

**Türkiye Halk Bankası Anonim Şirketi  
And Its Subsidiaries**

Condensed Consolidated Interim Financial Statements  
For the Six-Month Period Ended  
30 June 2017  
With Report on Review of  
Interim Financial Statements Thereon

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of  
Türkiye Halk Bankası A.Ş.  
İstanbul

### Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Halk Bankası A.Ş. (“the Bank”) and its consolidated subsidiaries (together “the Group”) as of 30 June 2017, and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards. 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 International 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 and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be 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 interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

### 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 28 April 2017 and 31 October 2016, respectively.



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

Istanbul, 25 August 2017

# **Türkiye Halk Bankası Anonim Şirketi and Its Subsidiaries**

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**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2017**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Assets</b>			
Cash on hand		2.350.629	1.543.129
Balances with Central Bank	9	12.071.814	11.268.177
Reserve deposits at Central Bank	9	21.086.975	17.400.661
Due from banks		3.933.452	3.037.247
Financial assets at fair value through profit or loss		444.554	449.224
- <i>Trading securities</i>		72.609	89.115
- <i>Derivative financial instruments</i>	18	371.945	360.109
Loans and advances	10	181.128.078	158.898.373
Insurance premium receivables		433.090	391.236
Investment securities:		37.742.622	33.826.855
- <i>Available-for-sale investment securities</i>	11	17.376.937	15.482.229
- <i>Held-to-maturity investment securities</i>	11	20.365.685	18.344.626
Investment in equity-accounted investees		297.530	286.103
Finance lease receivables		2.284.511	2.144.498
Property and equipment	12	3.353.736	3.260.536
Intangible assets		110.350	115.548
Non-current assets held for sale		1.280	1.280
Investment property		876.230	864.116
Deferred tax assets		475.123	440.540
Other assets		3.943.252	2.726.076
<b>Total assets</b>		<b>270.533.226</b>	<b>236.653.599</b>
<b>Liabilities</b>			
Deposits from banks		16.813.793	22.860.211
Deposits from customers		155.214.875	127.529.857
Obligations under repurchase agreements		2.025.943	10.844.612
Loan and advances from banks		20.143.379	23.928.919
Interbank money market borrowings		24.355.562	8.177.524
Derivative financial instruments	18	171.865	224.593
Debt securities issued		13.749.509	12.744.316
Insurance contract liabilities		2.105.940	1.666.823
Provisions		1.211.018	1.252.756
Income tax payables		341.992	64.610
Deferred tax liability		341.513	288.974
Other liabilities		9.335.369	5.062.980
<b>Total liabilities</b>		<b>245.810.758</b>	<b>214.646.175</b>
<b>Equity</b>			
Share capital	14	2.578.184	2.578.184
Share premium		39.737	39.737
Reserves	15	3.615.362	2.987.862
Retained earnings		18.267.475	16.188.483
<b>Total equity attributable to equity holders of the Bank</b>		<b>24.500.758</b>	<b>21.794.266</b>
Non-controlling interests		221.710	213.158
<b>Total equity</b>		<b>24.722.468</b>	<b>22.007.424</b>
<b>Total liabilities and equity</b>		<b>270.533.226</b>	<b>236.653.599</b>

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR**  
**LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

(Currency - In thousands of Turkish Lira ("TRY"))

<i>Notes</i>	<b>For the six-month period ended 30 June 2017</b>	<b>For the six-month period ended 30 June 2016</b>
<b>Interest income:</b>		
-Interest income on loans	8.481.881	6.704.945
-Interest income on securities	1.989.217	1.229.352
-Interest income on finance leases	90.730	70.556
-Interest income on deposits at banks	167.697	85.679
-Interest income on other money market placements	23.549	190
-Other interest income	95.795	64.696
	<b>10.848.869</b>	<b>8.155.418</b>
<b>Interest expense:</b>		
-Interest expense on deposits	(4.611.381)	(3.953.219)
-Interest expense on other money market deposits	(1.056.489)	(399.335)
-Interest expense on borrowings	(260.868)	(236.363)
-Interest expense on debt securities issued	(390.862)	(247.545)
-Other interest expense	(64.960)	(47.918)
	<b>(6.384.560)</b>	<b>(4.884.380)</b>
<b>Net interest income</b>	<b>4.464.309</b>	<b>3.271.038</b>
Fees and commission income	19	788.958
Fees and commission expenses	19	(239.836)
<b>Net fee and commission income</b>	<b>965.679</b>	<b>549.122</b>
Net trading income from securities	19.503	7.928
Net trading income / (loss) from derivative financial instruments	(189.887)	(402.934)
Foreign exchange gain / (losses), net	292.646	446.690
Net impairment losses on financial assets	(623.810)	(343.871)
Income from insurance operations	753.499	634.242
Cost of insurance operations	(631.937)	(664.912)
Dividend income	3.467	39.832
Other operating income	20	290.859
Other operating expenses	21	(1.868.074)
<b>Operating profit</b>	<b>3.047.059</b>	<b>1.959.920</b>
Share of profit of equity-accounted investees	9.934	8.095
<b>Profit before income tax</b>	<b>3.056.993</b>	<b>1.968.015</b>
Income tax expense	(596.470)	(331.070)
<b>Profit for the period</b>	<b>2.460.523</b>	<b>1.636.945</b>
<b>Other comprehensive income</b>		
<b>Items that will be never classified to profit or loss:</b>		
Re-measurement of employee termination benefits	11.355	(1.185)
Revaluation differences of property and equipment	21.777	(317)
Related tax	(3.360)	253
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Fair value reserve (available-for-sale financial assets):		
Change in fair value	292.276	325.365
Amount transferred to profit or loss	(18.258)	(3.640)
Foreign currency translation differences	140.328	40.642
Related tax	23.413	54.229
<b>Other comprehensive income for the period, net of tax</b>	<b>467.531</b>	<b>415.347</b>
<b>Total comprehensive income for the period</b>	<b>2.928.054</b>	<b>2.052.292</b>

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES  
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR  
LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>For the six- month period ended 30 June 2017</b>	<b>For the six- month period ended 30 June 2016</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		2.453.812	1.635.888
Non-controlling interests		6.711	1.057
<b>Profit for the period</b>		<b>2.460.523</b>	<b>1.636.945</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		2.921.150	2.051.122
Non-controlling interests		6.904	1.170
<b>Total comprehensive income for the period</b>		<b>2.928.054</b>	<b>2.052.292</b>
<b>Basic earnings per share (full TRY per share)</b>	<b>16</b>	<b>1,9630</b>	<b>1,3087</b>

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	Total equity attributable to equity holders of the Bank					Non-controlling interests	Total equity	
		Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings			Total
<b>Balances at 1 January 2016</b>		<b>2.578.184</b>	<b>39.488</b>	<b>(290.301)</b>	<b>3.131.364</b>	<b>13.652.154</b>	<b>19.110.889</b>	<b>201.426</b>	<b>19.312.315</b>
<b>Total comprehensive income for the period</b>									
Net profit for the period		-	-	-	-	1.635.888	1.635.888	1.057	1.636.945
<b>Other comprehensive income, net of tax</b>									
Re-measurements of defined benefit plans, net of tax		-	-	-	-	(948)	(948)	-	(948)
Fair value reserve (available-for-sale financial assets):									
Net change in fair value		-	-	379.506	-	-	379.506	88	379.594
Net amount transferred to profit or loss		-	-	(3.640)	-	-	(3.640)	-	(3.640)
Revaluation differences of property and equipment		-	-	-	(301)	-	(301)	-	(301)
Foreign currency translation differences		-	-	-	40.617	-	40.617	25	40.642
<b>Total other comprehensive income</b>		-	-	<b>375.866</b>	<b>40.316</b>	<b>(948)</b>	<b>415.234</b>	<b>113</b>	<b>415.347</b>
<b>Total comprehensive income for the period</b>		-	-	<b>375.866</b>	<b>40.316</b>	<b>1.634.940</b>	<b>2.051.122</b>	<b>1.170</b>	<b>2.052.292</b>
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves		-	-	-	165.105	(162.495)	2.610	-	2.610
Dividends to equity holders	15	-	-	-	-	(241.759)	(241.759)	-	(241.759)
<b>Changes in ownership interests in subsidiaries</b>									
Change in shares without a change in control		-	23	-	(187)	(383)	(547)	4.448	3.901
<b>Balances at 30 June 2016</b>		<b>2.578.184</b>	<b>39.511</b>	<b>85.565</b>	<b>3.336.598</b>	<b>14.882.457</b>	<b>20.922.315</b>	<b>207.044</b>	<b>21.129.359</b>
<b>Balances at 1 January 2017</b>		<b>2.578.184</b>	<b>39.737</b>	<b>(724.098)</b>	<b>3.711.960</b>	<b>16.188.483</b>	<b>21.794.266</b>	<b>213.158</b>	<b>22.007.424</b>
<b>Total comprehensive income for the period</b>									
Net profit for the period		-	-	-	-	2.453.812	2.453.812	6.711	2.460.523
<b>Other comprehensive income, net of tax</b>									
Remeasurements of defined benefit plans, net of tax		-	-	-	-	9.084	9.084	-	9.084
Fair value reserve (available-for-sale financial assets):									
Net change in fair value		-	-	358.461	(42.781)	-	315.680	9	315.689
Net amount transferred to profit or loss		-	-	(18.258)	-	-	(18.258)	-	(18.258)
Revaluation differences of property and equipment		-	-	-	20.688	-	20.688	-	20.688
Foreign currency translation differences		-	-	-	140.144	-	140.144	184	140.328
<b>Total other comprehensive income</b>		-	-	<b>340.203</b>	<b>118.051</b>	<b>9.084</b>	<b>467.338</b>	<b>193</b>	<b>467.531</b>
<b>Total comprehensive income for the period</b>		-	-	<b>340.203</b>	<b>118.051</b>	<b>2.462.896</b>	<b>2.921.150</b>	<b>6.904</b>	<b>2.928.054</b>
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves		-	-	-	169.503	(160.057)	9.446	-	9.446
Dividends to equity holders	15	-	-	-	-	(258.742)	(258.742)	-	(258.742)
<b>Changes in ownership interests in subsidiaries</b>									
Change in shares without a change in control		-	-	-	(257)	34.895	34.638	1.648	36.286
<b>Balances at 30 June 2017</b>		<b>2.578.184</b>	<b>39.737</b>	<b>(383.895)</b>	<b>3.999.257</b>	<b>18.267.475</b>	<b>24.500.758</b>	<b>221.710</b>	<b>24.722.468</b>

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>For the six-month period ended 30 June 2017</b>	<b>For the six-month period ended 30 June 2016</b>
<b>Cash flows from operating activities</b>			
Profit for the period		2.460.523	1.636.945
<b>Adjustments for:</b>			
Depreciation and amortisation		85.252	74.571
Net impairment loss on loans and advances	10	893.904	572.283
Net interest income		(4.464.309)	(3.271.038)
Dividend income		(3.467)	(39.832)
Provision for employee termination benefits	21	60.763	52.397
Impairment losses on property and equipment		737	886
Net gain on sale of property and equipment	12	(49.660)	(106.347)
Share of profit of equity-accounted investees		(9.934)	(8.095)
Income tax expense		596.470	331.070
		<b>(429.721)</b>	<b>(757.160)</b>
Change in financial assets at fair value through profit or loss		16.143	(45.710)
Change in due from banks		15.497	-
Change in loans and advances		(22.588.508)	(12.441.072)
Change in other assets		(4.201.575)	(3.381.828)
Change in deposits from banks		(5.935.607)	2.934.116
Change in deposits from customers		26.952.159	5.018.199
Change in loans and advances from banks		(1.444.895)	(1.152.363)
Change in other liabilities		9.758.154	5.337.927
Interest received		10.460.340	7.682.477
Dividends received		3.467	39.832
Interest paid		(5.716.311)	(4.868.311)
Income tax paid		(520.041)	(351.876)
Employee termination benefits paid		(13.697)	(11.129)
<b>Net cash used in operating activities</b>		<b>6.355.405</b>	<b>(1.996.898)</b>
<b>Cash flows from investing activities</b>			
Acquisitions of available-for-sale investment securities		(4.724.069)	(1.138.756)
Proceeds from sale of available-for-sale investment securities		2.811.559	446.256
Acquisitions of held to maturity investment securities		(3.810.874)	(1.142.029)
Proceeds from sale of held to maturity investment securities	11	1.176.467	1.794.990
Acquisitions of property and equipment	12	(181.960)	(139.957)
Proceeds from sale of property and equipment		68.337	66.077
Other cash (used in)/provided from investing activities		1.733	(8.479)
<b>Net cash (used in)/provided from investing activities</b>		<b>(4.658.807)</b>	<b>(121.898)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		3.095.680	1.889.764
Cash used for repayment of debt securities		(2.086.358)	(1.797.144)
Dividends paid	15	(258.742)	(241.759)
<b>Net cash provided from financing activities</b>		<b>750.580</b>	<b>(149.139)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2.447.178</b>	<b>(2.267.935)</b>
Cash and cash equivalents at 1 January		15.530.597	8.855.902
Effect of change in currency rate fluctuations on cash held		33.734	(5.452)
<b>Cash and cash equivalents at 30 June</b>		<b>18.011.509</b>	<b>6.582.515</b>

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

*(Currency - In thousands of Turkish Lira ("TRY"))*

**Notes to the condensed consolidated financial statements:**

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**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

*(Currency - In thousands of Turkish Lira ("TRY"))*

**1. Activities of the Bank and the Group**

Türkiye Halk Bankası Anonim Şirketi (the "Bank" or "Halkbank") was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank. As of 30 June 2017, the Bank operates with a total of 969 branches consisting of 963 domestic and 6 foreign branches that are 5 in Turkish Republic of Northern Cyprus ("TRNC") 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. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ, Halkbank A.D., Beograd and Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ.

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 Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 decided to cease the execution of the High Council of Privatization's decision numbered 2006/69 dated 11 August 2006.

The first phase of the privatization process of the Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to trade on Borsa İstanbul (BIST) as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on BIST.

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi ("Pamukbank"), integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat ve Emeklilik AŞ, a life insurance company and Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

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 BIST since 22 February 2013.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and accounted for using the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and its main line of business is financial leasing. Halk Leasing operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which is a subsidiary of Turkish state bank that operates in Macedonia, through the merger as of 1 October 2012. As a result, the Group's equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78% and as at 31 December 2016, the Group's ownership rate is 99,03%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

*(Currency - In thousands of Turkish Lira ("TRY"))*

**1. Activities of the Bank and the Group** (continued)

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the 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 ("Halk Faktoring"), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring's main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

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

The Parent Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. On 24 November 2015 Bank's share has increased to 82,47% by the increase of capital.

Bileşim Alternatif Dağıtım Kanalları AŞ ("Bileşim AŞ"), a subsidiary of the Bank established in 1998. As of 22 July 2013, the Bank purchased 76% shares of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. which was the associate of the Bank, from Ziraat Group (the shares of T.C. Ziraat Bank A.Ş. was 61%, the shares of Ziraat Finansal Kiralama A.Ş. was 15%) and thus the company became the Bank's subsidiary. Bileşim AŞ's main line of business is to provide ATM operations, call center services, merchant operations and printing office operations to domestic and international customers.

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**2. Basis of accounting**

These condensed consolidated interim financial statements as of 30 June 2017 have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for a complete set of IFRS financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2016.

The accompanying condensed consolidated interim financial statements are authorised for issue by the management on 25 August 2017.

**3. Use of judgements and estimates**

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016.

***Measurement of fair values***

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 7 –financial instruments.

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**4. Changes in accounting policies**

There is no change in accounting policies during the period.

**5. Basis of consolidation**

***Subsidiaries***

The consolidated financial statements include the accounts of the Parent Bank and the subsidiaries.

Subsidiaries are the entities controlled by the Parent Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Parent Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 30 June 2017 and 31 December 2016 are as follows:

	Place of incorporation	Direct ownership		Indirect ownership	
		30 June 2017	31 December 2016	30 June 2017	31 December 2016
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	94,26%	93,59%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,33%	79,33%	79,36%	79,36%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	99,03%	99,03%	99,03%	99,03%
Halk Portföy Yönetimi AŞ	Istanbul	75,00%	75,00%	99,99%	99,99%
Halk Faktoring AŞ	Istanbul	97,50%	97,50%	100,00%	99,99%
Halk Banka A.D. Beograd	Beograd	82,47%	82,47%	82,47%	82,47%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%

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**5. Basis of consolidation** (continued)

***Business combinations***

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.

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.

***Acquisitions of non-controlling interests***

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

***Investments in associates (equity-accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

The equity-accounted associates of the Group as of 30 June 2017 and 31 December 2016 are as follows:

	Place of incorporation	Shareholding interest	
		30 June 2017	31 December 2016
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	İstanbul	16,67%	16,67%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

**6. Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at 31 December 2016.

As of 30 June 2017, capital adequacy standard ratio is calculated according to "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy". The Group's regulatory consolidated capital adequacy ratio is 13,34% (31 December 2016: 12,50%) and the Bank only regulatory capital adequacy ratio is 14,02% (31 December 2016: 13,08%).

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**7. Financial instruments**

*Carrying amounts and fair values*

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets	Carrying amount			Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1 <sup>(1)(2)</sup>	Level 2	Level 3	Total
<b>30 June 2017</b>							
Due from banks (including central banks)	37.092.241	-	37.092.241	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	72.609	72.609	62.052	-	-	62.052
-Derivative financial instruments	-	371.945	371.945	-	371.945	-	371.945
Loans and advances	181.128.078	-	181.128.078	-	-	-	-
Investment securities:							
-Available-for-sale investment securities	-	17.376.937	17.376.937	17.304.141	-	-	17.304.141
-Held-to-maturity investment securities	-	20.365.685	20.365.685	-	-	-	-
Finance lease receivables	2.284.511	-	2.284.511	-	-	-	-
Insurance premium receivables	433.090	-	433.090	-	-	-	-
	<b>220.937.920</b>	<b>38.187.176</b>	<b>259.125.096</b>				
<b>31 December 2016</b>							
Due from banks (including central banks)	31.706.085	-	31.706.085	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	89.115	89.115	81.005	-	-	81.005
-Derivative financial instruments	-	360.109	360.109	-	360.109	-	360.109
Loans and advances	158.898.373	-	158.898.373	-	-	-	-
Investment securities:							
-Available-for-sale investment securities	-	15.482.229	15.482.229	15.421.388	-	-	15.421.388
-Held-to-maturity investment securities	-	18.344.626	18.344.626	-	-	-	-
Finance lease receivables	2.144.498	-	2.144.498	-	-	-	-
Insurance premium receivables	391.236	-	391.236	-	-	-	-
	<b>193.140.192</b>	<b>34.276.079</b>	<b>227.416.271</b>				

<sup>(1)</sup> As of 30 June 2017 share certificates amounting to TRY 72.796 (31 December 2016: TRY 60.841) in available for sale financial assets are not included in the above table, which are measured at cost.

<sup>(2)</sup> As of 30 June 2017, marketable securities amounting to TRY 10.557 (31 December 2016: TRY 8.110) that are measured at cost, are not included in financial assets at fair value through profit or loss.

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**7. Financial instruments (continued)**

*Carrying amounts and fair values (continued)*

<b>Financial liabilities</b>	<b>Carrying amount</b>			<b>Fair value</b>			
	<b>Loans and borrowings</b>	<b>Derivatives</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>30 June 2017</b>							
Deposits from banks	16.813.793	-	16.813.793	-	-	-	-
Deposits from customers	155.214.875	-	155.214.875	-	-	-	-
Obligations under repurchase agreements	2.025.943	-	2.025.943	-	-	-	-
Loans and advances from banks	20.143.379	-	20.143.379	-	-	-	-
Interbank money market borrowings	24.355.562	-	24.355.562	-	-	-	-
Derivative financial instruments	-	171.865	171.865	-	171.865	-	171.865
Debt securities issued	13.749.509	-	13.749.509	-	-	-	-
	<b>232.303.061</b>	<b>171.865</b>	<b>232.474.926</b>				
<b>31 December 2016</b>							
Deposits from banks	22.860.211	-	22.860.211	-	-	-	-
Deposits from customers	127.529.857	-	127.529.857	-	-	-	-
Obligations under repurchase agreements	10.844.612	-	10.844.612	-	-	-	-
Loans and advances from banks	23.928.919	-	23.928.919	-	-	-	-
Interbank money market borrowings	8.177.524	-	8.177.524	-	-	-	-
Derivative financial instruments	-	224.593	224.593	-	224.593	-	224.593
Debt securities issued	12.744.316	-	12.744.316	-	-	-	-
	<b>206.085.439</b>	<b>224.593</b>	<b>206.310.032</b>				



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**8. Operating segments**

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other which are the Group’s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group’s management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

<b>30 June 2017</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(2)</sup></b>	<b>Other <sup>(1)</sup></b>	<b>Group</b>
Interest income	967.706	1.437.094	5.988.353	2.259.495	196.221	10.848.869
Interest expense	(644.987)	(270.177)	(3.367.232)	(2.027.169)	(74.995)	(6.384.560)
<b>Net interest income</b>	<b>322.719</b>	<b>1.166.917</b>	<b>2.621.121</b>	<b>232.326</b>	<b>121.226</b>	<b>4.464.309</b>
Net fee and commission income	118.858	233.972	538.695	194.458	(120.304)	965.679
Net trading income from securities	-	-	-	19.503	-	19.503
Net trading income from derivative transactions	-	-	-	(188.652)	(1.235)	(189.887)
Foreign exchange gain/ (losses), net	-	-	-	277.817	14.829	292.646
Net impairment losses on loans and advances	(6.443)	(240.059)	(260.887)	(114.986)	(1.435)	(623.810)
Income from insurance operations	-	-	-	-	753.499	753.499
Cost of insurance operations	-	-	-	-	(631.937)	(631.937)
Dividend income	-	-	-	3.326	141	3.467
Other operating income & share of profit of equity-accounted investees	33.499	5.106	17.017	9.056	116.203	180.881
Other operating expenses	(12.650)	(27.245)	(707.273)	(1.031.296)	(398.893)	(2.177.357)
<b>Profit before income tax</b>	<b>455.983</b>	<b>1.138.691</b>	<b>2.208.673</b>	<b>(598.448)</b>	<b>(147.906)</b>	<b>3.056.993</b>
Income tax expense	-	-	-	(585.902)	(10.568)	(596.470)
<b>Profit for the period</b>	<b>455.983</b>	<b>1.138.691</b>	<b>2.208.673</b>	<b>(1.184.350)</b>	<b>(158.474)</b>	<b>2.460.523</b>

<sup>(1)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ and Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ and Bileşim AŞ transactions are shown in other column.

<sup>(2)</sup> Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halkbank Bank AD, Beograd and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

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**8. Operating segments (continued)**

<b>30 June 2016</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(2)</sup></b>	<b>Other <sup>(1)</sup></b>	<b>Group</b>
Interest income	687.980	991.902	4.872.296	1.457.677	145.563	8.155.418
Interest expense	(357.103)	(214.377)	(3.015.180)	(1.239.891)	(57.829)	(4.884.380)
<b>Net interest income</b>	<b>330.877</b>	<b>777.525</b>	<b>1.857.116</b>	<b>217.786</b>	<b>87.734</b>	<b>3.271.038</b>
Net fee and commission income	88.387	98.569	332.775	121.276	(91.885)	549.122
Net trading income from securities	-	-	-	7.045	883	7.928
Net trading loss from derivative transactions	-	-	-	(413.716)	10.782	(402.934)
Foreign exchange gain/ (losses), net	-	-	-	443.988	2.702	446.690
Net impairment losses on loans and advances	(28.407)	(58.209)	(168.008)	(88.609)	(638)	(343.871)
Income from insurance operations	-	-	-	-	634.242	634.242
Cost of insurance operations	-	-	-	-	(664.912)	(664.912)
Dividend income	-	-	-	39.719	113	39.832
Other operating income & share of profit of equity-accounted investees	4.128	4.604	42.863	81.659	165.700	298.954
Other operating expenses	(6.086)	(24.479)	(588.479)	(775.558)	(473.472)	(1.868.074)
<b>Profit before income tax</b>	<b>388.899</b>	<b>798.010</b>	<b>1.476.267</b>	<b>(366.410)</b>	<b>(328.751)</b>	<b>1.968.015</b>
Income tax expense	-	-	(1.580)	(353.410)	23.920	(331.070)
<b>Profit for the period</b>	<b>388.899</b>	<b>798.010</b>	<b>1.474.687</b>	<b>(719.820)</b>	<b>(304.831)</b>	<b>1.636.945</b>

<sup>(1)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are shown in other column.

<sup>(2)</sup> Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

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**8. Operating segments (continued)**

The segment assets and liabilities as at 30 June 2017 are as follows:

<b>Assets and liabilities</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	27.282.764	38.978.179	115.122.605	84.370.132	4.482.016	270.235.696
Investment in equity-accounted investees	-	-	-	297.530	-	297.530
<b>Total assets</b>	<b>27.282.764</b>	<b>38.978.179</b>	<b>115.122.605</b>	<b>84.667.662</b>	<b>4.482.016</b>	<b>270.533.226</b>
Segment liabilities	26.820.367	16.228.634	129.581.725	67.934.744	5.245.288	245.810.758
<b>Total liabilities</b>	<b>26.820.367</b>	<b>16.228.634</b>	<b>129.581.725</b>	<b>67.934.744</b>	<b>5.245.288</b>	<b>245.810.758</b>

<sup>(1)</sup> Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Treasury / Investment” column.

The segment assets and liabilities as at 31 December 2016 are as follows:

<b>Assets and liabilities</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	24.362.657	32.567.740	102.022.698	73.238.885	4.175.516	236.367.496
Investment in equity-accounted investees	-	-	-	286.103	-	286.103
<b>Total assets</b>	<b>24.362.657</b>	<b>32.567.740</b>	<b>102.022.698</b>	<b>73.524.988</b>	<b>4.175.516</b>	<b>236.653.599</b>
Segment liabilities	24.699.116	10.479.003	111.370.600	63.422.194	4.675.262	214.646.175
<b>Total liabilities</b>	<b>24.699.116</b>	<b>10.479.003</b>	<b>111.370.600</b>	<b>63.422.194</b>	<b>4.675.262</b>	<b>214.646.175</b>

<sup>(1)</sup> Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Treasury / Investment” column.

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**9. Balances with Central Bank**

As at 30 June 2017, balances with Central Bank include restricted reserve deposits amounting to TRY 21.086.975 (31 December 2016: TRY 17.400.661) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TRY 12.071.814 (31 December 2016: TRY 11.268.177).

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD and/or standard gold at the rates between 4% and 10,5% according to their maturities (31 December 2016: between 4% and 10,5% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 4% and 24% according to their maturities (31 December 2016: between 4,5% and 24,5% according to their maturities), as per the Communiqué no.2013/15 “Reserve Deposits” of the Central Bank of Turkey. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves. With the Board of Minutes No.872 dated 30 January 2014 of TRNC Central Bank’s, required reserve ratio is between 5% and 8% for foreign currency liabilities.

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.

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 in 2 May 2015 made by CBRT, US Dollars denominated reserve requirements, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on a daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 1,25% for the reporting period (Announced on 16 June 2017).

With the Board of Minutes No. 129 dated 2006 of 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.

**10. Loans and advances to customers**

As at 30 June 2017 and 31 December 2016, all the loans and advances to customers are at amortized cost.

	<b>30 June 2017</b>	<b>31 December 2016</b>
Performing loans	181.419.836	159.192.563
Non-performing loans	5.914.418	5.320.512
<b>Gross amount</b>	<b>187.334.254</b>	<b>164.513.075</b>
Specific allowance for impairment on loans	(4.994.773)	(4.475.519)
Portfolio allowance for impairment on loans	(1.211.403)	(1.139.183)
<b>Carrying amount</b>	<b>181.128.078</b>	<b>158.898.373</b>

**Allowance for impairment including the portfolio basis allowances**

	<b>1 January- 30 June 2017</b>	<b>1 January- 30 June 2016</b>
Balance on 1 January	(5.614.702)	(4.235.313)
Net impairment loss/reversals for the period:	(591.474)	(236.274)
- Charge for the period	(893.904)	(572.283)
- Recoveries and reversals	302.430	336.009
<b>Balance at end of the period</b>	<b>(6.206.176)</b>	<b>(4.471.587)</b>

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**11. Securities portfolio**

*Available-for-sale investment securities*

At 30 June 2017 and 31 December 2016, available for sale securities portfolio comprised the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Treasury bills and government bonds	17.302.738	15.201.823
Equity shares	74.199	280.406
<i>Share certificates not quoted on a stock exchange</i>	93.081	350.479
<i>Allowance for impairment on equity shares</i>	(18.882)	(70.073)
<b>Total of available for sale securities</b>	<b>17.376.937</b>	<b>15.482.229</b>

Available-for-sale securities include securities given as collateral amounting to TRY 7.656.291 (31 December 2016: TRY 488.507). As of 30 June 2017, available-for-sale investment securities include securities pledged under repurchase agreements amounting to TRY 1.769.529 (31 December 2016: TRY 5.517.748).

*Held to maturity investment securities*

	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Debt securities:</b>		
Quoted on a stock exchange	20.219.812	18.231.719
Not quoted	145.873	112.907
<b>Total</b>	<b>20.365.685</b>	<b>18.344.626</b>

Held to maturity investments comprise the following items:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Government bonds	20.319.079	18.311.223
Other securities	46.606	33.403
<b>Total</b>	<b>20.365.685</b>	<b>18.344.626</b>

Held to maturity investment securities include securities pledged under repurchase agreements and given as collateral amounting to TRY 822.356 and TRY 18.534.749 (31 December 2016: TRY 6.013.373 and TRY 5.519.372) respectively.

The movements of held to maturity investment securities in the six-month period ended 30 June 2017 and 30 June 2016 are as follows:

	<b>1 January- 30 June 2017</b>	<b>1 January- 30 June 2016</b>
Beginning balance	18.344.626	16.904.877
Foreign currency differences	26.467	(15.234)
Purchases during the period <sup>(1)</sup>	3.171.059	989.712
Disposals through sales and redemptions	(1.176.467)	(1.882.787)
<b>Balance at the of the period / year</b>	<b>20.365.685</b>	<b>15.996.568</b>

<sup>(1)</sup> Interest income accruals are included in purchases row.

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**12. Property and equipment**

During the six-month period ended 30 June 2017, the Group acquired property and equipment with a cost of TRY 181.960 (six-month period ended 30 June 2016: TRY 139.957).

Assets with a carrying amount of TRY 81.324 were disposed of during six-month period ended 30 June 2017 (six-month period ended 30 June 2016: TRY 79.929), resulting in a net gain on disposal of TRY 49.660 (six-month period ended 30 June 2016: net gain of TRY 106.347), which was included in ‘other income’ in the condensed consolidated statement of profit or loss and other comprehensive income. Properties with a carrying amount of TRY 861 were transferred to non-current asset held for sale (six-month period ended 30 June 2016: TRY 58).

**13. Income taxes**

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2017 (31 June 2016: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group’s results for the period.

The Group’s consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2017 is 19,5% (30 June 2016: 16,8%).

***Tax applications for foreign branches and foreign operations***

The principal tax rates (%) of the tax authorities in each country as of 30 June 2017 and 31 December 2016 are as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
TRNC	10%	10%
Bahrain	-	-
Republic of Macedonia	10%	10%
Republic of Serbia	15%	15%

**14. Share capital**

As at 30 June 2017, the authorized nominal share capital of the Bank amounts to TRY 1.250.000 (31 December 2015: TRY 1.250.000). The Bank’s paid-in capital is divided into 1.250.000.000 shares, each with a nominal value of full TRY 1.

	<b>30 June 2017</b>	<b>31 December 2016</b>
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
<b>Shared capital issued</b>	<b>2.578.184</b>	<b>2.578.184</b>

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**15. Reserves and dividends paid and proposed**

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

**Other reserves**

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 30 June 2017 is TRY 1.731.144 (31 December 2016: TRY 1.562.172).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 30 June 2017 is TRY 140.328 (31 December 2016: TRY 43.912).

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 “Property, Plant and Equipment” (IAS 16). Expertise values determined by independent appraisal companies are reflected to the financial statements. Revaluation differences are recorded in “Revaluation differences of property and equipment” under the shareholders’ equity. The revaluation differences of property and equipment is TRY 2.127.785 (31 December 2016: TRY 2.107.278).

**Dividends paid and proposed**

As of the reporting date, the Bank has paid dividend amounting to TRY 258.742 out of 2016 profit (30 June 2016: TRY 241.759).

**16. Earnings per share**

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

There is no dilution of shares as of 30 June 2017 and 30 June 2016.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	<b>30 June 2017</b>	<b>30 June 2016</b>
Net profit attributable to ordinary shareholders for basic earnings per share	2.453.812	1.635.888
Weighted average number of ordinary shares for basic earnings per share	1.250.000	1.250.000
<b>Basic earnings per share (full TRY per share)</b>	<b>1,9630</b>	<b>1,3087</b>

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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**17. Related parties**

A party is related to an entity if: the party controls, is controlled by, or is under common control with the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group’s Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

***Transactions with key management personnel***

Key management personnel comprise of the Group’s directors and key management executive officers.

As of 30 June 2017 and 30 June 2016, the Group’s directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	<b>30 June 2017</b>	<b>30 June 2016</b>
Salaries and short-term benefits	12.518	12.318

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank’s management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

***Other related party transactions***

<b>Current period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission Income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	697	18.383	-	1.047	-
Kredi Kayıt Bürosu A.Ş.	-	-	1	-	-	-
Bankalararası Kart Merkezi A.Ş.	-	-	5.500	-	43	-
<b>Total</b>	<b>-</b>	<b>697</b>	<b>23.884</b>	<b>-</b>	<b>1.090</b>	<b>-</b>

<b>Prior period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission Income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	1.926	20.576	-	-	-
Kredi Kayıt Bürosu A.Ş.	-	-	-	-	-	-
Bankalararası Kart Merkezi A.Ş.	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>1.926</b>	<b>20.576</b>	<b>-</b>	<b>-</b>	<b>-</b>



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**18. Commitments and contingencies**

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Letters of guarantee issued	43.763.798	40.118.905
Letters of credit	4.022.894	4.019.100
Acceptance credits	2.166.992	2.825.466
Other	1.036.692	914.248
<b>Total non-cash loans</b>	<b>50.990.376</b>	<b>47.877.719</b>
Credit card limit commitments	11.281.415	10.824.073
Other commitments	14.143.623	12.921.296
<b>Total</b>	<b>76.415.414</b>	<b>71.623.088</b>

**Derivative financial instruments**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	<b>30 June 2017</b>			<b>31 December 2016</b>		
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in Turkish Lira equivalent</b>	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in Turkish Lira equivalent</b>
Currency swap contracts	116.824	62.704	5.181.423	128.468	17.465	5.622.434
Other swap contracts	128.863	8.798	10.002.829	110.992	-	9.804.244
Other	126.258	100.363	11.774.900	120.649	207.128	10.224.988
<b>Total</b>	<b>371.945</b>	<b>171.865</b>	<b>26.959.152</b>	<b>360.109</b>	<b>224.593</b>	<b>25.651.666</b>

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

**Fiduciary activities**

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying financial statements.

The Group transferred all investment funds to Halk Portföy Yönetimi AŞ, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of 8 funds.

**Letters of guarantee given to BIST and Borsa Istanbul Precious Metals and Diamond Market**

As of 30 June 2017, according to the general requirements of the BIST, letters of guarantee amounting to USD 2.050 (31 December 2016: TRY 185.000) was obtained from various local banks and were provided to BIST for bond and stock market transactions by the Group.

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**18. Commitments and contingencies (continued)**

**Litigation**

In the normal course of its operations, the Group can constantly be faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

**Other**

648 branch premises of the Bank are lease holder under operational leases. In general, the lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management, no provision is necessary for this remote contingency.

**19. Fee and commission income and expenses**

	<b>30 June 2017</b>	<b>30 June 2016</b>
<b>Fee and commission income</b>		
Banking	1.226.036	776.046
Brokerage	20.371	12.912
<b>Total</b>	<b>1.246.407</b>	<b>788.958</b>
<b>Fee and commission expenses</b>		
Banking	(279.732)	(239.398)
Brokerage	(996)	(438)
<b>Total</b>	<b>(280.728)</b>	<b>(239.836)</b>

**20. Other operating income**

	<b>30 June 2017</b>	<b>30 June 2016</b>
Reversal from prior years' provision	58.992	143.161
Gain on sale of property and equipment	49.660	106.347
Rent income	27.220	24.191
Other	35.075	17.160
<b>Total</b>	<b>170.947</b>	<b>290.859</b>

**21. Other operating expenses**

	<b>30 June 2017</b>	<b>30 June 2016</b>
Staff costs		
<i>Personnel expenses</i>	1.026.652	925.937
<i>Retirement pay provision</i>	60.763	52.397
Administrative expenses	803.979	619.430
Saving deposit insurance fund expenses	93.489	97.953
Depreciation and amortisation charge	85.252	74.571
Taxes, duties, charges and premium expenses	94.857	77.408
Provision for lawsuits	1.669	2.111
Other	10.696	18.267
<b>Total</b>	<b>2.177.357</b>	<b>1.868.074</b>

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**22. Subsequent events**

Coupled with the reconstruction of the Organization Scheme of the Head Office; in line with the new organization structure, the Board of Directors 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 ŞARGON 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.