.201
<b>Total</b>	<b>17.485.035</b>	<b>1.049.714</b>	<b>4.471.171</b>	<b>1.048.201</b>

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	109.217	713.139	5.079.533	933.840
<b>Total</b>	<b>109.217</b>	<b>713.139</b>	<b>5.079.533</b>	<b>933.840</b>

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

	Current period	Prior period
Government bonds	20.173.206	18.198.316
Treasury bills	145.873	112.907
Other public sector debt securities	-	-
<b>Total</b>	<b>20.319.079</b>	<b>18.311.223</b>

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	20.365.685	18.344.626
<i>Quoted on a stock exchange</i>	20.219.812	18.231.719
<i>Not quoted</i>	145.873	112.907
Impairment provision (-)	-	-
<b>Total</b>	<b>20.365.685</b>	<b>18.344.626</b>

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	26.467	404.431
Purchases during the year <sup>(1)</sup>	3.171.059	3.731.489
Disposals through sales and redemptions	(1.176.467)	(2.696.171)
Impairment provision (-) / provision reversal (+)	-	-
<b>Balance at the of the period</b>	<b>20.365.685</b>	<b>18.344.626</b>

<sup>(1)</sup> Interest income accrual difference between 30 June 2017 amounting to TRY 2.551.783 and 31 December 2016 amounting to TRY 1.911.868 has been included in purchases row.

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**I. EXPLANATION 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 <sup>(1)</sup>	İstanbul	18,18	18,18
2. Bankalararası Kart Merkezi AŞ <sup>(2)</sup>	İstanbul	18,95	18,95

Information related to the associates as sorted above:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value <sup>(2)</sup>
1.	225.170	147.478	153.855	2.457	-	25.565	9.268	-
2.	80.785	43.157	49.254	584	-	4.167	10.606	-

<sup>(1)</sup> The financial data is obtained from 30 June 2017 unreviewed financial statements.

<sup>(2)</sup> The financial data is obtained from 30 June 2017 reviewed financial statements.

c) Information on consolidated associates:<sup>(1)</sup>

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Demir-Halk Bank 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 <sup>(2)</sup>
1.	7.516.392	938.944	13.663	110.582	4.049	33.876	12.484	271.087
2.	47.609	47.073	106	1.116	-	(120)	211	-
3.	28.913	4.765	400	183	-	226	(266)	-

<sup>(1)</sup> The information is presented from financial statements subject to consolidation as 30 June 2017.

<sup>(2)</sup> The financial informations about the fair value of Demir-Halk Bank NV has been obtained from its valuation report as of 30 June 2017.

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

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

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

d) Movement of associates:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period	292.421	264.031
Movements during the period	11.427	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>	11.427	28.390
<i>Provision for impairment (-) / reversals (+)</i>	-	-
<b>Balance at the end of the period</b>	<b>303.848</b>	<b>292.421</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

e) Sectoral information and related carrying amounts of associates:

	<b>Current period</b>	<b>Prior period</b>
Banks	281.683	270.028
Insurance companies	1.031	1.221
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	14.814	14.852
Other non-financial investments	6.320	6.320

f) Associates quoted to a stock exchange:

None.

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

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

(8) Information on consolidated subsidiaries (Net):

a) Information on consolidated subsidiaries:<sup>(1)</sup>

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Banka AD, Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd
<b>CORE CAPITAL</b>									
Paid in Capital	82.000	129.000	277.000	790.000	272.250	11.000	147.843	55.500	53.667
Effect of inflation 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	129.148	2.136	80.736
Other Comprehensive Income according to TAS	1.894	(568)	(9.100)	1.481	(96)	(35)	371	(10)	7.614
<b>Profit / Loss</b>	<b>25.574</b>	<b>(78.430)</b>	<b>283.146</b>	<b>61.811</b>	<b>78.137</b>	<b>11.534</b>	<b>16.381</b>	<b>32.965</b>	<b>6.103</b>
<i>Net Profit</i>	<i>11.795</i>	<i>14.517</i>	<i>111.203</i>	<i>22.510</i>	<i>44.458</i>	<i>3.713</i>	<i>16.381</i>	<i>16.496</i>	<i>6.103</i>
<i>Prior Period Profit/Loss</i>	<i>13.779</i>	<i>(92.947)</i>	<i>171.943</i>	<i>39.301</i>	<i>33.679</i>	<i>7.821</i>	-	<i>16.469</i>	-
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	86	-	-	-	5.746	219	1.779
Intangible Assets (-)	691	3.141	872	216	883	14	3.186	340	1.447
<b>Total Core Capital</b>	<b>120.063</b>	<b>64.865</b>	<b>593.747</b>	<b>958.045</b>	<b>358.154</b>	<b>23.946</b>	<b>296.444</b>	<b>90.032</b>	<b>189.446</b>
<b>SUPPLEMENTARY CAPITAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.307</b>	<b>-</b>	<b>4.559</b>
<b>CAPITAL</b>	<b>120.063</b>	<b>64.865</b>	<b>593.747</b>	<b>958.045</b>	<b>358.154</b>	<b>23.946</b>	<b>316.751</b>	<b>90.032</b>	<b>194.005</b>
<b>NET AVAILABLE CAPITAL</b>	<b>120.063</b>	<b>64.865</b>	<b>593.747</b>	<b>958.045</b>	<b>358.154</b>	<b>23.946</b>	<b>316.751</b>	<b>90.032</b>	<b>194.005</b>

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

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

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

(8) Information on subsidiaries (continued)

c) Information on unconsolidated subsidiaries:

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)									
				Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value <sup>(2)</sup>	
1. Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ <sup>(1)</sup>	Istanbul	100,00	100,00									
1.				41.642	28.264	3.311	456	841	4.184	1.648	41.243	

<sup>(1)</sup> The financial information of Bileşim Alternatif Dağıtım. Kanalları ve Ödeme Sistemleri AŞ is obtained from 30 June 2017 financial statements.

<sup>(2)</sup> The information is presented from valuation report as 31 December 2016.

d) Information on consolidated subsidiaries: (Net):

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)									
				Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value <sup>(2)</sup>	
1. Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96	99,96									
2. Halk Sigorta AŞ <sup>(4)</sup>	Istanbul	89,18	94,26									
3. Halk Hayat ve Emeklilik AŞ	Istanbul	100,00	100,00									
4. Halk Gayrimenkul Yatırım Ortaklığı AŞ <sup>(3)</sup>	Istanbul	79,33	79,36									
5. Halk Finansal Kiralama AŞ	Istanbul	100,00	100,00									
6. Halk Portföy Yönetimi AŞ	Istanbul	75,00	99,99									
7. Halk Banka AD, Skopje	Macedonia	99,03	99,03									
8. Halk Faktoring AŞ	Istanbul	97,50	100,00									
9. Halk Banka A.D. Beograd	Serbia	82,47	82,47									

e) Information related to the subsidiaries as sorted above<sup>(1)</sup>:

Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value <sup>(2)</sup>		
1.	1.949.045	120.063	1.772	41.502	537	11.795	4.815	133.415	
2.	1.572.938	64.865	4.889	50.410	7.797	14.517	(92.504)	368.089	
3.	1.066.228	593.747	2.047	60.034	17.868	111.203	75.391	920.493	
4.	1.196.645	958.045	525.268	3.811	-	22.510	22.035	597.011	
5.	2.736.302	358.154	1.321	90.862	-	44.458	21.947	415.786	
6.	25.633	23.946	319	1.339	5	3.713	3.171	22.634	
7.	2.473.605	316.751	52.313	54.141	6.609	16.381	8.105	295.850	
8.	1.126.151	90.032	1.099	80.519	-	16.496	11.195	95.558	
9.	1.193.081	194.005	27.586	25.429	3.017	6.103	10.209	98.640	

<sup>(1)</sup> The financial information is obtained from 30 June 2017 financial statements used in consolidation.

<sup>(2)</sup> Halk Gayimenkul Yatırım Ortaklığı A.Ş is valued at stock price.

<sup>(3)</sup> The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ was privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa Istanbul AŞ.

<sup>(4)</sup> The Bank has been calculated IBNR provisions in terms of Under Secretariat for the Treasury's circular No.2014/16 and the Bank reflects this provisions gradually until 2019 in accordance with circular no: 2016/11.



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

(8) Information on subsidiaries (continued)

f) Movement of the subsidiaries:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period(before elimination)	2.685.934	2.685.934
Movements during the period	302.785	243.055
<i>Purchases<sup>(1)</sup></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>	302.785	71.495
<i>Reversal of provision for impairment (-)</i>	-	-
Share capital elimination of subsidiaries	(2.947.476)	(2.887.746)
<b>Balance at the end of the period</b>	<b>41.243</b>	<b>41.243</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

<sup>(1)</sup> 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:

	<b>Current period</b>	<b>Prior period</b>
Banks	394.490	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	753.060	673.470
Other non-financial subsidiaries	41.243	41.243

h) Subsidiaries quoted in the stock exchange:

	<b>Current period</b>	<b>Prior period</b>
Quoted to domestic stock <sup>(1) (2)</sup>	965.100	885.510
Quoted foreign stock exchange	-	-

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

<sup>(2)</sup> Halk Gayrimenkul Yatırım Ortaklığı AŞ has been public offering on 22 February 2013 and its shares are traded on the Borsa İstanbul AŞ.

(9) Information on jointly controlled entities:

None.

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

**I. EXPLANATION 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	961.790	793.668	815.231	688.075
Between 1-4 years	1.556.769	1.315.165	1.426.002	1.220.074
More than 4 years	444.017	369.205	476.994	403.181
<b>Total</b>	<b>2.962.576</b>	<b>2.478.038</b>	<b>2.718.227</b>	<b>2.311.330</b>

b) Information on gross investments of financial lease:

	Current period	Prior period
Gross financial lease investment	2.962.576	2.718.227
Unearned revenues from financial lease	(484.538)	(406.897)
<b>Total</b>	<b>2.478.038</b>	<b>2.311.330</b>

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

	Current period	Prior period
Financial lease receivables with limited collectability	7.802	32.055
Financial lease receivables with doubtful collectability	22.619	5.418
Uncollectible financial lease receivables	257.451	249.256
Specific provisions	(211.209)	(214.397)
<b>Total</b>	<b>76.663</b>	<b>72.332</b>

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

None.

(12) Information on tangible assets:

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

(13) Information on intangible assets:

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

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

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

(14) Information on investment property:

	<b>Current Period</b>	<b>Prior Period</b>
<b>Cost</b>		
<b>Opening Balance</b>	<b>934.058</b>	<b>550.093</b>
Acquisitions	14.646	7.118
Transfer	(407)	377.348
Disposals	-	-
Impairment Charge/Cancellation(-)	-	501
<b>Ending Balance</b>	<b>948.297</b>	<b>934.058</b>
<b>Accumulated Depreciation</b>		
<b>Opening Balance</b>	<b>69.942</b>	<b>64.499</b>
Amortization Charge (-)	2.674	4.723
Disposals	-	-
Transfer	142	105
Impairment Charge/Cancellation (-)	(407)	615
<b>Ending Balance</b>	<b>72.067</b>	<b>69.942</b>
<b>Net Book Value</b>	<b>876.230</b>	<b>864.116</b>

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

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

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

(15) Information on tax assets:

a) Current tax assets:

As of 30 June 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:

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

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 3.924.525 and does not exceed 10% of the balance sheet total (31 December 2016: TRY 2.752.211).

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

**II. EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES**

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	<b>Demand</b>	<b>7 day call accounts</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6 months year</b>	<b>1 year and over</b>	<b>Cumulative deposits</b>	<b>Total</b>
Saving deposits	6.767.723	-	526.971	34.442.434	1.612.791	490.048	551.878	113.179	44.505.024
Foreign currency deposits	9.163.657	-	2.552.360	34.727.619	7.889.509	3.064.425	4.206.552	10.544	61.614.666
<i>Residents in Turkey</i>	6.486.633	-	2.194.821	33.185.194	7.555.097	2.364.092	2.429.237	10.084	54.225.158
<i>Residents abroad</i>	2.677.024	-	357.539	1.542.425	334.412	700.333	1.777.315	460	7.389.508
Public sector deposits	2.439.322	-	2.204.035	3.713.313	975.570	3.869.609	52.825	-	13.254.674
Commercial inst. deposits	4.295.531	-	3.309.464	15.942.016	3.067.844	2.500.657	172.489	-	29.288.001
Other inst. deposits	629.870	-	851.077	1.902.271	829.285	442.178	83.154	-	4.737.835
Precious metals	1.824.655	-	-	-	-	-	-	-	1.824.655
Interbank deposits	5.916.542	-	3.128.737	7.137.378	184.498	27.257	419.382	-	16.813.794
<i>CBRT</i>	1	-	-	-	-	-	-	-	1
<i>Domestic banks</i>	33.857	-	236.043	4.090.649	7.293	4.256	2.124	-	4.374.222
<i>Foreign banks</i>	5.866.844	-	2.892.694	3.046.729	177.205	23.001	417.258	-	12.423.731
<i>Participation banks</i>	15.840	-	-	-	-	-	-	-	15.840
<b>Total</b>	<b>31.037.300</b>	<b>-</b>	<b>12.572.644</b>	<b>97.865.031</b>	<b>14.559.497</b>	<b>10.394.174</b>	<b>5.486.280</b>	<b>123.723</b>	<b>172.038.649</b>

a.2. Prior period:

	<b>Demand</b>	<b>7 day call accounts</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6 months year</b>	<b>1 year and over</b>	<b>Cumulative deposits</b>	<b>Total</b>
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
<b>Total</b>	<b>29.437.288</b>	<b>-</b>	<b>14.479.462</b>	<b>86.959.113</b>	<b>8.417.061</b>	<b>5.554.626</b>	<b>5.435.506</b>	<b>115.821</b>	<b>150.398.877</b>

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**II. EXPLANATION 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	24.267.981	23.535.650	20.111.140	16.938.565
Foreign currency saving deposits	8.897.088	7.502.986	17.863.554	14.742.676
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	190.428	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	254.316	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	8.860	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	-	-

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**II. EXPLANATION 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	-	84.538	-	137.422
Swap transactions	-	87.094	-	86.857
Future transactions	-	-	-	-
Options	14	171	59	255
Other	-	48	-	-
<b>Total</b>	<b>14</b>	<b>171.851</b>	<b>59</b>	<b>224.534</b>

(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from CBRT	-	-	-	-
Domestic banks and institutions	953.131	1.960.817	843.368	2.503.564
Foreign banks, institutions and funds	368.844	16.860.587	328.396	17.913.783
<b>Total</b>	<b>1.321.975</b>	<b>18.821.404</b>	<b>1.171.764</b>	<b>20.417.347</b>

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	679.398	4.056.288	968.495	4.927.580
Medium and long-term	642.577	14.765.116	203.269	15.489.767
<b>Total</b>	<b>1.321.975</b>	<b>18.821.404</b>	<b>1.171.764</b>	<b>20.417.347</b>

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

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

Main liability of the Group is deposit, which is composed of 25,87% of saving deposits and 35,81% 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 65,09% of banks deposits and 40,87% of other deposits consist of foreign currency deposits.

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

- (4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	3.046.995	-	2.067.703	-
Bonds	-	10.719.789	-	10.684.708
<b>Total</b>	<b>3.046.995</b>	<b>10.719.789</b>	<b>2.067.703</b>	<b>10.684.708</b>

- (5) Explanations to the funds:

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

- a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	6.962	2.358.444	37.539	2.302.269

- (6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 3.401.398 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.



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

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

None.

(9) Explanations on provisions:

a) Information on general provisions:

	<b>Current period</b>	<b>Prior period</b>
<b>General provision</b>	<b>2.179.725</b>	<b>2.049.136</b>
Provisions for first group loans and receivables	1.961.087	1.834.503
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for second group loans and receivables	90.834	93.459
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for non cash loans	127.804	121.174
Other	-	-

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

As of 30 June 2017 the Parent Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 7.585 (31 December 2016: TRY 23).

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

As of 30 June 2017, the Group's specific provision for unindemnified non-cash loans balance is TRY 121.713 (31 December 2016: TRY 139.551).

d) Information on other provisions:

Total other provision balance amounting to TRY 362.335 (31 December 2016: TRY 392.356) consists of TRY 121.713 (31 December 2016: TRY 139.551) for specific provisions for unindemnified non cash loans, TRY 91.999 (31 December 2016: TRY 94.679) for legal cases filed against the Group, TRY 148.623 (31 December 2016: TRY 158.126) of other provisions.

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**II. EXPLANATION 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):

	<b>Current period</b>	<b>Prior period</b>
Life-Mathematical Provisions	299.693	255.917
Provisions for unearned premium claims	637.355	427.120
Provision for outstanding claims	807.015	696.078
Provisions for unexpired risk reserves	10.398	20.865
Other	-	168
<b>Total</b>	<b>1.754.461</b>	<b>1.400.148</b>

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 30 June 2017, the Group’s corporate tax payable is amounting to TRY 328.158 and accounted for under corporate tax provision at the related date.

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**II. EXPLANATION 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:

	<b>Current period</b>	<b>Prior period</b>
Corporate tax payable	328.158	64.824
Income on securities tax	267.338	157.179
Property income tax	1.770	1.402
Banking and insurance transactions tax (BITT)	87.823	92.058
Foreign exchange transactions tax	23	48
Value added tax payable	1.482	3.797
Other	55.680	15.271
<b>Total</b>	<b>742.274</b>	<b>334.579</b>

a.3. Information on premiums:

	<b>Current period</b>	<b>Prior period</b>
Social insurance premiums-employee	1.156	768
Social insurance premiums-employer	2.221	1.419
Bank social aid pension fund premium-employee	21.286	7.621
Bank social aid pension fund premium-employer	29.470	10.452
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	82	48
Unemployment insurance-employer	219	132
Other	4.995	1.956
<b>Total</b>	<b>59.429</b>	<b>22.396</b>

b) Explanations regarding deferred tax liability:

	<b>Current period</b>	<b>Prior period</b>
<b>Deferred Tax Asset/(Liability)</b>		
Provisions <sup>(1)</sup>	272.042	277.574
Revaluation of Financial Assets	(416.377)	(375.878)
Other	(99.251)	(91.145)
<b>Deferred Tax Asset /(Liability) (Net):</b>	<b>(243.586)</b>	<b>(189.449)</b>
<b>Deferred tax accounted in shareholders' equity</b>	<b>21.932</b>	<b>(1.535)</b>
Fair value differences for available for sale financial assets	89.243	65.830
Actuarial gains and losses	262	241
Property Revaluation	(67.573)	(67.606)

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

As of 30 June 2017 net deferred tax liability represents TRY 243.586 (31 December 2016: TRY 189.449 deferred tax liability), it consists of deferred tax assets which amount to TRY 96.991 (31 December 2016: TRY 99.525) and deferred tax liabilities amount to TRY 340.577 (31 December 2016: TRY 288.974).

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

None.

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**II. EXPLANATION 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	5.077	10.869	39
Revaluation difference	10.869	5.077	10.869	39
Exchange rate difference	-	-	-	-
Available for sale financial assets	(208.426)	(186.245)	(302.092)	(427.744)
Revaluation difference	(208.426)	(186.245)	(302.092)	(427.744)
Exchange rate difference	-	-	-	-
<b>Total</b>	<b>(197.557)</b>	<b>(181.168)</b>	<b>(291.223)</b>	<b>(427.705)</b>

**TÜRKİYE HALK BANKASI AŞ**  
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**SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

<b>Types of irrevocable commitments</b>	<b>Current period</b>	<b>Prior period</b>
Commitments for credit card expenditure limits	11.281.415	10.824.073
Payment commitments for cheques	6.119.896	5.805.008
Loan granting commitments	4.090.996	3.580.800
Two days forward foreign exchange buy/sell transactions	902.381	417.450
Commitments for credit cards and banking services promotions	39.708	44.328
Tax and fund liabilities from export commitments	32.895	28.864
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	3.860.128	3.462.296
<b>Total</b>	<b>26.327.419</b>	<b>24.162.819</b>

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

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

	<b>Current period</b>	<b>Prior period</b>
Letters of credit	4.022.894	4.019.100
Bank acceptance loans	2.166.992	2.825.466
Other guarantees	1.036.692	914.248
<b>Total</b>	<b>7.226.578</b>	<b>7.758.814</b>

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

	<b>Current period</b>	<b>Prior period</b>
Letters of certain guarantees	14.258.364	14.917.475
Letters of advance guarantees	3.444.470	3.501.034
Letters of tentative guarantees	959.229	512.981
Letters of guarantee given to customs offices	924.361	887.159
Other letters of guarantee	24.177.374	20.300.256
<b>Total</b>	<b>43.763.798</b>	<b>40.118.905</b>

b.3. Total non-cash loans:

	<b>Current period</b>	<b>Prior period</b>
Non-cash loans for providing cash loans	2.689.641	2.256.883
<i>Within one year or less original maturity</i>	607.632	414.973
<i>Within more than one year maturity</i>	2.082.009	1.841.910
Other non-cash loans	48.300.735	45.620.836
<b>Total</b>	<b>50.990.376</b>	<b>47.877.719</b>

c) Explanations related to contingencies and commitments:

Bank's commitments due to cheques given to client is TRY 6.119.896 (31 December 2016: TRY TRY 5.805.008).

d) Services supplied on behalf of others:

None.

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

**IV. EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT**

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
<b>Interest on loans<sup>(1)</sup></b>				
Short term loans	2.028.338	104.058	1.828.515	89.873
Medium and long term loans	4.814.483	1.502.736	3.767.589	986.147
Interest on non-performing loans	30.813	1.453	31.610	1.211
Premiums from resource utilization support fund	-	-	-	-
<b>Total</b>	<b>6.873.634</b>	<b>1.608.247</b>	<b>5.627.714</b>	<b>1.077.231</b>

<sup>(1)</sup> Includes fees and commissions obtained from cash loans.

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
CBRT	39.278	34.811	33.422	4.639
Domestic banks	26.516	1.894	14.610	315
Overseas banks	5.385	7.227	1.395	1.105
Head office and branches	-	-	-	-
<b>Total</b>	<b>71.179</b>	<b>43.932</b>	<b>49.427</b>	<b>6.059</b>

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial assets held for trading	1.483	-	3.235	424
Financial Assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	671.781	136.102	386.896	106.502
Held-to-maturity investments	1.108.503	70.507	674.839	57.456
<b>Total</b>	<b>1.781.767</b>	<b>206.609</b>	<b>1.064.970</b>	<b>164.382</b>

d) Interest income from associates:

None.

**TÜRKİYE HALK BANKASI AŞ**  
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**SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**IV. EXPLANATION 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	61.787	192.080	63.745	161.948
<i>CBRT</i>	-	-	-	-
<i>Domestic banks</i>	44.093	15.226	34.931	11.529
<i>Overseas banks</i>	17.694	176.854	28.814	150.419
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	8	6.993	9	10.661
<b>Total</b>	<b>61.795</b>	<b>199.073</b>	<b>63.754</b>	<b>172.609</b>

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	1.583	1.623

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	130.975	260.728	79.245	169.077
<b>Total</b>	<b>130.975</b>	<b>260.728</b>	<b>79.245</b>	<b>169.077</b>

d) Maturity structure of interest expenses on deposits:

Account name	Time deposits							Cumulative deposit	Total
	Demand deposits	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 Year	More than 1 year			
<b>Turkish Lira</b>									
Bank deposits	183	226.281	150.937	684	381	-	-	378.466	
Saving deposits	3	29.133	1.695.688	58.974	17.273	21.885	4.645	1.827.601	
Public deposits	53	86.307	121.063	32.571	178.052	1.617	-	419.663	
Commercial deposits	22	181.529	713.109	125.317	53.113	4.605	-	1.077.695	
Other deposits	-	26.746	78.644	17.566	7.664	4.135	-	134.755	
7 days call accounts	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>261</b>	<b>549.996</b>	<b>2.759.441</b>	<b>235.112</b>	<b>256.483</b>	<b>32.242</b>	<b>4.645</b>	<b>3.838.180</b>	
<b>Foreign currency</b>									
Deposits	274	29.431	514.058	94.541	19.126	36.335	191	693.956	
Bank deposits	3	79.322	93	220	-	63	-	79.701	
7 days call accounts	-	-	-	-	-	-	-	-	
Precious metal	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>277</b>	<b>108.753</b>	<b>514.151</b>	<b>94.761</b>	<b>19.126</b>	<b>36.398</b>	<b>191</b>	<b>773.657</b>	
<b>Grand total</b>	<b>538</b>	<b>658.749</b>	<b>3.273.592</b>	<b>329.873</b>	<b>275.609</b>	<b>68.640</b>	<b>4.836</b>	<b>4.611.837</b>	

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**IV. EXPLANATION 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):

	<b>Current period</b>	<b>Prior period</b>
<b>Profit</b>	<b>33.976.054</b>	<b>7.246.869</b>
Profit from the capital market operations	19.685	8.444
Profit on derivative financial instruments	667.565	661.352
Foreign exchange gains	33.288.804	6.577.073
<b>Loss (-)</b>	<b>33.853.792</b>	<b>7.195.185</b>
Loss from the capital market operations	182	516
Loss on derivative financial instruments	857.452	1.064.286
Foreign exchange losses	32.996.158	6.130.383

(5) Information on other operating income:

	<b>Current period</b>	<b>Prior period</b>
Adjustments for prior period expenses	228.741	263.225
Life insurance income	656.375	486.846
Receivable from the asset sale on credit terms	49.842	106.956
Rent income	27.220	24.191
Other income	33.987	130.352
<b>Total</b>	<b>996.165</b>	<b>1.011.570</b>



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

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

(6) Impairment losses on loans and other receivables:

	<b>Current period</b>	<b>Prior period</b>
Specific provisions on loans and receivables	593.712	393.338
<i>Group - III loans and receivables</i>	486.691	338.671
<i>Group - IV loans and receivables</i>	56.223	21.930
<i>Group - V loans and receivables</i>	50.798	32.737
General loan provision expenses	130.812	107.446
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	16.968	54.667
<b>Total</b>	<b>741.492</b>	<b>555.451</b>

(7) Information on other operating expenses:

	<b>Current period</b>	<b>Prior period</b>
Personnel expenses	1.021.192	925.937
Reserve for employee termination benefits	59.715	52.397
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	-	848
Depreciation expenses of fixed assets	55.093	56.831
Intangible assets impairment expense	-	274
Goodwill Impairment	-	-
Amortization expenses of intangible assets	22.235	15.582
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	737	886
Amortization expenses of assets that will be disposed of	7.312	2.158
Impairment expense for property and equipment held for sale	-	47
Other operating expenses	803.979	619.430
<i>Operational leasing expenses</i>	115.841	106.723
<i>Maintenance expenses</i>	23.767	13.344
<i>Advertisement expenses</i>	83.744	53.247
<i>Other expenses</i>	580.627	446.116
Loss on sales of assets	182	609
Other	748.024	881.947
<b>Total</b>	<b>2.718.469</b>	<b>2.556.946</b>

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**SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED**  
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**IV. EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED INCOME**  
**STATEMENT (continued)**

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

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

As of 30 June 2017, the Group’s tax provision amounting to TRY 632.651 (30 June 2016: TRY 336.627) consists of TRY 601.981 (30 June 2016: TRY 434.320) of current tax charge and TRY 30.670 (30 June 2016: TRY 97.693) of deferred tax income.

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

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

(11) Information on net profit/loss:

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

c) Profit/Loss from minorities:

	<b>Current Period</b>	<b>Prior Period</b>
<b>Profit/Loss from Minorities</b>	6.711	1.057

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

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

**V. EXPLANATIONS 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
<b>Deposits</b>						
Beginning balance	8.771	5.823	-	-	-	-
Closing Balance	9.980	8.771	-	-	-	-
Interest expense on deposits	477	186	-	-	-	-

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

None.

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

**V. EXPLANATIONS 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”. Parent Bank intermediates in sales of funds, are established and managed by Halk Portföy Yönetimi AŞ.

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	9.980	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-Halk Bank 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 12.020 as of 30 June 2017 (30 June 2016: TRY 12.318).

**VI. EXPLANATIONS AND NOTES RELATED TO THE SUBSEQUENT EVENTS**

Coupled with the reconstruction of the Organization Scheme of the Head Office; in line with the new organization structure, it is resolved that the Deputy General Managers Murat OKTAY, Erdal ERDEM, Hasan ÜNAL, Mustafa AYDIN, Ömer Faruk ŞENEL and Salim KÖSE be released from their duties; the Deputy General Manager Mehmet Hakan ATILLA and the Chairman of the Board of Inspectors Ali Ulvi SARGON be taken into the service of General Directorate Order; Hasan TUNCAY, Levend TORUSDAĞ, Mustafa ÇÖDEK, Yusuf Duran OCAK, Ergin KAYA, Hakan ERYILMAZ and Metin KÖSTEK be appointed to fill the vacancies in the Deputy General Manager positions, and Kadir YAYLAK to be the Chairman of the Board of Inspectors by the Board of Directors following the approval of the Banking Regulation and Supervision Agency.

**TÜRKİYE HALK BANKASI AŞ**  
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**SECTION VI: EXPLANATIONS ON LIMITED REVIEW REPORT**

**I. EXPLANATIONS ON LIMITED REVIEW 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 limited review report dated 3 August 2017 is presented in front of the financial statements.

**II. EXPLANATION AND NOTES PREPARED BY THE INDEPENDENT AUDITORS**

None.

**TÜRKİYE HALK BANKASI AŞ**  
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**SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT**

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

**Assessment of Chairman of the Board of Directors**

Esteemed stakeholders,

Over the last few years, the global economy has been dominated by political uncertainties and economic recessions; now, however, we are entering a period of recovery. As the world restores confidence in markets, the World Bank has projected a global growth rate of 2,7 percent in its Global Economic Prospects report. According to World Bank, the developed economies will grow by 1,9 percent in 2017, while the largest seven EMDEs (Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Turkey) will play a crucial role in the global recovery.

These seven countries closely monitor the monetary policies of the developed countries. Economic strategies of the institutions shaping the monetary expansion program have become increasingly important for global funding, mainly that of the Fed. The Fed raised interest rates in June, and is likely to do so once again in the coming period. On the other hand, the eurozone continues to increase the money supply by purchasing assets, and to reduce interest rates, overall creating a limited economic recovery.

The economic implications of the political crisis among the Gulf countries remain a matter of concern. How long the Gulf rift will last is uncertain, which in return, threatens international trade and feeds a downward trend in oil prices.

On the contrary, the stable Turkish economy provides a safe harbor thanks to a vigorous management approach and the development plan shaped by the 2023 vision. In the short and medium term, we expect the Turkish economy to advance further. In the first half of the year, the Turkish economy has grown by 5 percent, the Istanbul Stock Exchange has approached a record high, and our exporters have increasingly performed well.

In this same period, the private sector focused on industrial investments, and incentives that boost exports have become more crucial. These developments have increased the banking industry's responsibilities even further. At the same time, to facilitate financing for SMEs and exporters, a loan guarantee mechanism worth 250 billion Turkish lira was introduced through an agreement between the Undersecretariat of the Treasury and the Credit Guarantee Fund (CGF), stimulating strong growth. Halkbank is a founding partner of CGF, which significantly removed the burden on the private sector, especially on SMEs, and facilitated access to financing by providing necessary guarantees. We believe that the CGF loans have allowed SMEs to quickly perform their commercial transactions, thus considerably stimulating the economy. We support a productive Turkey, and will keep supporting SMEs in need of financing with our CGF guarantees.

In addition to SMEs banking, Halkbank is a strong brand in all of its other operations. We will continue to offer advantages to our customers, while significantly contributing to the Turkish economy. We will adopt appropriate measures for increasing our shareholders' equity, and continue to use our funds to support the private sector.

**TÜRKİYE HALK BANKASI AŞ**  
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**SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT**

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

**Assessment of Chairman of the Board of Directors (continued)**

Esteemed stakeholders,

We left behind critical turning points, and now there is a long, clear road ahead of us. From now on, there's no obstacle that can keep us from reaching our goals. Turkey is growing. Rapidly and safely. What guides us along the path is the aim of transforming Turkey into a country that maintains strong industrial output and enjoys competitive advantage in international markets.

This is a path where every single second counts, and speed and quality mean everything. Turkey has only one true companion on this journey: Halkbank. Our brand continues to grow with our energetic employees, a management approach based on modern banking principles and our investors who contribute greatly to our strength. As we strive to achieve our mission of being the biggest supporter of SMEs, we would like to thank all of our shareholders who have placed their trust in us.

Best Regards,

R. Süleyman ÖZDİL  
Chairman

**TÜRKİYE HALK BANKASI AŞ**  
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**SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT**

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

**Assessment of General Manager <sup>(1)</sup>**

Esteemed stakeholders,

Macroeconomic indicators have presented that the Turkish economy has remained vibrant over the first half of 2017. Turkey exceeded expectations with 5-percent growth by the end of the first quarter and the Industrial Production Index shows that the manufacturing sector is moving full steam ahead. According to calendar-adjusted data, Turkish industrial production expanded by 6,7 percent in April compared to a year earlier, its fastest pace in the last 20 months.

We made a strong start to the second half of the year thanks to an increase in manufacturing output. Furthermore, we have sustained our growth in exports, which has been rising steadily over the last eight months. The export boom has substantially contributed to the country's economic growth and has provided positive momentum for the private sector, especially for SMEs.

The number of export companies exceeded 100.000. Furthermore, the SMEs, accounting for almost 85 percent of total employment, continued strong investments. Having removed the collateral obstacle to facilitate SMEs' access to financing, the Credit Guarantee Fund (CGF) has had a favorable impact on the economy in the first half of the year, as the number of enterprises benefiting from CGF amounted to 285.500 and the loan volume exceeded 160 billion Turkish lira. Halkbank, the biggest supporter of producers, exporters and employers, continued to be a strong business partner for SMEs in their access to CGF guarantees.

All of Halkbank's banking products, especially those focusing on artisans and SME banking, have received a great deal of attention from our customers. The trust our customers place in us and their appreciation for our services are reflected in our financial results. At the end of the second quarter, Halkbank increased its shareholders' equity by 11,7 percent compared to the year-end 2016, and generated 2.228 million Turkish lira in net profit, outperforming the same period last year. We reported total loans, including cash and non-cash loans, of 231,3 billion Turkish lira at the end of the second quarter of 2017. As a result, Halkbank's balance sheet reached 264,8 billion Turkish lira with a 14,4 percent increase compared to the year-end 2016.

Our bank's commercial loan volume, which includes SME loans, grew 14 percent, reaching 144,2 billion Turkish lira by the end of June. The value of our total cash loans increased to 180,5 billion Turkish lira, up 14 percent. Our loans to cooperatives were worth 21,9 billion Turkish lira. By focusing on customer satisfaction and developing customized services in all areas, our operations in retail banking were successful for the first six months of this year. By the end of June, our retail loans were valued at 36,3 billion Turkish lira, and the number of Paraf holders hit 3,9 million. In the same time frame, our POS installations increased to 332.000, while member businesses increased to 310.000.

Esteemed stakeholders,

It's our job to strive towards building a stronger Turkey and to balance the economy by adopting a strong position despite the occasional difficulties. Markets depend upon stability, trust and cooperation, and we have successfully proved our merits in these fields. While we have provided funding to the real economy with our long experience in banking, we have also added value to social life by achieving phenomenal successes.



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 (continued)**

We are pleased with the great deal of attention received by our SME Development Platform, which we have launched to provide online services to SMEs, at [www.halkbankkobigelisim.com.tr](http://www.halkbankkobigelisim.com.tr). We will transform this continuously expanding database into a practical guideline, offering reliable content that SMEs need.

In the upcoming period, our bank will lend more support to the real economy, with a special focus on SMEs, artisans and craftsmen, in order to increase both production and employment.

More great news came from our Men's Volleyball Team. Halkbank's Men's Volleyball Team won the Efeler League for the second year in a row, making us very proud. Halkbank aspires to be the leader in all activities it engages in. Therefore, we are strongly motivated by our sports team's diligence, which, in return, reflects ours.

Halkbank held a beautiful event when schools were on holiday in June. With the cooperation of Prof. Dr. Hüsamettin Koçan, an international award-winning artist, we organized a Children's Painting Competition for the children of bank employees. At the end of the competition, for which we received over a hundred applications, we hosted the top-ranking children and their families at our painting workshops in Cappadocia. To instill a love for the arts in our children, we hope to make this competition an annual event.

We are proud to be the first Turkish bank to set up an ISO 50001 Energy Management System in 2017. In the second quarter, it won the Low Carbon Hero Award. This award proves once again that the public appreciates our corporate culture and values. We are also determined to enhance the financing of investments that help protect the environment and that will help prevent climate change.

These projects, in which we take great pride, are the fruits of our teamwork. As we prepare to celebrate our 80th year, we know that our biggest achievement is the satisfaction our stakeholders, customers and employees take by being a member of Halkbank. We will work ceaselessly to make the name "Halkbank" synonymous with success, and continue to make our country proud as we have consistently done since 1938.

Best regards,  
Osman Arslan  
General Manager

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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**

<b>Summary Balance Sheet (Million TRY)</b>			
	<b>June 2017</b>	<b>December 2016</b>	<b>Change (%)</b>
Total Assets	271.679	237.726	14,3
Loans	181.746	159.323	14,1
<i>TRY</i>	122.309	103.252	18,5
<i>FC</i>	59.437	56.071	6,0
Marketable Securities	37.812	33.915	11,5
Deposit	172.039	150.399	14,4
<i>TRY</i>	97.655	86.549	12,8
<i>FC</i>	74.384	63.850	16,5
Total Equity	24.082	21.370	12,7

<b>Summary Income Statement (Million TRY)</b>			
	<b>June 2017</b>	<b>June 2016</b>	<b>Change (%)</b>
Interest Income	10.848	8.155	33,0
<i>On Loan</i>	8.482	6.705	26,5
<i>On Securities</i>	1.988	1.229	61,7
Interest Expense	6.386	4.885	30,7
<i>On Deposit</i>	4.612	3.953	16,7
Net Interest Income	4.462	3.270	36,4
Net Fee and Commission	966	549	75,9
Operating Income	6.549	4.922	33,1
Profit Before Tax	3.099	1.818	70,5
Net Profit	2.467	1.481	66,5

<b>Ratio (%)</b>	<b>June 2017</b>	<b>December 2016</b>
Interest Bearing Assets /Total Assets	81,8	82,1
Cash Loans/Total Asset	66,9	67,0
Non-Performing Loans/Total Cash Loans (Gross)	3,2	3,3
Demand Deposit/Total Deposit	18,0	19,6
Loan/Deposit Ratio	105,6	105,9
Average Return on Asset (ROA)	2,0	1,2
Average Return on Equity (ROE)	21,9	12,5
Capital Adequacy Ratio	13,34	12,50

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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)**

**2017 Second quarter Interim Developments**

**Important Developments**

- Our Bank has issued bonds with a par value of 1,2 billion Turkish lira to qualified investors on April 6, 2017, April 27, 2017, May 8, 2017, May 17, 2017, and June 21, 2017.
- Additionally, after book building that took place on May 2–4, 2017, our Bank issued bonds with a par value of 750 million Turkish lira and a maturity of 175 days. The total subscription from the public offering amounted to a par value of 850 million Turkish lira. At the end of the book building, domestic individual investors were allocated bonds with a total par value of 762.522.006 Turkish lira, and domestic institutional investors were allocated a nominal par of 87.477.994 Turkish lira. The simple and compound interest rates for the bonds were 12,02 and 12,40 percent, respectively. Accordingly, the sale price of a bank bond with a par value of 1 Turkish lira was determined to be 0,94550 Turkish lira.

**New Products and Campaigns**

- To commemorate the bank's 79th anniversary, we organized a "Public Day" to offer loans with low interest rates and allocation fees to meet the cash needs of our customers.
- In recognition of the National Police Week, which is observed every year during the week of April 10, we held a consumer loan campaign aimed at all law enforcement officers.
- "The Time Deposit Spring Campaign" was organized to increase our time deposits, expand our total deposit base and attract new customers.

**Social Responsibility Projects**

- Our Bank is to support the Turkish Exporters' Assembly in organizing Common Mind Meetings, which will feature 10 sectors.
- Halkbank sponsors the meetings covering all kinds of field research and literature review concerning artisans and craftsmen in related sectors, with the cooperation of the Turkish Ministry of Customs and Trade.
- Our Bank also sponsored Bonds & Loans held in Dubai, U.A.E., the world's only international capital markets conference.
- We were, for the eighth time, the main sponsor of the 28th Ankara International Film Festival that took place between April 20-30, 2017.
- In addition, Halkbank provided support for the 4th Istanbul Carbon Summit organized by the International Emissions Trading Association (I.e.t.a.) on April 26, 2017.
- As in last year, this year we were the main sponsor of the Atlantic Council Energy and Economy Summit that took place on April 27-28, 2017. The summit participants discussed and debated economic and energy policies of the Middle East, the Balkans and Europe.
- The 2nd World Conference on Technology, Innovation and Entrepreneurship organized by Istanbul University on May 12-14, 2017 was yet another event that our bank supported as the main sponsor.