

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

3 November 2017

This report contains "Limited Review Report" comprising 2 pages and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 98 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 September 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 nine-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 September 2017, and of the results of their operations and their cash flows for the nine-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 nine-month period then ended 30 September 2016 were audited and reviewed by another auditor who expressed an unqualified opinion and nothing has come to their attention that causes to believe the consolidated interim financial information does not present fairly in accordance with TAS 34 on 13 February 2017 and 31 October 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 consolidated 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 consolidated 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 consolidated interim financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified and reflected in the accompanying consolidated financial statements. The accounting principles used in the preparation of the accompanying consolidated interim 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 consolidated interim financial statements and IFRS.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hasan Kılıç

Partner

Istanbul, 3 November 2017

TÜRKİYE HALK BANKASI AŞ
THE CONSOLIDATED FINANCIAL REPORT
AS OF AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 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 nine-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
- **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:

Subsidiaries		Associates	
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 A.D., Skopje		
9.	Halkbank A.D. Beograd		

Unless otherwise indicated, these consolidated financial statements and explanatory footnotes and disclosures as of and for the nine-month period 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.

Istanbul, 3 November 2017

R. Süleyman Özdil	Sadık Tiltak	Yahya Bayraktar	Osman Arslan	Yusuf Duran Ocak	İbrahim Okan Çağlar
<i>Chairman of the Board of Directors</i>	<i>Vice Chairman of the Board of Directors, Chairman of the Audit Committee</i>	<i>Member of the Board of Directors, Member of the Audit Committee</i>	<i>Member of the Board of Directors, Chief Executive Officer</i>	<i>Financial Management and Planning Vice Chief Executive Officer</i>	<i>Budget and Reporting Department Head</i>

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

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

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TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL
STATEMENTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 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.

As of 30 September 2017 the shareholders’ structure and their respective ownerships are summarized as follows:

	30 September		31 December	
Shareholders	2017	%	2016	%
Türkiye Varlık Fonu ^(1,2)	638.276	51,06	-	-
Prime Ministry Privatization Administration	-	-	638.276	51,06
Public shares ⁽²⁾	611.640	48,93	611.639	48,93
Other shareholders ⁽³⁾	84	0,01	85	0,01
Total	1.250.000	100,00	1.250.000	100.000

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

⁽²⁾ The shares of the Türkiye Varlık Fonu 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 is 51,11% of the total shares.

⁽³⁾ 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
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(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

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

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

Name	Title
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors, Independent Member of the Board of Director, Chairman of the Audit Committee
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, Human Resources and Support Management
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Sebahattin BULUT	Executive Vice President, Loan Policies, Risk Monitoring, and Legal
Levend TORUSDAĞ	Executive Vice President, SME and Artisans Banking
Ergin KAYA	Executive Vice President, Banking Operations and Information Technology
Hakan ERYILMAZ	Executive Vice President, Treasury Management and International Banking
Mustafa ÇÖDEK	Executive Vice President, Retail Banking
Yusuf Duran OCAK	Executive Vice President, Financial Management and Planning
Hasan TUNCAY	Executive Vice President, Corporate and Commercial Marketing
Metin KÖSTEK	Executive Vice President, Internal Systems

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

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 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.

Name	Title	Assigned Date
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
Levend TORUSDAĞ	Executive Vice President	4 August 2017
Ergin KAYA	Executive Vice President	4 August 2017
Hakan ERYILMAZ	Executive Vice President	4 August 2017
Mustafa ÇÖDEK	Executive Vice President	4 August 2017
Yusuf Duran OCAK	Executive Vice President	4 August 2017
Hasan TUNCAY	Executive Vice President	4 August 2017
Metin KÖSTEK	Executive Vice President	4 August 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.

Name	Title	Date of Leaving
Mehmet Ali GÖKCE	Member of the Board of Directors	23 January 2017
Ali Fuat TAŞKESENLİOĞLU	Member of the Board of Director, Chief Executive Officer	8 June 2017
Ömer AÇIKGÖZ	Member of the Board of Director	8 June 2017
Mehmet AYTEKİN	Member of the Board of Director	8 June 2017
Zekeriya KAYA	Member of the Audit Committee	8 June 2017
Erdal ERDEM	Executive Vice President	21 July 2017
Salim KÖSE	Executive Vice President	21 July 2017
Ömer Faruk ŞENEL	Executive Vice President	21 July 2017
Mustafa AYDIN	Executive Vice President	21 July 2017
Murat OKTAY	Executive Vice President	21 July 2017
Hasan ÜNAL	Executive Vice President	21 July 2017

IV. EXPLANATIONS REGARDING THE PERSONS AND INSTITUTIONS THAT HAVE QUALIFIED SHARES ATTRIBUTABLE TO THE PARENT BANK

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

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 I: GENERAL INFORMATION ABOUT THE PARENT BANK (continued)

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

a) General information about the Parent Bank:

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

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

c) According to Article 2.2 of Law No: 4603, subsequent to the completion of the restructuring procedures, the procedures involved in sale of the shares of the Parent Bank were to be concluded under the provisions of Law No: 4046 based on the “Regulation of Privatization Applications and Amendment of Some Laws and Decrees with the Force of Law”. The procedures relating to restructuring and sale of the shares were going to be completed within three years (until 25 November 2003) as of the effective date of the related law. However, by Law No: 5230 dated 31 July 2004, the term “3 years” in Article 2.2 of Law numbered 4603 was previously amended to “5 years” and subsequently by Law No: 5572 dated 10 January 2007 the related term was amended to “10 years”. As a result of these amendments, the privatization period of the Parent Bank was extended. The Council of Ministers has the authority to extend this period by the half of that period for one time only. The Council of Ministers extended the half of that “10 years” period as published in the Official Gazette by the Decree numbered 2010/964 and dated 6 November 2010. As per the Higher Council of Privatization decision numbered 2006/69 dated 11 August 2006, the public shares were transferred to the Privatization Administration and 99,9% of the Parent Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 to cease the execution of the High Council of Privatization’s decision numbered 2006/69 dated 11 August 2006. Thereupon, as per the decision of the Higher Council of Privatization numbered 2007/8 dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the Parent Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to trade on Borsa İstanbul AŞ as of 10 May 2007 with the base price of TRY full 8,00. As per the decision of the Higher Council of Privatization numbered 2012/150 dated 4 October 2012; 23,92% of the public shares held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL
STATEMENTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

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

V. BRIEF INFORMATION 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 September 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 Parent 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 AŞ
- Türk P ve I Sigorta AŞ

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
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(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, and 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 A.D. Beograd is a subsidiary of the Parent Bank as of 28 May 2015. Its main activities include commercial lending, accepting deposits, and 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 AŞ to operate in life and personal accident insurance, coinsurance, reinsurance and retrocession businesses for individuals both in Turkey and abroad. Halk Emeklilik became a subsidiary in early 2006 when Halkbank acquired the shares held by Türkiye Halk Bankası Personnel Provident Fund.

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

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

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

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

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

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

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiary, Bileşim Alternatif 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-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 A.D., Skopje, Halk Faktoring AŞ and Halkbank A.D. Beograd are included in the scope of consolidation by line-by-line method.

Demir-Halk Bank N.V. ("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 consolidated 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 consolidated 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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 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 SEPTEMBER 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 September 2017			31 December 2016		
		TRY	FC	Total	TRY	FC	Total	
I.	CASH AND BALANCES WITH THE CENTRAL BANK	(1)	3.104.998	31.723.453	34.828.451	3.534.389	26.677.577	30.211.966
II.	FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)	(2)	32.050	389.980	422.030	88.251	360.675	448.926
2.1	Trading financial assets		32.050	389.980	422.030	88.251	360.675	448.926
2.1.1	Public sector debt securities		14.792	-	14.792	65.538	-	65.538
2.1.2	Share certificates		885	758	1.643	2.413	682	3.095
2.1.3	Financial assets held for trading		1	389.025	389.026	4	359.807	359.811
2.1.4	Other marketable securities		16.372	197	16.569	20.296	186	20.482
2.2	Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1	Public sector debt securities		-	-	-	-	-	-
2.2.2	Share certificates		-	-	-	-	-	-
2.2.3	Loans		-	-	-	-	-	-
2.2.4	Other marketable securities		-	-	-	-	-	-
III.	BANKS	(3)	101.218	3.964.826	4.066.044	362.526	1.602.324	1.964.850
IV.	MONEY MARKET PLACEMENTS		1.074.734	13.254	1.087.988	1.072.397	-	1.072.397
4.1	Interbank money market placements		-	-	-	-	-	-
4.2	Istanbul Stock Exchange Money Market placements		1.073.061	-	1.073.061	1.067.712	-	1.067.712
4.3	Receivables from reverse repurchase agreements		1.673	13.254	14.927	4.685	-	4.685
V.	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	11.799.712	5.964.114	17.763.826	10.915.994	4.565.225	15.481.219
5.1	Share certificates		24.161	46.926	71.087	23.682	36.149	59.831
5.2	Public sector debt securities		11.775.551	5.917.188	17.692.739	10.890.372	4.529.076	15.419.448
5.3	Other marketable securities		-	-	-	1.940	-	1.940
VI.	LOANS AND RECEIVABLES	(5)	134.707.909	61.062.513	195.770.422	103.252.263	56.070.896	159.323.159
6.1	Loans and receivables		133.288.556	60.975.971	194.264.527	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		133.288.556	60.975.971	194.264.527	102.076.226	55.981.809	158.058.035
6.2	Loans under follow-up		5.943.543	177.888	6.121.431	5.140.082	180.430	5.320.512
6.3	Specific provisions (-)		4.524.190	91.346	4.615.536	3.964.045	91.343	4.055.388
VII.	FACTORING RECEIVABLES		835.645	168.773	1.004.418	849.637	284.891	1.134.528
VIII.	HELD TO MATURITY INVESTMENTS (Net)	(6)	18.731.900	2.469.032	21.200.932	15.875.022	2.469.604	18.344.626
8.1	Public sector debt securities		18.688.159	2.469.032	21.157.191	15.841.619	2.469.604	18.311.223
8.2	Other marketable securities		43.741	-	43.741	33.403	-	33.403
IX.	INVESTMENTS IN ASSOCIATES (Net)	(7)	22.141	297.568	319.709	22.393	270.028	292.421
9.1	Accounted under equity method		15.821	297.568	313.389	16.073	270.028	286.101
9.2	Unconsolidated associates		6.320	-	6.320	6.320	-	6.320
9.2.1	Financial investments		-	-	-	-	-	-
9.2.2	Non-financial investments		6.320	-	6.320	6.320	-	6.320
X.	INVESTMENTS IN SUBSIDIARIES (Net)	(8)	41.243	-	41.243	41.243	-	41.243
10.1	Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2	Unconsolidated non-financial subsidiaries		41.243	-	41.243	41.243	-	41.243
XI.	JOINT VENTURES (Net)	(9)	-	-	-	-	-	-
11.1	Accounted under equity method		-	-	-	-	-	-
11.2	Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1	Financial joint ventures		-	-	-	-	-	-
11.2.2	Non-financial joint ventures		-	-	-	-	-	-
XII.	FINANCE LEASE RECEIVABLES (Net)	(10)	615.082	1.990.355	2.605.437	365.336	1.945.994	2.311.330
12.1	Finance lease receivables		778.368	2.330.282	3.108.650	459.604	2.258.623	2.718.227
12.2	Operating lease receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned income (-)		163.286	339.927	503.213	94.268	312.629	406.897
XIII.	DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT	(11)	-	-	-	-	-	-
13.1	Fair value risk hedging		-	-	-	-	-	-
13.2	Cash flow risk hedging		-	-	-	-	-	-
13.3	Net foreign investment risk hedging		-	-	-	-	-	-
XIV.	TANGIBLE ASSETS (Net)	(12)	3.295.159	85.435	3.380.594	3.192.451	74.533	3.266.984
XV.	INTANGIBLE ASSETS (Net)	(13)	103.702	20.741	124.443	95.056	20.173	115.229
15.1	Goodwill		-	-	-	-	-	-
15.2	Other		103.702	20.741	124.443	95.056	20.173	115.229
XVI.	INVESTMENT PROPERTIES (Net)	(14)	887.028	4.263	891.291	860.521	3.595	864.116
XVII.	TAX ASSET	(15)	100.800	2.067	102.867	97.750	1.775	99.525
17.1	Current tax asset		1.905	-	1.905	-	-	-
17.2	Deferred tax asset		98.895	2.067	100.962	97.750	1.775	99.525
XVIII.	ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(16)	1.530	-	1.530	1.537	-	1.537
18.1	Held for sale purpose		1.530	-	1.530	1.537	-	1.537
18.2	Held from discontinued operations		-	-	-	-	-	-
XIX.	OTHER ASSETS	(17)	2.826.627	450.139	3.276.766	2.203.011	549.200	2.752.211
TOTAL ASSETS			178.281.478	108.606.513	286.887.991	142.829.777	94.896.490	237.726.267

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

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 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 September 2017			31 December 2016		
LIABILITIES AND SHAREHOLDERS' EQUITY		TRY	FC	Total	TRY	FC	Total
I. DEPOSITS	(1)	103.463.909	82.163.229	185.627.138	86.549.173	63.849.704	150.398.877
1.1 Deposits Held by the Risk Group of the Bank		5.047	-	5.047	8.771	-	8.771
1.2 Other		103.458.862	82.163.229	185.622.091	86.540.402	63.849.704	150.390.106
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	11	197.765	197.776	59	224.534	224.593
III. FUNDS BORROWED	(3)	1.206.234	16.856.620	18.062.854	1.171.764	20.417.347	21.589.111
IV. MONEY MARKET BALANCES		28.392.113	4.364.573	32.756.686	17.648.265	1.373.871	19.022.136
4.1 Interbank money market borrowings		26.918.157	-	26.918.157	7.003.306	-	7.003.306
4.2 Istanbul Stock Exchange Takasbank borrowings		1.351.724	-	1.351.724	1.174.218	-	1.174.218
4.3 Funds from repurchase agreements		122.232	4.364.573	4.486.805	9.470.741	1.373.871	10.844.612
V. MARKETABLE SECURITIES ISSUED (Net)	(4)	3.467.815	7.975.931	11.443.746	2.067.703	10.684.708	12.752.411
5.1 Treasury bills		3.467.815	-	3.467.815	2.067.703	-	2.067.703
5.2 Asset-backed securities		-	-	-	-	-	-
5.3 Bonds		-	7.975.931	7.975.931	-	10.684.708	10.684.708
VI. FUNDS	(5)	2.464.406	-	2.464.406	2.339.808	-	2.339.808
6.1 Borrower Funds		1.078	-	1.078	36.600	-	36.600
6.2 Other		2.463.328	-	2.463.328	2.303.208	-	2.303.208
VII. SUNDRY CREDITORS		3.328.911	181.184	3.510.095	2.743.078	123.544	2.866.622
VIII. OTHER LIABILITIES	(6)	1.366.965	477.599	1.844.564	1.503.590	439.963	1.943.553
IX. FACTORING PAYABLES		4.258	479	4.737	383	205	588
X. FINANCE LEASE PAYABLES	(7)	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT	(8)	-	-	-	-	-	-
11.1 Fair value risk hedging		-	-	-	-	-	-
11.2 Cash flow risk hedging		-	-	-	-	-	-
11.3 Net foreign investment risk hedging		-	-	-	-	-	-
XII. PROVISIONS	(9)	5.118.833	95.398	5.214.231	4.485.747	87.352	4.573.099
12.1 General loan provisions		2.222.538	27.704	2.250.242	2.027.964	21.172	2.049.136
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Employee benefits provisions		786.297	4.997	791.294	728.172	3.287	731.459
12.4 Insurance technical reserves (Net)		1.781.593	-	1.781.593	1.400.148	-	1.400.148
12.5 Other provisions		328.405	62.697	391.102	329.463	62.893	392.356
XIII. TAX LIABILITY	(10)	1.089.103	3.059	1.092.162	639.422	6.527	645.949
13.1 Current tax liability		736.840	907	737.747	352.600	4.375	356.975
13.2 Deferred tax liability		352.263	2.152	354.415	286.822	2.152	288.974
XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)	-	-	-	-	-	-
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Held from discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED CAPITAL	(12)	-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	(13)	24.536.870	132.726	24.669.596	21.541.471	(171.951)	21.369.520
16.1 Paid-in capital		1.250.000	-	1.250.000	1.250.000	-	1.250.000
16.2 Capital reserves		3.076.147	(173.793)	2.902.354	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		(272.505)	(174.225)	(446.730)	(291.223)	(427.705)	(718.928)
16.2.4 Tangible assets revaluation reserves		2.103.977	371	2.104.348	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		1.200.215	61	1.200.276	1.099.383	51	1.099.434
16.3 Profit reserves		16.907.745	157.079	17.064.824	14.562.537	111.025	14.673.562
16.3.1 Legal reserves		1.750.378	8.559	1.758.937	1.558.859	3.313	1.562.172
16.3.2 Statutory reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		15.110.225	27.317	15.137.542	12.956.536	-	12.956.536
16.3.4 Other profit reserves		47.142	121.203	168.345	47.142	107.712	154.854
16.4 Profit/Loss		3.100.308	127.562	3.227.870	2.585.417	115.139	2.700.556
16.4.1 Prior years income/loss		(4.150)	94.838	90.688	84.650	82.299	166.949
16.4.2 Period profit/loss		3.104.458	32.724	3.137.182	2.500.767	32.840	2.533.607
16.5 Minority shares		202.670	21.878	224.548	183.918	29.240	213.158
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		174.439.428	112.448.563	286.887.991	140.690.463	97.035.804	237.726.267

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

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS
AS OF 30 SEPTEMBER 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 September 2017			31 December 2016		
OFF-BALANCE SHEET ITEMS	Note	TRY	FC	Total	TRY	FC	Total
A. COMMITMENTS AND CONTINGENCIES (I+II+III)		56.084.837	61.976.813	118.061.650	46.265.354	51.600.941	97.866.295
I. GUARANTEES AND SURETYSHIPS	(1)	25.197.352	29.030.656	54.228.008	20.999.538	26.878.181	47.877.719
1.1 Letters of guarantee		24.190.543	21.964.013	46.154.556	20.194.359	19.924.546	40.118.905
1.1.1 Guarantees subject to public procurement law		1.110.994	10.910.169	12.021.163	1.049.993	11.366.716	12.416.709
1.1.2 Guarantees given for foreign trade operations		-	17.355	17.355	-	16.644	16.644
1.1.3 Other letters of guarantee		23.079.549	11.036.489	34.116.038	19.144.366	8.541.186	27.685.552
1.2 Bank loans		21.008	2.591.173	2.612.181	12.876	2.812.590	2.825.466
1.2.1 Import acceptances		602	144.497	145.099	-	320.953	320.953
1.2.2 Other bank acceptances		20.406	2.446.676	2.467.082	12.876	2.491.637	2.504.513
1.3 Letters of credit		32.410	4.339.614	4.372.024	18.091	4.001.009	4.019.100
1.3.1 Documentary letters of credit		32.410	4.339.614	4.372.024	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		953.391	135.856	1.089.247	774.212	140.036	914.248
1.9 Other suretyships		-	-	-	-	-	-
II. COMMITMENTS	(1)	25.356.266	2.394.819	27.751.085	23.261.724	1.492.636	24.754.360
2.1 Irrevocable commitments		25.356.266	1.598.773	26.955.039	23.261.724	901.095	24.162.819
2.1.1 Forward asset purchase commitments		140.855	996.758	1.137.613	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		3.944.085	450.035	4.394.120	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		6.330.886	-	6.330.886	5.805.008	-	5.805.008
2.1.8 Tax and fund liabilities from export commitments		34.149	-	34.149	28.864	-	28.864
2.1.9 Commitments for credit card expenditure limits		11.386.929	33.714	11.420.643	10.794.813	29.260	10.824.073
2.1.10 Commitments for credit cards and banking services promotions		36.972	-	36.972	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		3.482.390	118.266	3.600.656	3.293.812	168.484	3.462.296
2.2 Revocable commitments		-	796.046	796.046	-	591.541	591.541
2.2.1 Revocable loan granting commitments		-	721.976	721.976	-	52.315	52.315
2.2.2 Other revocable commitments		-	74.070	74.070	-	539.226	539.226
III. DERIVATIVE FINANCIAL INSTRUMENTS	(1)	5.531.219	30.551.338	36.082.557	2.004.092	23.230.124	25.234.216
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value risk hedging transactions		-	-	-	-	-	-
3.1.2 Cash flow risk hedging transactions		-	-	-	-	-	-
3.1.3 Net foreign investment risk hedging transactions		-	-	-	-	-	-
3.2 Transactions for trading		5.531.219	30.551.338	36.082.557	2.004.092	23.230.124	25.234.216
3.2.1 Forward foreign currency buy/sell transactions		2.001.088	8.698.749	10.699.837	1.162.609	5.842.701	7.005.310
3.2.1.1 Forward foreign currency transactions-buy		1.000.977	5.807.138	6.808.115	564.492	3.958.285	4.522.777
3.2.1.2 Forward foreign currency transactions-sell		1.000.111	2.891.611	3.891.722	598.117	1.884.416	2.482.533
3.2.2 Currency and interest rate swaps		2.298.404	14.974.271	17.272.675	581.914	14.785.050	15.366.964
3.2.2.1 Currency swap-buy		264.678	3.366.033	3.630.711	148.821	2.707.908	2.856.729
3.2.2.2 Currency swap-sell		2.033.726	1.531.423	3.565.149	433.093	2.332.612	2.765.705
3.2.2.3 Interest rate swap-buy		-	5.038.407	5.038.407	-	4.872.265	4.872.265
3.2.2.4 Interest rate swap-sell		-	5.038.408	5.038.408	-	4.872.265	4.872.265
3.2.3 Currency, interest rate and marketable securities options		1.231.727	1.688.736	2.920.463	259.569	420.684	680.253
3.2.3.1 Currency call options		615.863	844.367	1.460.230	129.783	210.341	340.124
3.2.3.2 Currency put options		615.864	844.369	1.460.233	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		-	5.189.582	5.189.582	-	2.181.689	2.181.689
B. CUSTODY AND PLEDGED ASSETS (IV+V+VI)		785.349.942	188.209.660	973.559.602	661.477.039	156.010.441	817.487.480
IV. CUSTODIES		375.928.029	27.923.678	403.851.707	344.066.173	23.722.398	367.788.571
4.1 Assets under management		-	-	-	-	-	-
4.2 Custody marketable securities		172.525.987	662.723	173.188.710	167.030.333	728.810	167.759.143
4.3 Cheques in collection process		14.259.619	20.506.580	34.766.199	12.751.492	17.280.141	30.031.633
4.4 Commercial notes in collection process		180.829.586	466.702	181.296.288	137.519.788	518.733	138.038.521
4.5 Other assets in collection process		-	-	-	-	-	-
4.6 Underwritten securities		-	-	-	-	-	-
4.7 Other custodies		4.166.506	112.456	4.278.962	3.486.346	98.721	3.585.067
4.8 Custodians		4.146.331	6.175.217	10.321.548	23.278.214	5.095.993	28.374.207
V. PLEDGED ASSETS		409.421.913	160.285.982	569.707.895	317.410.866	131.158.600	448.569.466
5.1 Marketable securities		4.500.228	528.803	5.029.031	4.077.924	476.540	4.554.464
5.2 Collateral notes		6.792.929	789.878	7.582.807	7.297.816	820.012	8.117.828
5.3 Commodity		25.812	2.212.444	2.238.256	25.813	-	25.813
5.4 Warranty		-	-	-	-	-	-
5.5 Land and buildings		308.306.442	132.537.537	440.843.979	259.332.850	116.459.706	375.792.556
5.6 Other pledged assets		63.415.396	22.167.534	85.582.930	42.616.278	12.035.647	54.651.925
5.7 Pledges		26.381.106	2.049.786	28.430.892	4.060.185	1.366.695	5.426.880
VI. ACCEPTED BILL GUARANTEES AND SURETIES		-	-	-	-	1.129.443	1.129.443
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		841.434.779	250.186.473	1.091.621.252	707.742.393	207.611.382	915.353.775

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

TÜRKİYE HALK BANKASI AŞ
CONSOLIDATED STATEMENT OF INCOME AS OF 30 SEPTEMBER 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 September 2017	1 January- 30 September 2016	1 July- 30 September 2017	1 July- 30 September 2016
INCOME AND EXPENSES		Note				
I.	INTEREST INCOME	(1)	16.766.864	12.604.200	5.919.292	4.448.782
1.1	Interest on loans		13.495.215	10.352.069	5.013.334	3.647.124
1.2	Interest received from reserve deposits		91.700	45.253	39.570	15.060
1.3	Interest received from banks		180.593	79.275	65.482	23.789
1.4	Interest received from money market placements		23.722	251	173	61
1.5	Interest income on marketable securities		2.692.405	1.903.092	704.029	673.740
1.5.1	Financial assets held for trading		2.191	5.755	708	2.096
1.5.2	Financial assets at fair value through profit and loss		-	-	-	-
1.5.3	Financial assets available-for-sale		1.139.110	773.215	331.227	279.817
1.5.4	Investments held-to-maturity		1.551.104	1.124.122	372.094	391.827
1.6	Finance lease income		140.686	116.821	49.956	46.265
1.7	Other interest income		142.543	107.439	46.748	42.743
II.	INTEREST EXPENSE	(2)	10.605.687	7.344.417	4.219.830	2.459.011
2.1	Interest on deposits		7.672.335	5.940.455	3.060.498	1.987.067
2.2	Interest on borrowings		381.723	356.239	120.855	119.876
2.3	Interest on money market borrowings		1.865.205	577.896	808.716	178.561
2.4	Interest on bonds issued		596.752	402.180	205.049	153.858
2.5	Other interest expense		89.672	67.647	24.712	19.649
III.	NET INTEREST INCOME (I – II)		6.161.177	5.259.783	1.699.462	1.989.771
IV.	NET FEES AND COMMISSIONS INCOME		1.462.605	865.722	496.926	316.600
4.1	Fees and commissions income		1.880.646	1.227.862	634.239	438.904
4.1.1	Non-cash loans		291.151	211.605	103.680	74.434
4.1.2	Other		1.589.495	1.016.257	530.559	364.470
4.2	Fees and commissions expenses		418.041	362.140	137.313	122.304
4.2.1	Non-cash loans		2.966	2.897	993	1.098
4.2.2	Other		415.075	359.243	136.320	121.206
V.	DIVIDEND INCOME	(3)	6.302	39.850	2.835	18
VI.	NET TRADING PROFIT (NET)	(4)	113.284	115.969	(8.978)	64.285
6.1	Profit/loss from capital market operations		30.359	16.891	10.856	8.963
6.2	Profit/loss from financial derivative transactions		(344.963)	(361.082)	(155.076)	41.852
6.3	Foreign exchange gains/losses		427.888	460.160	135.242	13.470
VII.	OTHER OPERATING INCOME	(5)	1.522.666	1.377.894	526.501	366.324
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		9.266.034	7.659.218	2.716.746	2.736.998
IX.	LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)	(6)	1.067.702	1.193.360	326.210	637.909
X.	OTHER OPERATING EXPENSES(-)	(7)	4.257.393	3.686.995	1.538.924	1.130.049
XI.	NET OPERATING INCOME/(LOSS) (VIII-IX-X)		3.940.939	2.778.863	851.612	969.040
XII.	AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER		-	-	-	-
XIII.	PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES		15.559	13.812	5.625	5.717
XIV.	GAIN / (LOSS) ON NET MONETARY POSITION		-	-	-	-
XV.	INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)	(8)	3.956.498	2.792.675	857.237	974.757
XVI.	TAX INCOME PROVISION (±)	(9)	(810.031)	(622.210)	(177.380)	(285.583)
16.1	Current tax provision		(758.712)	(622.797)	(156.731)	(188.477)
16.2	Deferred tax provision		(51.319)	587	(20.649)	(97.106)
XVII.	NET OPERATING INCOME AFTER TAX (XV±XVI)	(10)	3.146.467	2.170.465	679.857	689.174
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-	-	-	-
18.1	Property and equipment income held for sale		-	-	-	-
18.2	Sale profits from associates, subsidiaries and joint ventures (business partners)		-	-	-	-
18.3	Other income from terminated operations		-	-	-	-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-	-	-
19.1	Property and equipment expense held for sale		-	-	-	-
19.2	Sale losses from associates, subsidiaries and joint ventures (business partners)		-	-	-	-
19.3	Other expenses from discontinued operations		-	-	-	-
XX.	INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-	-	-
XXI.	PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)		-	-	-	-
21.1	Current tax provision		-	-	-	-
21.2	Deferred tax provision		-	-	-	-
XXII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-	-	-
XXIII.	NET PROFIT/(LOSS) (XVII+XXII)	(11)	3.146.467	2.170.465	679.857	689.174
23.1	Group's profit/loss		3.137.182	2.164.959	677.283	684.725
23.2	Minority shares profit/loss		9.285	5.506	2.574	4.449
	Earnings/losses per share (Full TRY)		2,50975	1,73637	0,54183	0,55134

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 SEPTEMBER 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-	1 January-
STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	30 September 2017	30 September 2016
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS	284.540	249.796
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	(3.084)	(451)
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	182.675	37.962
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)	-	-
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)	-	-
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS	(32.263)	8.830
IX. DEFERRED TAX OF VALUATION DIFFERENCES	(12.685)	(43.174)
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	419.183	252.963
XI. PROFIT/LOSS	3.146.467	2.170.465
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	32.538	4.745
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	3.113.929	2.165.720
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	3.565.650	2.423.428

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 SEPTEMBER 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 reserves	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
I. 1 January 2016 – 30 September 2016																			
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		-	-	-	-	-	-	-	-	-	-	206.439	-	-	-	-	206.439	93	206.532
IV. Hedging funds (effective portion)		-	-	-	-	-	-	-	(23.458)	-	-	-	-	-	-	-	(23.458)	-	(23.458)
4.1 Cash-flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedges for investment made in foreign countries		-	-	-	-	-	-	-	(23.458)	-	-	-	-	-	-	-	(23.458)	-	(23.458)
V. Revaluation changes of property and equipment		-	-	-	-	-	-	-	-	-	-	-	(361)	-	-	-	(361)	-	(361)
VI. Revaluation changes of intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares from investment and associates, subsidiaries and joint ventures (business partners).		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences		-	-	-	-	-	-	-	38.058	-	-	-	-	-	-	-	38.058	(96)	37.962
IX. Changes after disposal of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes after reclassification of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of changes in shareholders equity of investments and associates to bank's shareholders equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Increase in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 From internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Issuance of share certificates at end of period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	24	-	(201)	-	1.677	2.048	-	-	-	-	-	-	-	3.548	5.282	8.830
XVII. Net profit or losses		-	-	-	-	-	-	-	-	2.164.959	-	-	-	-	-	-	2.164.959	5.506	2.170.465
XVIII. Profit distribution		-	-	-	-	168.405	-	1.908.833	-	(2.317.984)	2.143	-	-	-	-	-	(238.603)	-	(238.603)
18.1 Dividends distributed		-	-	-	-	168.405	-	1.908.833	-	-	(238.603)	-	-	-	-	-	(238.603)	-	(238.603)
18.2 Transfers to legal reserves		-	-	-	-	-	-	-	-	-	(2.077.238)	-	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	(2.317.984)	2.317.984	-	-	-	-	-	-	-	-
Closing balance		1.250.000	1.220.451	39.512	-	1.562.131	-	12.956.425	157.552	2.164.959	166.949	(78.692)	1.672.570	3.973	-	-	21.115.830	212.211	21.328.041
I. 1 January 2017 – 30 September 2017																			
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		-	-	-	-	-	-	-	-	-	-	272.198	-	-	-	-	272.198	(497)	271.701
IV. Hedging Funds (effective portion)		-	-	-	-	-	-	-	(62.126)	-	-	-	-	-	-	-	(62.126)	-	(62.126)
4.1 Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedges for investments made in foreign countries		-	-	-	-	-	-	-	(62.126)	-	-	-	-	-	-	-	(62.126)	-	(62.126)
V. Revaluation changes of property and equipment		-	-	-	-	-	-	-	-	-	-	-	(2.930)	-	-	-	(2.930)	-	(2.930)
VI. Revaluation changes of intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares from investment and associates, subsidiaries and joint ventures (business partners).		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences		-	-	-	-	-	-	-	182.386	-	-	-	-	-	-	-	182.386	289	182.675
IX. Changes after disposal of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes after reclassification of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of changes in shareholders equity of investments and associates to bank's shareholders equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Increase in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 From internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Issuance of share certificates at end of period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	(1.186)	-	(1.877)	(5.927)	-	26.793	-	-	-	-	-	17.803	3.070	20.873
XVII. Net profit or losses		-	-	-	-	-	-	-	-	3.137.182	-	-	-	-	-	-	3.137.182	9.285	3.146.467
XVIII. Profit distribution		-	-	-	-	197.951	-	2.182.883	-	(2.533.607)	(103.054)	-	-	-	-	-	(255.827)	(757)	(256.584)
18.1 Dividends distributed		-	-	-	-	197.951	-	2.182.883	-	-	(255.827)	-	-	-	-	-	(255.827)	(757)	(256.584)
18.2 Transfers to legal reserves		-	-	-	-	-	-	-	-	-	(2.380.834)	-	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	(2.533.607)	2.533.607	-	-	-	-	-	-	-	-
Closing balance		1.250.000	1.220.451	39.737	-	1.758.937	-	15.137.542	148.170	3.137.182	90.688	(446.730)	2.104.348	4.723	-	-	24.445.048	224.548	24.669.596

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

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

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

VI. CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed	
	Current period	Prior period
	1 January-	1 January-
Note	30 September 2017	30 September 2016
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating profit before changes in operating assets and liabilities	3.319.906	2.099.338
1.1.1 Interest received	15.269.846	11.975.443
1.1.2 Interest paid	(9.763.717)	(7.580.502)
1.1.3 Dividend received	6.302	39.850
1.1.4 Fees and commissions received	1.880.072	1.227.862
1.1.5 Other income	1.304.117	1.226.583
1.1.6 Collections from previously written off loans	454.190	411.154
1.1.7 Cash payments to personnel and service suppliers	(1.572.199)	(1.372.911)
1.1.8 Taxes paid	(877.733)	(693.576)
1.1.9 Other	(3.380.972)	(3.134.565)
1.2 Assets and Liabilities Subject to Banking Operations	5.492.368	467.873
1.2.1 Net decrease in financial assets held for sale	55.907	(5.774)
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	20.253	-
1.2.4 Net (increase) decrease in loans	(36.294.612)	(18.269.136)
1.2.5 Net (increase) decrease in other assets	(4.183.992)	(1.473.170)
1.2.6 Net increase (decrease) in bank deposits	(6.059.765)	8.760.684
1.2.7 Net increase (decrease) in other deposits	40.404.675	6.223.786
1.2.8 Net increase (decrease) in loans borrowed	(3.517.365)	(2.874.834)
1.2.9 Net increase (decrease) in matured payables	-	-
1.2.10 Net increase (decrease) in other liabilities	15.067.267	8.106.317
I. Net cash provided from banking operations	8.812.274	2.567.211
B. CASH FLOWS FROM INVESTMENT ACTIVITIES		
II. Net cash provided from / (used in) investing activities	(4.214.154)	(2.553.999)
2.1 Cash paid for purchase of joint ventures, associates and subsidiaries	(6.238)	-
2.2 Cash obtained from sale of entities joint ventures, associates and subsidiaries	-	-
2.3 Fixed assets purchases	(292.352)	(155.076)
2.4 Fixed assets sales	122.093	70.036
2.5 Cash paid for purchase of financial assets available for sale	(7.263.615)	(3.706.039)
2.6 Cash obtained from sale of financial assets available for sale	5.399.499	1.401.580
2.7 Cash paid for purchase of investment securities	(3.892.235)	(2.453.205)
2.8 Cash obtained from sale of investment securities	1.733.653	2.299.339
2.9 Other	(14.959)	(10.634)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash used in financing activities	(1.473.637)	2.344.495
3.1 Cash obtained from loans borrowed and securities issued	7.033.402	6.630.242
3.2 Cash used for repayment of loans borrowed and securities issued	(8.250.455)	(4.047.144)
3.3 Bonds issued	-	-
3.4 Dividends paid	(256.584)	(238.603)
3.5 Payments for finance leases	-	-
3.6 Other	-	-
IV. Effect of change in foreign exchange rate on cash and cash equivalents	36.359	114.632
V. Net increase / (decrease) in cash and cash equivalents	3.160.842	2.472.339
VI. Cash and cash equivalents at beginning of the period	15.530.596	8.855.902
VII. Cash and cash equivalents at end of the period	18.691.438	11.328.241

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

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES

I. EXPLANATIONS 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.

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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 A.D. Beograd (subsidiary), Demir-Halk Bank N.V. (affiliate) and Halk Banka A.D., 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 A.D., 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 N.V. ("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.

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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 N.V., 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 on 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.

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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.

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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 Parent 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 September 2017, the Parent Bank has credit default swap transaction amounting to USD 200 million with 5 year maturity. In this transactions the Parent 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.

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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 Parent 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 September 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:

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

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

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

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

Classification of Investment Properties:

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

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

XIV. EXPLANATIONS ON INVESTMENT PROPERTIES

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

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

XV. EXPLANATIONS ON LEASING TRANSACTIONS

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

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

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

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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 January-30 June 2017 period is paid in August 2017. Furthermore, accrued advance tax for 1 January- 30 September 2017 period will also be paid in November 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 A.D., 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 A.D. 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 15 June 2017, to TRY 820.000 by increasing TRY 30.000 and the registration process was completed on 18 August 2017.

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 in the current and prior period.

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. EXPLANATIONS ON OTHER MATTERS

None.

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

I. EXPLANATIONS ON CAPITAL

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 September 2017, the Group's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 13,36% (31 December 2016: 12,50%), the equity is calculated as TRY 26.500.740 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:

Current Period	Amount	Amounts related to treatment before 1/1/2014^(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	17.046.028	
Other Comprehensive Income according to TAS	1.656.239	
Profit	3.227.870	
Current Period Profit	3.137.182	
Prior Period Profit	90.688	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interest	9.207	
Common Equity Tier I Capital Before Deductions	24.454.255	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	-	
Leasehold Improvements on Operational Leases	64.412	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	99.554	124.443
Net Deferred Tax Asset/Liability	-	
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined pension benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital	-	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions From Common Equity Tier 1 Capital	163.966	
Total Common Equity Tier 1 Capital	24.290.289	

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

I. EXPLANATIONS ON CAPITAL (continued)

1. Information on Components of Consolidated Capital (continued):

ADDITIONAL TIER I CAPITAL	
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Shares of Third Parties in Additional Tier I Capital	-
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-
Other items to be defined by the BRSA (-)	-
Items to be Deducted from Tier I Capital During the Transition Period	24.889
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 (-)	24.889
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions from Additional Tier I Capital	-
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	24.265.400
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Third parties' share in the Tier II Capital	-
Third parties' share in the Tier II Capital (Temporary Article 3)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2.250.242
Tier II Capital Before Deductions	2.250.242
Deductions From Tier II Capital	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments in equity instruments issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and having conditions stated in the Article 8 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	2.250.242
Total Capital (The sum of Tier I Capital and Tier II Capital)	26.515.642
Total Tier I Capital and Tier II Capital (Total Equity)	26.500.740
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 (-)	-
Other items to be Defined by the BRSA (-)	14.892

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

I. EXPLANATIONS ON CAPITAL (continued)

1. Information on Components of Consolidated Capital (continued):

Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-
TOTAL CAPITAL	
Total capital	26.500.740
Total risk weighted amounts	198.428.752
CAPITAL ADEQUACY RATIOS	
Core Capital Adequacy Ratio	12,24
Tier I Capital Adequacy Ratio	12,23
Capital Adequacy Ratio	13,36
BUFFERS	
Bank-specific total CET1 Capital Ratio (%)	6,285
Capital Conservation Buffer Ratio (%)	1,250
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)**	0,535
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,355
Amounts Lower Than Excesses as per Deduction Rules	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	54.432
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 (**)	1.581.949
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	307.753
Limits for Provisions Used in Tier II Capital Calculation	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.250.242
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2.250.242
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-

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

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

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

I. EXPLANATIONS ON CAPITAL (continued)

1. Information on Components of Consolidated Capital (continued):

Prior Period	Amount	Amounts related to treatment before 1/1/2014 ^(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	14.553.153	
Other Comprehensive Income according to TAS	1.387.742	
Profit	2.700.556	
Current Period Profit	2.533.607	
Prior Period Profit	166.949	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interests	16.333	
Common Equity Tier I Capital Before Deductions	21.172.695	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	-	
Leasehold Improvements on Operational Leases (-)	72.880	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	69.137	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	-	
Total Deductions From Common Equity Tier 1 Capital	142.017	
Total Common Equity Tier 1 Capital	21.030.678	

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

I. EXPLANATIONS ON CAPITAL (continued)

1. Information on Components of Consolidated Capital (continued):

ADDITIONAL TIER I CAPITAL	
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Shares of Third Parties in Additional Tier I Capital	-
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-
Other items to be defined by the BRSA (-)	-
Items to be Deducted from Tier I Capital During the Transition Period	46.092
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	46.092
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions from Additional Tier I Capital	-
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	20.984.586
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Third parties' share in the Tier II Capital	-
Third parties' share in the Tier II Capital (Temporary Article 3)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2.049.136
Tier II Capital Before Deductions	2.049.136
Deductions From Tier II Capital	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	2.049.136
Total Capital (Total Tier I Capital and Tier II Capital)	23.033.722
Total Tier I Capital and Tier II Capital (Total Equity)	22.857.357
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	157.617
Other items to be defined by the BRSA (-)	18.738

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

I. EXPLANATIONS ON CAPITAL (continued)

1. Information on Components of Consolidated Capital (continued):

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

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

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

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

None.

3. The equity is calculated on the capital adequacy ratio calculation basis having reduced deductible assets on equity from the sum of core capital and supplementary capital within the scope of "Regulation on Equities of Banks" (Regulation). The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. On the other hand, in the calculation of the Total Capital, development costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities and 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 ON 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 Value at Risk (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 financial statement date and the previous 5 working days in full TRY are as follows:

	22.09.2017	25.09.2017	26.09.2017	27.09.2017	28.09.2017	29.09.2017
USD	3,4700000	3,5200000	3,5300000	3,5600000	3,5200000	3,5200000
CHF	3,5773000	3,6191000	3,6268000	3,6441000	3,6149000	3,6240000
GBP	4,6981000	4,7466000	4,7302000	4,7622000	4,7197000	4,7062000
JPY	0,0309591	0,0313296	0,0314411	0,0315115	0,0311851	0,0312461
EUR	4,1567000	4,1814000	4,1594000	4,1737000	4,1480000	4,1571000

The simple arithmetic averages of the major current foreign exchange buying rates of the Parent Bank for the thirty days before financial statement date are as follows:

	Monthly average
USD	3,4557895
CHF	3,5819632
GBP	4,6099368
JPY	0,0311247
EUR	4,1173158

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

II. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (continued)

Information related to the consolidated currency risk:

Current Period	EUR	USD	OTHER FC	TOTAL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	5.385.856	21.587.504	4.750.093	31.723.453
Banks	863.649	2.690.162	411.015	3.964.826
Financial assets at fair value through profit and loss ⁽³⁾	52.716	335.350	1.914	389.980
Money market placements	-	-	13.254	13.254
Financial assets available-for-sale	560.605	5.028.171	375.338	5.964.114
Loans ⁽²⁾	32.506.425	28.964.546	1.513.372	62.984.343
Subsidiaries, associates and entities under common control	297.568	-	-	297.568
Held-to-maturity investments	1.990	2.320.553	146.489	2.469.032
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	85.435	85.435
Intangible assets	-	-	-	-
Other assets ⁽³⁾	1.587.399	975.912	52.135	2.615.446
Total assets	41.256.208	61.902.198	7.349.045	110.507.451
Liabilities				
Bank deposits	5.874.335	4.620.698	1.174.290	11.669.323
Foreign currency deposits	26.801.313	40.159.206	3.533.387	70.493.906
Money market balances	-	4.364.573	-	4.364.573
Funds provided from other financial institutions	8.085.325	8.688.331	82.964	16.856.620
Bonds issued	-	7.975.931	-	7.975.931
Sundry creditors	62.091	106.952	12.141	181.184
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	301.712	316.364	156.224	774.300
Total liabilities	41.124.776	66.232.055	4.959.006	112.315.837
Net balance sheet position	131.432	(4.329.857)	2.390.039	(1.808.386)
Net off-balance sheet position	(350.484)	4.114.025	(1.998.800)	1.764.741
Financial derivative assets ⁽⁴⁾	802.682	8.379.571	2.435.758	11.618.011
Financial derivative liabilities ⁽⁴⁾	1.153.166	4.265.546	4.434.558	9.853.270
Non-cash loans ⁽¹⁾	11.680.123	15.873.978	1.476.555	29.030.656
Prior period				
Total assets	35.253.731	55.542.878	5.949.688	96.746.297
Total liabilities	35.268.253	57.378.976	4.543.061	97.190.290
Net balance sheet position	(14.522)	(1.836.098)	1.406.627	(443.993)
Net off-balance sheet position	(285.828)	1.925.895	(1.140.708)	499.359
Financial derivative assets	1.387.874	4.185.717	1.571.243	7.144.834
Financial derivative liabilities	1.673.702	2.259.822	2.711.951	6.645.475
Non-cash loans ⁽¹⁾	8.827.121	16.441.447	1.609.613	26.878.181

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

⁽²⁾ Includes TRY 1.921.830 of foreign currency indexed loans and their accruals (31 December 2016: TRY 1.998.635).

⁽³⁾ In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", prepaid expenses (TRY 151) in assets; and shareholders' equity (TRY 132.726) in liabilities are not taken into consideration in the currency risk measurement.

⁽⁴⁾ Financial derivative assets include forward precious metal purchase transactions amounted to TRY 1.161.224. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 4.028.358. 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
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	22.851.966	-	-	-	-	11.976.485	34.828.451
Banks and financial institutions	2.938.905	85.914	-	-	-	1.041.225	4.066.044
Financial assets at fair value through profit and loss	198	1.178	23.546	80	369	396.659	422.030
Money market placements	723.083	351.651	-	-	-	13.254	1.087.988
Financial assets available-for-sale	279.156	3.646.637	2.004.395	4.397.430	7.345.328	90.880	17.763.826
Loans	88.078.661	30.156.829	35.039.520	30.829.786	7.325.012	2.834.719	194.264.527
Held-to-maturity investments	164.134	8.312.744	1.470.564	4.811.438	6.442.052	-	21.200.932
Other assets ⁽¹⁾⁽²⁾	720.729	421.317	846.871	1.483.811	242.066	9.539.399	13.254.193
Total assets	115.756.832	42.976.270	39.384.896	41.522.545	21.354.827	25.892.621	286.887.991
Liabilities							
Bank deposits	8.126.144	3.571.091	149.743	1.656	-	4.841.577	16.690.211
Other deposits	91.897.497	37.455.617	11.267.803	763.847	7.957	27.544.206	168.936.927
Money market balances	30.287.925	1.721.219	704.699	6.738	-	36.105	32.756.686
Sundry creditors	1.611.410	17.895	34.766	82.013	-	1.764.011	3.510.095
Bonds issued	1.504.173	1.490.899	472.743	7.902.618	-	73.313	11.443.746
Funds provided from other financial institutions ⁽⁴⁾	1.436.266	4.062.105	8.125.247	2.399.346	1.917.442	122.448	18.062.854
Other liabilities ⁽³⁾	205.536	7.048	3.609.022	-	-	31.665.866	35.487.472
Total liabilities	135.068.951	48.325.874	24.364.023	11.156.218	1.925.399	66.047.526	286.887.991
Balance sheet long position	-	-	15.020.873	30.366.327	19.429.428	-	64.816.628
Balance sheet short position	(19.312.119)	(5.349.604)	-	-	-	(40.154.905)	(64.816.628)
Off-balance sheet long position	352.000	2.824.271	46.933	760.990	1.758.214	12.356.279	18.098.687
Off-balance sheet short position	-	(2.472.271)	(46.933)	(1.366.430)	(1.758.214)	(12.340.022)	(17.983.870)
Total position	(18.960.119)	(4.997.604)	15.020.873	29.760.887	19.429.428	(40.138.648)	114.817

(1) TRY 100.962 of deferred tax assets is disclosed under the non-bearing interest column in other assets and TRY 354.415 of deferred tax liability is disclosed under the non-bearing interest column in other liabilities.

(2) TRY 1.505.895 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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
MANAGEMENT OF THE GROUP (continued)

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
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	20.210.851	-	-	-	-	10.001.115	30.211.966
Banks and financial institutions	785.635	148.477	12.343	-	-	1.018.395	1.964.850
Financial assets at fair value through profit and loss	419.809	10.683	9.906	210	107	8.211	448.926
Money market placements	3.475	1.068.922	-	-	-	-	1.072.397
Financial assets available-for-sale	678.903	3.030.194	2.628.760	3.356.766	5.723.381	63.215	15.481.219
Loans	58.808.334	20.957.655	42.095.743	29.171.482	5.547.844	1.476.977	158.058.035
Held-to-maturity investments	490.573	7.595.932	1.882.417	2.518.687	5.857.017	-	18.344.626
Other assets ^{(1),(2)}	5.200.663	281.671	673.280	1.400.468	287.219	4.300.947	12.144.248
Total assets	86.598.243	33.093.534	47.302.449	36.447.613	17.415.568	16.868.860	237.726.267
Liabilities							
Bank deposits	12.234.540	2.374.878	383.750	-	-	7.867.043	22.860.211
Other deposits	72.782.836	23.195.563	9.436.652	572.900	8.534	21.542.181	127.538.666
Money market balances	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Sundry creditors	1.250.040	97.688	380.694	877.669	29	260.502	2.866.622
Bonds issued	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Funds provided from other financial institutions ⁽⁴⁾	4.209.850	5.060.030	8.988.390	2.615.467	696.208	19.166	21.589.111
Other liabilities ⁽³⁾	212.335	2.048.286	1.109.721	-	-	27.726.768	31.097.110
Total liabilities	107.665.549	35.315.225	24.683.654	11.941.408	704.771	57.415.660	237.726.267
Balance sheet long position	-	-	22.618.795	24.506.205	16.710.797	-	63.835.797
Balance sheet short position	(21.067.306)	(2.221.691)	-	-	-	(40.546.800)	(63.835.797)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	7.252.844	12.651.609
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	(7.281.042)	(12.582.607)
Total position	(20.716.306)	(2.046.191)	22.618.795	24.076.905	16.710.797	(40.574.998)	69.002

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

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

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

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

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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III. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK (continued)

2. Average interest rates applied to financial instruments:

Current period	EUR	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT ⁽⁵⁾	-	1,25	-	4,00
Due from other banks and financial institutions ⁽¹⁾	0,06	1,30	-	9,92
Financial assets at fair value through profit and loss	0,24	0,30	-	10,64
Money market placements	-	-	-	13,93
Available-for-sale financial assets	4,23	5,46	-	8,50
Loans ⁽²⁾	4,77	6,26	0,84	12,75
Held-to-maturity investments	2,16	5,91	-	7,60
Liabilities				
Bank deposits	2,05	3,94	0,10	12,75
Other deposits ⁽⁴⁾	1,49	3,45	0,25	11,14
Money market borrowings	-	2,48	-	10,44
Sundry creditors ⁽³⁾	-	-	-	4,75
Bonds issued	-	4,46	-	12,60
Funds provided from other financial institutions	1,93	3,52	0,84	12,18
Prior Period				
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT	-	0,49	-	3,30
Due from other banks and financial institutions	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
Liabilities				
Bank deposits	0,44	3,17	-	7,82
Other deposits	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55

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

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

⁽³⁾ Declared maximum deposits interest rate with a maturity of twelve months as of 30 September 2017.

⁽⁴⁾ Customer based calculated interest rates are applied to TRY and FC deposits as of 30 September 2017.

⁽⁵⁾ As of balance sheet date, required reserve ratio 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:

Equities	Comparison			The Amount of Capital Requirement
	Balance Sheet Value	Fair Value Change	Market Value	
Stock investment excluding A,B,C,D group	360.952 ^(*)	280.604 ^(**)	-	22.448

(*)Includes TRY 41.243 of unconsolidated subsidiary, TRY 313.389 of associates accounted for under the equity method and TRY 6.320 of unconsolidated associates.

(**)The financial information about the fair value of Demir-Halk Bank N.V. has been obtained from its valuation report as of 30 September 2017.

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

Portfolio	Revaluated appreciation in the fair value		Unrealized gains and losses			
	Realized gains losses in the current period	Total	Included to core capital	Total	Included to total core capital	Included to core capital
1. Private equity investments	-	-	-	-	-	-
2. Share certificates quoted on a stock exchange	-	-	-	-	-	-
3. Other share certificates	-	13.840	13.840	-	-	-
Total	-	13.840	13.840	-	-	-

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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, Parent 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 Action Plan (LEAP)" 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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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	September	239,45	September	119,81
Minimum	July	180,84	July	101,79

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

	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TRY+FC	FC	TRY+FC	FC
Current Period				
High Quality Liquid Assets				
High Quality Liquid Assets			35.804.418	27.963.105
Cash Outflows				
Retail and Small Business Customers, of which;	90.865.240	39.187.873	7.886.051	3.918.787
Stable Deposits	24.009.447	-	1.200.472	-
Less Stable Deposits	66.855.793	39.187.873	6.685.579	3.918.787
Unsecured wholesale funding , of which;	58.627.106	25.246.970	34.022.222	16.262.118
Operational Deposits	-	-	-	-
Non-operational Deposits	54.404.014	23.868.822	30.076.984	14.943.490
Other Unsecured Funding	4.223.092	1.378.148	3.945.238	1.318.628
Secured Funding			-	-
Other cash outflows, of which;	5.112.403	2.980.592	2.396.867	1.593.495
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	136.290	457.547	136.290	457.547
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.976.113	2.523.045	2.260.577	1.135.948
Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	73.340.316	25.914.152	5.642.511	2.081.937
Total Cash Outflows			49.947.651	23.856.337
Cash Inflows				
Secured Receivables	-	-	-	-
Unsecured Receivables	24.167.971	11.218.982	17.088.811	10.103.493
Other Cash Inflows	-	-	-	-
Total Cash Inflows	24.167.971	11.218.982	17.088.811	10.103.493
			Total Adjusted Value	
Total HQLA Stock			35.804.418	27.963.105
Total Net Cash Outflows			32.858.840	13.752.844
Liquidity Coverage Ratio (%)			109,39%	206,38%

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

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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)

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

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

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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
Assets								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	3.350.579	31.407.137	-	70.735	-	-	-	34.828.451
Banks	1.283.263	2.773.846	2.531	5.825	-	579	-	4.066.044
Financial assets at fair value through profit and loss	4.650	168.662	195.987	34.144	16.575	369	1.643	422.030
Money market placements	-	736.337	351.651	-	-	-	-	1.087.988
Financial assets available-for-sale	-	279.418	578.641	2.004.746	5.294.384	9.535.550	71.087	17.763.826
Loans	924.124	12.103.688	14.363.894	55.757.470	86.032.564	25.077.945	4.842	194.264.527
Held-to-maturity investments	125.025	39.912	70.586	1.470.213	8.611.279	10.883.917	-	21.200.932
Other assets ^{(2) (3)}	1.584.438	719.795	421.317	846.871	1.483.811	242.066	7.955.895	13.254.193
Total assets	7.272.079	48.228.795	15.984.607	60.190.004	101.438.613	45.740.426	8.033.467	286.887.991
Liabilities								
Bank deposits	4.800.147	8.161.297	3.576.664	150.447	1.656	-	-	16.690.211
Other deposits	26.498.198	92.397.969	37.797.543	11.436.057	789.132	12.795	5.233	168.936.927
Funds provided from other financial institutions ⁽⁴⁾	4.669	1.157.707	2.981.048	6.012.587	3.497.697	4.409.146	-	18.062.854
Money market balances	-	30.316.608	1.727.997	705.343	6.738	-	-	32.756.686
Bonds issued	-	1.504.173	1.517.958	518.997	7.902.618	-	-	11.443.746
Sundry creditors	24.121	1.645.943	78.634	424.660	1.073.414	2	263.321	3.510.095
Other liabilities ⁽¹⁾	489.381	2.164.417	343.032	1.622.990	311.539	1.991.157	28.564.956	35.487.472
Total liabilities	31.816.516	137.348.114	48.022.876	20.871.081	13.582.794	6.413.100	28.833.510	286.887.991
Liquidity gap	(24.544.437)	(89.119.319)	(32.038.269)	39.318.923	87.855.819	39.327.326	(20.800.043)	-
Net off balance sheet position	-	25.453	(11.535)	655	100.244	-	-	114.817
Derivative financial assets	-	8.242.513	2.048.883	1.479.009	2.811.855	3.516.427	-	18.098.687
Derivative financial liabilities	-	(8.217.060)	(2.060.418)	(1.478.354)	(2.711.611)	(3.516.427)	-	(17.983.870)
Non-cash loans	17.910.258	1.809.365	5.120.225	17.142.686	10.735.526	1.049.947	460.001	54.228.008
Prior period								
Total assets	9.791.206	39.840.301	12.647.647	52.451.368	78.616.894	37.326.837	7.052.014	237.726.267
Total liabilities	30.251.982	106.793.208	30.356.470	27.055.074	14.585.267	3.803.809	24.880.457	237.726.267
Liquidity gap	(20.460.776)	(66.952.907)	(17.708.823)	25.396.294	64.031.627	33.523.028	(17.828.443)	-
Net off balance sheet position	-	(5.187)	(24.071)	991	97.269	-	-	69.002
Derivative financial assets	-	3.005.140	2.850.328	1.034.659	2.313.274	3.448.208	-	12.651.609
Derivative financial liabilities	-	(3.010.327)	(2.874.399)	(1.033.668)	(2.216.005)	(3.448.208)	-	(12.582.607)
Non-cash loans	17.590.609	2.026.427	4.602.870	13.215.750	8.319.123	1.786.226	336.714	47.877.719

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

⁽²⁾ TRY 1.505.895 of non-performing loans is disclosed under the undistributed column in other assets.

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

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

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

VI. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO

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

	Current Period ⁽²⁾	Prior Period ⁽²⁾
Total Assets in The Consolidated Financial Statements Prepared in Accordance with TAS ⁽¹⁾	270.533.226	236.653.599
The difference between Total Assets in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks ⁽¹⁾	(1.145.283)	(1.072.668)
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	17.383.975	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	4.002.443	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	698.678	499.895
The other differences between amount of assets in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk amount of such items	-	-
Total Risk Amount	361.574.872	304.496.860

⁽¹⁾ As of reporting date, in the cause of consolidated financial statements is not published yet, the amounts are represented in the table as of 30 June 2017 and 31 December 2016.

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

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	280.378.037	231.246.177
Assets that are deducted from core capital	(160.817)	(142.844)
Total on balance sheet exposures	280.217.220	231.103.333
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	351.211	426.047
The potential amount of credit risk with derivative financial instruments and credit derivatives	226.614	169.191
The total amount of risk on derivative financial instruments and credit derivatives	577.825	595.238
Investment securities or commodity collateral financing transactions		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	1.137.395	564.162
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	1.137.395	564.162
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	80.341.110	72.734.022
Adjustments for conversion to credit equivalent amounts	(698.678)	(499.895)
The total risk of off-balance sheet items	79.642.432	72.234.127
Capital and Total Exposures		
Tier 1 Capital	24.171.663	20.935.086
Total Exposures	361.574.872	304.496.860
Leverage Ratio		
Leverage Ratio	6,69%	6,88%

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

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

VII. EXPLANATIONS ON CONSOLIDATED BUSINESS SEGMENTATION

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

The Parent Bank is rendering services to a wide range of companies in all sectors, especially to Small and Medium Size Enterprises (SME) as well as 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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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 September 2017 are presented in the table below.

Current Period	Corporate	Commercial	Integrated	Treasury / Investment⁽¹⁾	Other⁽²⁾	Total
OPERATING INCOME / EXPENSES						
Interest income	1.516.716	2.321.141	9.531.064	3.103.170	294.773	16.766.864
<i>Interest on loans</i>	1.514.970	2.320.160	9.341.398	318.687	-	13.495.215
<i>Interest income on marketable securities</i>	-	-	179.242	2.484.737	28.426	2.692.405
<i>Interest received from banks</i>	-	-	1	176.712	3.880	180.593
<i>Other interest income</i>	1.746	981	10.423	123.034	262.467	398.651
Interest expense	1.026.285	489.621	5.696.932	3.266.529	126.320	10.605.687
<i>Interest on deposits</i>	1.025.751	461.978	5.564.370	620.236	-	7.672.335
<i>Interest on borrowings</i>	396	5.056	20.151	251.311	104.809	381.723
<i>Interest on money market borrowings</i>	-	-	46.729	1.811.677	6.799	1.865.205
<i>Interest on marketable bonds issued</i>	-	-	-	582.778	13.974	596.752
<i>Other interest expense⁽²⁾</i>	138	22.587	65.682	527	738	89.672
Net interest income	490.431	1.831.520	3.834.132	(163.359)	168.453	6.161.177
Net fees and commissions income / (expenses)	177.035	357.442	808.436	279.439	(159.747)	1.462.605
Net trading profit / (loss) (Net)	51	3.860	68.580	23.687	17.106	113.284
Dividend income	-	-	-	5.980	322	6.302
Other income	35.902	60.889	243.202	131.166	1.067.066	1.538.225
Loans and other receivables' impairment loss	11.589	345.802	453.469	256.842	-	1.067.702
Other expenses	23.034	51.222	1.337.865	1.982.595	862.677	4.257.393
Income before taxes	668.796	1.856.687	3.163.016	(1.962.524)	230.523	3.956.498
Income tax provision	-	-	-	(744.917)	(65.114)	(810.031)
Net profit for the period	668.796	1.856.687	3.163.016	(2.707.441)	165.409	3.146.467
SEGMENT ASSETS						
Marketable securities	-	-	5.764.792	32.960.303	272.667	38.997.762
Derivative financial assets held for trading	-	-	86.494	302.532	-	389.026
Banks and money market receivables	-	-	459	5.134.750	18.823	5.154.032
Associates and subsidiaries (net)	-	-	-	360.952	-	360.952
Loans	28.023.317	39.732.116	121.236.376	6.778.613	-	195.770.422
Other assets ⁽¹⁾	90.366	461.730	1.832.500	39.768.525	4.062.676	46.215.797
TOTAL ASSETS	28.113.683	40.193.846	128.920.621	85.305.675	4.354.166	286.887.991
SEGMENT LIABILITIES						
Deposits	27.634.078	17.397.435	129.817.577	10.778.048	-	185.627.138
Derivative financial liabilities held for trading	-	-	53.622	135.104	9.050	197.776
Money market balances	-	-	4.364.573	28.286.736	105.377	32.756.686
Borrowing funding loans	3.816	194.306	855.280	14.979.619	2.029.833	18.062.854
Bonds issued	-	-	-	11.253.746	190.000	11.443.746
Other liabilities	310.415	322.653	5.950.238	1.003.857	236.639	7.823.802
Provisions and tax payable	46.527	72.763	219.844	4.127.379	1.839.880	6.306.393
Shareholders' equity	554.580	1.871.018	2.856.597	18.163.232	1.224.169	24.669.596
TOTAL LIABILITIES	28.549.416	19.858.175	144.117.731	88.727.721	5.634.948	286.887.991
OFF BALANCE SHEET ITEMS						
Guarantees and surety ships	13.697.592	13.017.376	15.935.882	11.577.158	-	54.228.008
Commitments	57.784	898.388	12.878.472	13.884.850	31.591	27.751.085
Derivative financial instruments	-	-	6.422.365	29.542.056	118.136	36.082.557

⁽¹⁾ Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank A.D., Skopje transactions are presented under the Treasury / Investment column. In this context net tangible assets amounting to TRY 3.380.594, deferred tax assets amounting to TRY 100.962 is presented under the Other column and deferred tax liabilities amounting to TRY 354.415 is presented under the Treasury / Investment column.

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

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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 September 2016 are presented in the table below.

Prior Period	Corporate	Commercial	SME / Integrated	Treasury / Investment ⁽¹⁾	Other ⁽²⁾	Total
OPERATING INCOME / EXPENSES						
30 September 2016						
Interest income	1.035.668	1.529.727	7.572.021	2.229.420	237.364	12.604.200
<i>Interest on loans</i>	1.035.637	1.529.493	7.476.027	310.912	-	10.352.069
<i>Interest income on marketable securities</i>	-	-	85.901	1.800.716	16.475	1.903.092
<i>Interest received from banks</i>	-	-	2.141	72.706	4.428	79.275
<i>Other interest income</i>	31	234	7.952	45.086	216.461	269.764
Interest expense	588.381	311.173	4.477.336	1.881.161	86.366	7.344.417
<i>Interest on deposits</i>	578.458	299.082	4.392.846	670.069	-	5.940.455
<i>Interest on borrowings</i>	648	4.807	18.150	249.219	83.415	356.239
<i>Interest on money market borrowings</i>	-	-	15.935	561.961	-	577.896
<i>Interest on marketable bonds issued</i>	-	-	-	399.912	2.268	402.180
<i>Other interest expense</i>	9.275	7.284	50.405	-	683	67.647
Net interest income	447.287	1.218.554	3.094.685	348.259	150.998	5.259.783
Net fees and commissions income / (expense)	141.505	148.199	526.897	181.670	(132.549)	865.722
Net trading profit / (loss)	445	4.148	63.536	31.619	16.221	115.969
Dividend income	-	-	-	39.737	113	39.850
Other income	5.419	18.360	201.772	295.333	870.822	1.391.706
Loans and other receivables' impairment loss	81.693	120.419	427.861	561.301	2.086	1.193.360
Other expenses	11.721	47.638	1.270.885	1548.165	808.586	3.686.995
Income before taxes	501.242	1.221.204	2.188.144	(1.212.848)	94.933	2.792.675
Income tax provision	-	-	(2.410)	(610.089)	(9.711)	(622.210)
Net profit for the period	501.242	1.221.204	2.185.734	(1.822.937)	85.222	2.170.465

SEGMENT ASSETS
(31 December 2016)

Marketable securities	-	-	2.524.561	31.134.471	255.928	33.914.960
Derivative financial assets held for trading	-	-	75.054	284.757	-	359.811
Banks and money market receivables	-	-	244.328	2.782.330	10.589	3.037.247
Associates and subsidiaries (net)	-	-	-	333.664	-	333.664
Loans	24.281.411	32.125.832	97.373.009	5.542.907	-	159.323.159
Other assets ⁽¹⁾	81.246	441.908	1.805.746	34.519.527	3.908.999	40.757.426
TOTAL ASSETS	24.362.657	32.567.740	102.022.698	74.597.656	4.175.516	237.726.267

SEGMENT LIABILITIES
(31 December 2016)

Deposits	23.833.195	8.253.723	100.730.184	17.581.775	-	150.398.877
Derivative financial liabilities held for trading	-	-	42.426	169.422	12.745	224.593
Money market balances	-	-	1.373.871	17.648.265	-	19.022.136
Borrowing funding loans	1.445	187.747	830.155	18.562.250	2.007.514	21.589.111
Bonds issued	-	-	-	12.627.411	125.000	12.752.411
Other liabilities	254.825	278.741	5.100.179	1.383.137	133.689	7.150.571
Provisions and tax payable	66.549	57.621	191.543	3.450.920	1.452.415	5.219.048
Shareholders' equity	543.102	1.701.171	3.102.242	15.079.106	943.899	21.369.520
TOTAL LIABILITIES	24.699.116	10.479.003	111.370.600	86.502.286	4.675.262	237.726.267

OFF BALANCE SHEET ITEMS
(31 December 2016)

Guarantees and surety ships	13.605.528	10.831.393	12.513.027	10.927.771	-	47.877.719
Commitments	58.048	855.008	11.050.295	12.545.837	245.172	24.754.360
Derivative financial instruments	-	-	6.427.378	18.507.766	299.072	25.234.216

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

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

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

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

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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)*	177.797.080	166.783.094	14.223.766
2	Standardised approach (SA)	177.797.080	166.783.094	14.223.766
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1.535.436	380.116	122.835
5	Standardised approach for counterparty credit (SA-CCR)	1.535.436	380.116	122.835
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	55.700	-	4.456
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach (RBA)	-	-	-
14	IRB Supervisory Formula Approach (SFA)	-	-	-
15	SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	3.532.725	2.225.538	282.618
17	Standardised approach (SA)	3.532.725	2.225.538	282.618
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	Standard Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity	783.473	715.254	62.678
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	198.428.752	182.822.490	15.874.300

*Amounts below the thresholds for deductions from capital are excluded from credit risk standard approach of RWA amount..

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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 cash and balances with the Central Bank of the Republic of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	980.206	2.250.601	914.278	628.818
CBRT	2.124.792	29.282.537	2.620.111	25.902.219
Other ⁽¹⁾	-	190.315	-	146.540
Total	3.104.998	31.723.453	3.534.389	26.677.577

⁽¹⁾As of 30 September 2017, required reserve deposits kept in Central Bank of Macedonia amounted TRY 75.896 and amounted TRY 114.384 kept in Central Bank of Serbia (31 December 2016: TRY 146.508).

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount ⁽¹⁾	2.026.807	3.770.895	2.563.615	3.345.458
Time unrestricted amount	-	-	-	-
Time restricted amount	1.406	4.847.565	-	5.359.104
Reserve deposits ⁽²⁾	96.579	20.664.077	56.496	17.197.657
Total	2.124.792	29.282.537	2.620.111	25.902.219

⁽¹⁾Reserve deposits kept in CBRT.

⁽²⁾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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SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.	3.209	-	2.532	-
Total	3.209	-	2.532	-

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	9.074	-	-	-
Total	9.074	-	-	-

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	144.815	-	120.227
Swap transactions	-	244.051	-	239.460
Futures transactions	-	-	-	-
Options	1	135	4	120
Other	-	24	-	-
Total	1	389.025	4	359.807

(3) Information on banks and other financial institutions:

Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	12.028	2.751.411	192.757	26.801
Foreign banks	89.190	1.213.415	169.769	1.575.523
Branches and offices abroad	-	-	-	-
Total	101.218	3.964.826	362.526	1.602.324

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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.	10.568.663	460.788	122.648	365.859
Total	10.568.663	460.788	122.648	365.859

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

	Current Period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	-	4.163.574	4.789.610	728.138
Total	-	4.163.574	4.789.610	728.138

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

	Current period	Prior period
Debt securities	17.959.137	15.698.700
<i>Quoted on a stock exchange</i>	17.674.212	15.692.826
<i>Not quoted</i>	284.925	5.874
Share certificates	96.358	343.595
<i>Quoted on a stock exchange</i>	58.061	53.292
<i>Not quoted</i>	38.297	290.303
Impairment provision(-)	291.669	561.076
Total	17.763.826	15.481.219

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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	267.614	-	226.188	-
Total	267.614	-	226.188	-

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

	Standard loans and other receivables ⁽³⁾			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
Cash loans						
Non-specialized loans	156.126.078	3.133.002	-	4.292.357	2.674.598	-
<i>Corporation loans</i>	106.762.088	2.734.043	-	3.739.135	2.540.535	-
<i>Export loans</i>	3.648.051	-	-	1.459	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	1.414.822	-	-	-	-	-
<i>Consumer loans⁽¹⁾</i>	38.039.662	364.694	-	350.240	33.981	-
<i>Credit cards⁽²⁾</i>	3.982.859	34.265	-	140.104	100.082	-
<i>Other</i>	2.278.596	-	-	61.419	-	-
Specialized lending	30.722.022	6.805	-	282.068	292	-
Other receivables	-	-	-	-	-	-
Accruals	2.774.139	47.025	-	67.863	39.759	-
Total	189.622.239	3.186.832	-	4.642.288	2.714.649	-

⁽¹⁾ Includes TRY 209.673 of personnel loans.

⁽²⁾ Includes TRY 57.941 of personnel credit cards.

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

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Number of modifications made to extend payment plan		
Extended by 1 or 2 times	3.102.185	2.568.811
Extended by 3,4 or 5 times	36.331	61.622
Extended by more than 5 times	1.291	44.457

⁽¹⁾ Accruals amounting to TRY 47.025 are not included in the table above.

⁽²⁾ Accruals amounting to TRY 39.759 are not included in the table above.

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Extended period of time		
0-6 Months	536.934	368.415
6 Months - 12 Months	300.270	160.758
1-2 Years	352.138	154.271
2-5 Years	1.291.617	1.092.109
5 Years and over	658.848	899.337

⁽¹⁾ Accruals amounting to TRY 47.025 are not included in the table above.

⁽²⁾ Accruals amounting to TRY 39.759 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	416.517	35.883.511	36.300.028
<i>Real estate loans</i>	12.272	20.371.448	20.383.720
<i>Automobile loans</i>	5.057	250.196	255.253
<i>Consumer loans</i>	399.188	15.261.867	15.661.055
<i>Other</i>	-	-	-
Consumer loans- Indexed to FC	1.364	132.349	133.713
<i>Real estate loans</i>	7	999	1.006
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	1.357	131.350	132.707
<i>Other</i>	-	-	-
Consumer loans- FC	4.680	768.816	773.496
<i>Real estate loans</i>	611	218.057	218.668
<i>Automobile loans</i>	42	3.972	4.014
<i>Consumer loans</i>	3.307	491.078	494.385
<i>Other</i>	720	55.709	56.429
Individual credit cards-TRY	2.926.571	2.536	2.929.107
<i>Installment</i>	1.220.522	-	1.220.522
<i>Non-installment</i>	1.706.049	2.536	1.708.585
Individual credit cards-FC	506	54.063	54.569
<i>Installment</i>	196	54.063	54.259
<i>Non-installment</i>	310	-	310
Personnel loans-TRY	10.056	172.984	183.040
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	10.056	172.984	183.040
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	21	1.818	1.839
<i>Real estate loans</i>	-	7	7
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	21	1.811	1.832
<i>Other</i>	-	-	-
Personnel loans-FC	217	24.577	24.794
<i>Real estate loans</i>	13	13.319	13.332
<i>Automobile loans</i>	2	34	36
<i>Consumer loans</i>	200	11.107	11.307
<i>Other</i>	2	117	119
Personnel credit cards-TRY	56.686	-	56.686
<i>Installment</i>	21.462	-	21.462
<i>Non-installment</i>	35.224	-	35.224
Personnel credit cards-FC	64	1.191	1.255
<i>Installment</i>	2	1.191	1.193
<i>Non-installment</i>	62	-	62
Overdraft accounts-TRY (Retail customer)	929.251	-	929.251
Overdraft accounts-FC (Retail customer)	39.829	3.912	43.741
Total	4.385.762	37.045.757	41.431.519

*Interest income and 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:

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	828.390	23.445.757	24.274.147
<i>Business residential loans</i>	-	642.862	642.862
<i>Automobile loans</i>	6.256	330.744	337.000
<i>Consumer loans</i>	822.134	22.472.151	23.294.285
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	28.683	44.922	73.605
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	28.683	44.922	73.605
Commercial installment loans - FC	374.081	9.736.669	10.110.750
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	13.506	8.664.388	8.677.894
<i>Other</i>	360.575	1.072.281	1.432.856
Corporate credit cards-TRY	1.079.385	-	1.079.385
<i>Installment</i>	422.162	-	422.162
<i>Non-installment</i>	657.223	-	657.223
Corporate credit cards-FC	27	1.934	1.961
<i>Installment</i>	-	1.934	1.934
<i>Non-installment</i>	27	-	27
Overdraft accounts-TRY (Commercial customer)	1.077.977	-	1.077.977
Overdraft accounts-FC (Commercial customer)	9.132	-	9.132
Total	3.397.675	33.229.282	36.626.957

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

e) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	190.189.772	154.670.861
Foreign loans	4.074.755	3.387.174
Total	194.264.527	158.058.035

f) Loans granted to subsidiaries and associates:

None.

g) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	325.955	528.413
Loans and receivables with doubtful collectability	647.235	320.082
Uncollectible loans and receivables	3.642.346	3.206.893
Total	4.615.536	4.055.388

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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:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period	81.907	27.497	1.292.321
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	81.907	27.497	1.292.321
Prior period	68.585	16.658	1.281.781
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	68.585	16.658	1.281.781

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

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Prior period end balance	950.477	467.221	3.902.814
Additions (+)	1.133.459	25.495	96.745
Transfers from other categories of loans under follow-up (+)	-	1.311.653	744.292
Transfers to other categories of loans under follow-up (-)	1.326.570	729.375	-
Collections (-)	143.489	85.071	225.630
Write-offs (-)	-	-	590
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	590
Current period end balance	613.877	989.923	4.517.631
Specific provision (-)	325.955	647.235	3.642.346
Net balance on balance sheet	287.922	342.688	875.285

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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:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
Balance at the end of the period ^(*)	101.130	319.682	1.786.259
Specific provisions(-) ^(*)	48.993	232.595	1.136.144
Net balance in the balance sheet	52.137	87.087	650.115
Prior period			
Balance at the end of the period	240.218	81.699	1.637.222
Specific provisions(-)	146.630	44.779	1.146.049
Net balance in the balance sheet	93.588	36.920	491.173

(*)Foreign currency non-performing loans amounting to TRY 177.888 and their related provisions amounting to TRY 91.346 of the consolidated foreign subsidiaries are recognized under foreign currency accounts and the foreign currency non-performing loans of the Parent Bank's and its domestic subsidiaries are recognized under TRY accounts.

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

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period (Net)			
Loans to granted real persons and legal entities (Gross)	613.033	988.670	4.447.986
Specific provisions (-)	325.111	645.982	3.572.701
Loans to granted real persons and legal entities (Net)	287.922	342.688	875.285
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	844	1.253	69.645
Specific provisions (-)	844	1.253	69.645
Other loans and receivables (Net)	-	-	-
Prior period (Net)			
Loans to granted real persons and legal entities (Gross)	949.476	466.580	3.832.429
Specific provisions (-)	527.412	319.441	3.136.508
Loans to granted real persons and legal entities (Net)	422.064	147.139	695.921
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
Other loans and receivables (Net)	-	-	-

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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	43.740	-	-	-
Treasury Bills	18.484.470	737.048	4.471.171	1.048.201
Total	18.528.210	737.048	4.471.171	1.048.201

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	114.655	1.395.147	5.079.533	933.840
Total	114.655	1.395.147	5.079.533	933.840

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Government bonds	21.032.969	-	18.198.316	-
Treasury bills	124.222	-	112.907	-
Other public sector debt securities	-	-	-	-
Total	21.157.191	-	18.311.223	-

c) Information on held-to-maturity investments:

	Current period		Prior period	
	TRY	FC	TRY	FC
Debt securities	21.200.932	-	18.344.626	-
<i>Quoted on a stock exchange</i>	21.076.710	-	18.231.719	-
<i>Not quoted</i>	124.222	-	112.907	-
Impairment provision (-)	-	-	-	-
Total	21.200.932	-	18.344.626	-

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

	Current period	Prior period
Beginning balance	18.344.626	16.904.877
Foreign currency differences on monetary assets	37.484	404.431
Purchases during the year ⁽¹⁾	4.552.475	3.731.489
Disposals through sales and redemptions	(1.733.653)	(2.696.171)
Impairment provision (-) / Provision Reversal (+)	-	-
Balance at the of the period	21.200.932	18.344.626

⁽¹⁾ Interest income accrual difference between 30 September 2017 amounting to TRY 2.572.208 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 ⁽¹⁾	İstanbul	18,18	18,18
2. Bankalararası Kart Merkezi AŞ ⁽²⁾	İstanbul	18,95	18,95

Information related to the associates as sorted above:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1	243.705	153.651	149.688	4.164	-	31.738	14.496	-
2	80.677	46.880	47.651	1.044	-	6.983	14.517	-

⁽¹⁾ The financial data is obtained from 30 September 2017 unreviewed financial statements.

⁽²⁾ The financial data is obtained from 30 September 2017 reviewed financial statements.

c) Information on consolidated associates:⁽¹⁾

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. 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 ⁽²⁾
1.	7.780.208	991.892	14.022	174.648	6.041	52.706	41.055	280.604
2.	47.941	47.430	96	2.114	-	237	254	-
3.	26.356	5.365	498	304	-	819	(104)	-

⁽¹⁾ The information is presented from financial statements subject to consolidation as 30 September 2017.

⁽²⁾ The financial information about the fair value of Demir-Halk Bank N.V. has been obtained from its valuation report as of 30 September 2017.

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

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

d) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	292.421	264.031
Movements during the period	27.288	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>	27.288	28.390
<i>Provision for impairment (-) / reversals (+)</i>	-	-
Balance at the end of the period	319.709	292.421
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

e) Sectoral information and related carrying amounts of associates:

	Current period	Prior period
Banks	297.568	270.028
Insurance companies	894	1.221
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	14.927	14.852
Other non-financial investments	6.320	6.320

f) Associates quoted to a stock exchange:

None.

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

(8) Information on consolidated subsidiaries (Net):

a) Information on consolidated subsidiaries:⁽¹⁾

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Banka A.D., Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd
CORE CAPITAL									
Paid in Capital	82.000	187.000	412.000	820.000	272.250	11.000	147.843	70.000	53.667
Effect of inflation adjustments on paid in capital	-	-	-	-	-	-	-	-	-
Share Premiums	-	98	-	49.945	-	-	11.633	-	44.552
Reserves	12.762	20.701	63.369	65.172	9.221	8.259	140.049	4.079	89.734
Other Comprehensive Income according to TAS	2.097	(796)	(10.201)	1.481	(95)	(35)	371	(10)	8.278
Profit / Loss	18.716	(132.487)	185.508	33.665	94.450	6.853	24.663	23.005	8.777
<i>Net Profit</i>	<i>18.716</i>	<i>21.254</i>	<i>168.275</i>	<i>33.665</i>	<i>61.246</i>	<i>6.368</i>	<i>24.663</i>	<i>23.005</i>	<i>8.777</i>
<i>Prior Period Profit/Loss</i>	-	<i>(153.741)</i>	<i>17.233</i>	-	<i>33.204</i>	<i>485</i>	-	-	-
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	84	-	-	-	6.466	201	2.287
Intangible Assets (-)	799	3.246	1327	159	822	10	3.373	381	2.187
Total Core Capital	115.526	71.270	649.265	970.104	375.004	26.067	314.720	96.492	200.534
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	22.864	-	4.840
CAPITAL	115.526	71.270	649.265	970.104	375.004	26.067	337.584	96.492	205.374
NET AVAILABLE CAPITAL	115.526	71.270	649.265	970.104	375.004	26.067	337.584	96.492	205.374

⁽¹⁾ The information is presented from financial statements subject to consolidation as 30 September 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 ⁽²⁾
1. Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ ⁽¹⁾	Istanbul	100,00	100,00								
1.				44.601	30.870	6.193	782	1.370	6.679	2.205	41.243

⁽¹⁾ The financial information of Bileşim Alternatif Dağıtım. Kanalları ve Ödeme Sistemleri AŞ is obtained from 30 September 2017 financial statements.

⁽²⁾ 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 ⁽²⁾
1. Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96	99,96								
2. Halk Sigorta AŞ ⁽⁴⁾	Istanbul	89,18	94,29								
3. Halk Hayat ve Emeklilik AŞ	Istanbul	100,00	100,00								
4. Halk Gayrimenkul Yatırım Ortaklığı AŞ ⁽³⁾	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 A.D., Skopje	Macedonia	99,03	99,03								
8. Halk Faktoring AŞ	Istanbul	97,50	100,00								
9. Halk Banka A.D. Beograd	Serbia	89,99	89,99								

e) Information related to the subsidiaries as sorted above⁽¹⁾:

Description	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value ⁽²⁾
1.	1.857.534	115.526	2.112	70.160	915	18.716	10.982	133.414
2.	1.611.037	71.270	4.926	90.128	12.978	21.254	(43.643)	368.089
3.	1.156.754	649.265	2.421	92.885	21.300	168.275	114.933	920.493
4.	1.251.953	970.104	544.984	4.886	-	33.665	29.829	584.274
5.	2.923.978	375.004	1.257	140.851	-	61.246	38.836	415.786
6.	27.641	26.067	286	2.224	10	6.368	5.410	22.634
7.	2.574.013	337.584	55.087	83.335	9.825	24.663	17.444	306.236
8.	1.022.062	96.492	1.072	121.680	-	23.005	17.796	95.558
9.	1.319.369	205.374	29.462	39.995	4.722	8.777	9.389	108.450

⁽¹⁾ The financial information is obtained from 30 September 2017 financial statements used in consolidation.

⁽²⁾ Halk Gayrimenkul Yatırım Ortaklığı A.Ş is valued at stock price.

⁽³⁾ 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.

⁽⁴⁾ 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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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)

f) Movement of the subsidiaries:

	Current period	Prior period
Balance at the beginning of the period(before elimination)	2.877.824	2.685.934
Movements during the period	118.354	191.890
<i>Purchases⁽¹⁾</i>	6.238	38.158
<i>Bonus shares obtained profit from current year's share</i>	224.951	171.560
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfer</i>	-	-
<i>Revaluation increase</i>	(203.362)	(16.043)
<i>Reversals / Provisions(-) for impairment</i>	45.264	(51.165)
<i>Currency Differences on Valuation of Foreign Subsidiaries</i>	45.263	49.380
Share capital elimination of subsidiaries	(2.954.935)	(2.836.581)
Balance at the end of the period	41.243	41.243
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾ As of 30 September 2017, The Parent Bank paid TRY 6.238 for 7,52% shares of Halkbank A.D. Beograd, which is located in Serbia, and increased its shares to 89,99%.

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

	Current period	Prior period
Banks	414.686	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	740.323	673.470
Other non-financial subsidiaries	41.243	41.243

h) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock ^{(1) (2)}	952.363	885.510
Quoted to foreign stock exchange	-	-

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

⁽²⁾ Halk Gayrimenkul Yatırım Ortaklığı AŞ has been public offering on 22 February 2013 and its shares are traded on the 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	997.374	843.064	815.231	688.075
Between 1-4 years	1.685.011	1.399.393	1.426.002	1.220.074
More than 4 years	426.265	362.980	476.994	403.181
Total	3.108.650	2.605.437	2.718.227	2.311.330

b) Information on gross investments of financial lease:

	Current period	Prior period
Gross financial lease investment	3.108.650	2.718.227
Unearned revenues from financial lease	(503.213)	(406.897)
Total	2.605.437	2.311.330

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

	Current period	Prior period
Financial lease receivables with limited collectability	15.650	32.055
Financial lease receivables with doubtful collectability	21.662	5.418
Uncollectible financial lease receivables	262.378	249.256
Specific provisions	(212.085)	(214.397)
Total	87.605	72.332

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

None.

(12) Information on tangible assets:

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

(13) Information on intangible assets:

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

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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:

	Current Period	Prior Period
Cost		
Opening Balance	934.058	550.093
Acquisitions	31.083	7.118
Transfers	(407)	377.348
Disposals(-)	-	-
Impairment Charge / Cancellation(-)	-	501
Ending Balance	964.734	934.058
Accumulated Depreciation		
Opening Balance	69.942	64.499
Amortization Charge (-)	4.017	4.723
Disposals	-	-
Impairment Charge/Cancellation (-)	109	105
Transfers	(407)	615
Ending Balance	73.443	69.942
Net Book Value	891.291	864.116

As of December 2015 The Parent Bank's former headquarters building in Ankara that had been evacuated depending upon the personnel moving to Istanbul; has been leased and classified as investment an 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 September 2017, the Group has TRY 1.905 current tax asset. (31 December 2016: None).

b) Deferred tax assets:

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

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

	Current period	Prior period
Cost	3.977	3.984
Accumulated Depreciation (-)	(2.447)	(2.447)
Net Book Value	1.530	1.537
Opening Balance	1.537	2.694
Acquisitions (Transfers) (Net)	-	(547)
Disposals (-) (Net)	7	811
Revaluation Increase	-	154
Impairment Charge / Cancellation(-)	-	-
Amortization Charge (-)	-	47
Net Book Value	1.530	1.537

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 3.276.766 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:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.841.486	-	729.725	36.881.244	1.591.724	529.503	538.667	101.863	47.214.212
Foreign currency deposits	9.465.090	-	4.135.028	40.192.476	7.530.715	2.993.255	4.482.817	10.271	68.809.652
<i>Residents in Turkey</i>	6.754.326	-	3.756.762	39.123.158	7.176.980	2.238.876	2.472.409	9.937	61.532.448
<i>Residents abroad</i>	2.710.764	-	378.266	1.069.318	353.735	754.379	2.010.408	334	7.277.204
Public sector deposits	2.605.651	-	1.795.846	3.752.564	615.110	3.617.829	53.912	-	12.440.912
Commercial inst. deposits	5.255.230	-	2.879.403	16.856.637	2.414.282	3.344.226	179.605	-	30.929.383
Other inst. deposits	646.487	-	103.027	5.495.158	982.805	544.667	86.370	-	7.858.514
Precious metals	1.684.254	-	-	-	-	-	-	-	1.684.254
Interbank deposits	4.800.147	-	2.073.091	9.517.484	-	23.706	275.783	-	16.690.211
<i>CBRT</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	41.358	-	1.151.062	5.834.397	-	11.077	2.178	-	7.040.072
<i>Foreign banks</i>	4.747.753	-	746.615	3.612.609	-	12.629	273.605	-	9.393.211
<i>Participation banks</i>	11.036	-	175.414	70.478	-	-	-	-	256.928
Total	31.298.345	-	11.716.120	112.695.563	13.134.636	11.053.186	5.617.154	112.134	185.627.138

a.2. Prior period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.158.114	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.720
Foreign currency deposits	6.954.391	-	3.245.776	28.684.887	4.915.876	1.531.229	4.036.778	11.016	49.379.953
<i>Residents in Turkey</i>	4.938.313	-	3.020.417	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.894.245
<i>Residents abroad</i>	2.016.078	-	225.359	700.680	331.367	506.513	1.705.304	407	5.485.708
Public sector deposits	2.184.382	-	2.417.784	1.764.160	260.540	2.976.331	87.204	-	9.690.401
Commercial inst. Deposits	4.294.379	-	4.224.273	13.055.676	1.872.533	562.730	39.505	-	24.049.096
Other inst. Deposits	586.039	-	819.701	885.372	52.798	89.853	880	-	2.434.643
Precious metals	1.392.853	-	-	-	-	-	-	-	1.392.853
Interbank deposits	7.867.130	-	3.190.685	10.801.903	238.410	32.863	729.220	-	22.860.211
<i>CBRT</i>	9	-	-	-	-	-	-	-	9
<i>Domestic banks</i>	39.076	-	1.091.898	3.908.323	-	8.227	4.167	-	5.051.691
<i>Foreign banks</i>	7.099.283	-	1.928.707	6.893.580	238.410	24.636	725.053	-	16.909.669
<i>Participation banks</i>	728.762	-	170.080	-	-	-	-	-	898.842
Total	29.437.288	-	14.479.462	86.959.113	8.417.061	5.554.626	5.435.506	115.821	150.398.877

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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 (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	24.548.351	23.535.650	22.533.602	16.938.565
Foreign currency saving deposits	9.017.825	7.502.986	20.398.503	14.742.676
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	198.890	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	294.334	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	4.042	3.070
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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SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	-	90.924	-	137.422
Swap transactions	-	106.604	-	86.857
Future transactions	-	-	-	-
Options	11	237	59	255
Other	-	-	-	-
Total	11	197.765	59	224.534

(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from CBRT	-	-	-	-
Domestic banks and institutions	832.755	2.150.395	843.368	2.503.564
Foreign banks, institutions and funds	373.479	14.706.255	328.396	17.913.783
Total	1.206.234	16.856.620	1.171.764	20.417.347

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	1.018.708	5.405.800	968.495	4.927.580
Medium and long-term	187.526	11.450.820	203.269	15.489.767
Total	1.206.234	16.856.620	1.171.764	20.417.347

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

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

Main liability of the Group is deposit, which is composed of 25,43% of saving deposits and 37,07% 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 69,92% of banks deposits and 41,73% of other deposits consist of foreign currency deposits.

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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 (continued)

- (4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	3.467.815	-	2.067.703	-
Bonds	-	7.975.931	-	10.684.708
Total	3.467.815	7.975.931	2.067.703	10.684.708

- (5) Explanations to the funds:

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

- a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	1.199	2.463.207	37.539	2.302.269

- (6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 1.844.564 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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SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	Current period	Prior period
General provision	2.250.242	2.049.136
Provisions for first group loans and receivables	2.020.576	1.834.503
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for second group loans and receivables	94.225	93.459
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for non-cash loans	135.441	121.174
Other	-	-

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

As of 30 September 2017 the Parent Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 7.531 (31 December 2016: TRY 23).

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

As of 30 September 2017, the Group's specific provision for unindemnified non-cash loans balance is TRY 113.943 (31 December 2016: TRY 139.551).

d) Information on other provisions:

Total other provision balance amounting to TRY 391.102 (31 December 2016: TRY 392.356) consists of TRY 113.943 (31 December 2016: TRY 139.551) for specific provisions for unindemnified non-cash loans, TRY 134.219 (31 December 2016: TRY 94.679) for legal cases filed against the Group, TRY 142.940 (31 December 2016: TRY 158.126) of other provisions.

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SECTION V: EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED
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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):

	Current period	Prior period
Life-Mathematical Provisions	325.050	255.917
Provisions for unearned premium claims	540.596	427.120
Provision for outstanding claims	906.069	696.078
Provisions for unexpired risk reserves	9.759	20.865
Other	119	168
Total	1.781.593	1.400.148

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 30 September 2017, the Group’s corporate tax payable is amounting to TRY 196.652 and accounted for under corporate tax provision at the related date.

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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 (continued)

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

a) Information on current tax liability (continued):

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	196.652	64.824
Income on securities tax	393.823	157.179
Property income tax	1.456	1.402
Banking and insurance transactions tax (BITT)	80.950	92.058
Foreign exchange transactions tax	18	48
Value added tax payable	1.143	3.797
Other	31.090	15.271
Total	705.132	334.579

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	1.057	768
Social insurance premiums-employer	2.397	1.419
Bank social aid pension fund premium-employee	10.941	7.621
Bank social aid pension fund premium-employer	15.199	10.452
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	73	48
Unemployment insurance-employer	233	132
Other	2.715	1.956
Total	32.615	22.396

b) Explanations regarding deferred tax liability:

	Current period	Prior period
Deferred Tax Asset / (Liability)		
Provisions ⁽¹⁾	298.113	277.574
Revaluation of Financial Assets	(447.985)	(375.878)
Other	(103.581)	(91.145)
Net Deferred Tax Asset / (Liability):	(253.453)	(189.449)
Deferred tax accounted in shareholders' equity	11.150	(1.535)
Fair value differences for available for sale financial assets	77.089	65.830
Actuarial gains and losses	390	241
Property Revaluation	(66.329)	(67.606)

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

As of 30 September 2017 net deferred tax liability represents TRY 253.453 deferred tax liability (31 December 2016: TRY 189.449), it consists of deferred tax assets which amount to TRY 100.962 (31 December 2016: TRY 99.525) and deferred tax liabilities amount to TRY 354.415 (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)	8.369	5.471	10.869	39
Revaluation difference	8.369	5.471	10.869	39
Exchange rate difference	-	-	-	-
Available for sale financial assets	(280.874)	(179.696)	(302.092)	(427.744)
Revaluation difference	(280.874)	(179.696)	(302.092)	(427.744)
Exchange rate difference	-	-	-	-
Total	(272.505)	(174.225)	(291.223)	(427.705)

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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:

Types of irrevocable commitments	Current period	Prior period
Commitments for credit card expenditure limits	11.420.643	10.824.073
Payment commitments for cheques	6.330.886	5.805.008
Loan granting commitments	4.394.120	3.580.800
Two days forward foreign exchange buy/sell transactions	1.137.613	417.450
Commitments for credit cards and banking services promotions	36.972	44.328
Tax and fund liabilities from export commitments	34.149	28.864
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	3.600.656	3.462.296
Total	26.955.039	24.162.819

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

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

	Current period	Prior period
Letters of credit	4.372.024	4.019.100
Bank acceptance loans	2.612.181	2.825.466
Other guarantees	1.089.247	914.248
Total	8.073.452	7.758.814

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

	Current period	Prior period
Letters of certain guarantees	15.050.739	14.917.475
Letters of advance guarantees	3.380.323	3.501.034
Letters of tentative guarantees	863.078	512.981
Letters of guarantee given to customs offices	914.640	887.159
Other letters of guarantee	25.945.776	20.300.256
Total	46.154.556	40.118.905

b.3. Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	2.845.069	2.256.883
<i>Within one year or less original maturity</i>	601.075	414.973
<i>Within more than one year maturity</i>	2.243.994	1.841.910
Other non-cash loans	51.382.939	45.620.836
Total	54.228.008	47.877.719

c) Explanations related to contingencies and commitments:

Bank's commitments due to cheques given to client is TRY 6.330.886 (31 December 2016: 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
Interest on loans⁽¹⁾				
Short term loans	3.186.907	162.174	2.784.971	141.179
Medium and long term loans	7.808.591	2.285.527	5.822.673	1.552.686
Interest on non-performing loans	49.672	2.344	48.638	1.922
Premiums from resource utilization support fund	-	-	-	-
Total	11.045.170	2.450.045	8.656.282	1.695.787

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

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
CBRT	63.094	56.821	48.102	7.127
Domestic banks	37.192	4.871	19.954	376
Overseas banks	6.856	11.759	2.103	1.613
Head office and branches	-	-	-	-
Total	107.142	73.451	70.159	9.116

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial assets held for trading	2.191	-	5.108	647
Financial assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	929.012	210.098	610.561	162.654
Held-to-maturity investments	1.447.313	103.791	1.038.425	85.697
Total	2.378.516	313.889	1.654.094	248.998

d) Interest income from associates:

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 (continued)

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	93.487	277.759	88.399	256.006
<i>CBRT</i>	-	-	-	-
<i>Domestic banks</i>	67.639	25.642	46.874	16.400
<i>Overseas banks</i>	25.848	252.117	41.525	239.606
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	9	10.468	11	11.823
Total	93.496	288.227	88.410	267.829

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	2.908	2.179

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	237.652	359.100	126.111	276.069
Total	237.652	359.100	126.111	276.069

d) Maturity structure of interest expenses on deposits:

Account name	Time deposits							Cumulative deposit	Total
	Demand deposits	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 Year	More than 1 year			
Turkish Lira									
Bank deposits	248	275.840	229.075	684	512	-	-	506.359	
Saving deposits	5	43.761	2.787.246	105.419	31.446	33.708	6.553	3.008.138	
Public deposits	71	129.664	206.887	55.439	277.171	2.981	-	672.213	
Commercial deposits	25	272.188	1.245.883	229.819	153.170	10.234	-	1.911.319	
Other deposits	-	42.006	185.157	56.335	25.500	6.345	-	315.343	
7 days call accounts	-	-	-	-	-	-	-	-	
Total	349	763.459	4.654.248	447.696	487.799	53.268	6.553	6.413.372	
Foreign currency									
Deposits	356	50.855	817.034	169.962	36.005	55.728	270	1.130.210	
Bank deposits	4	128.128	142	304	28	138	9	128.753	
7 days call accounts	-	-	-	-	-	-	-	-	
Precious metal	-	-	-	-	-	-	-	-	
Total	360	178.983	817.176	170.266	36.033	55.866	279	1.258.963	
Grand total	709	942.442	5.471.424	617.962	523.832	109.134	6.832	7.672.335	

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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)

(3) Explanations 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) Explanations on trading profit/loss (Net):

	Current period	Prior period
Profit	38.752.008	10.120.522
Profit from the capital market operations	33.824	17.626
Profit on derivative financial instruments	1.161.930	980.052
Foreign exchange gains	37.556.254	9.122.844
Loss (-)	38.638.724	10.004.553
Loss from the capital market operations	3.465	735
Loss on derivative financial instruments	1.506.893	1.341.134
Foreign exchange losses	37.128.366	8.662.684

(5) Explanations on other operating income:

	Current period	Prior period
Adjustments for prior period expenses	303.274	302.076
Insurance technical income	1.049.387	785.461
Income from the asset sale on credit terms	74.811	118.557
Rent income	36.166	37.399
Other income	59.028	134.401
Total	1.522.666	1.377.894

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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:

	Current period	Prior period
Specific provisions on loans and receivables	792.741	612.575
<i>Group - III loans and receivables</i>	337.955	376.849
<i>Group - IV loans and receivables</i>	376.164	144.474
<i>Group - V loans and receivables</i>	78.622	91.252
General loan provision expenses	198.119	533.139
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	76.842	47.646
Total	1.067.702	1.193.360

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	1.546.405	1.383.874
Reserve for employee termination benefits	92.370	91.268
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	-	-
Depreciation expenses of fixed assets	83.724	88.617
Intangible assets impairment expense	-	-
Goodwill Impairment	-	-
Amortization expenses of intangible assets	34.134	25.062
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	737	1.623
Amortization expenses of assets that will be disposed of	11.261	4.855
Impairment expense for property and equipment held for sale	-	-
Other operating expenses	1.277.635	924.349
<i>Operational leasing expenses</i>	177.613	162.685
<i>Maintenance expenses</i>	34.648	21.481
<i>Advertisement expenses</i>	143.382	83.109
<i>Other expenses</i>	921.992	657.074
Loss on sales of assets	302	1.074
Other	1.210.825	1.166.273
Total	4.257.393	3.686.995

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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 September 2017, the Group’s tax provision amounting to TRY 810.031 (30 September 2016: TRY 622.210) consists of TRY 758.712 (30 September 2016: TRY 622.797) of current tax charge and TRY 51.319 (30 September 2016: TRY 587) of deferred tax income) of deferred tax charge.

- (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:

	Current Period	Prior Period
Profit/Loss from Minorities	9.285	5.506

- 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 loan transaction related to the risk group of the Parent Bank.

Prior period:

There is no loan transaction related to the risk group of the Parent Bank.

b) Information on deposits held by the Parent Bank's risk group:

Risk group of the Parent Bank	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Parent Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Deposits						
Beginning balance	8.771	5.823	-	-	-	-
Closing Balance	5.047	8.771	-	-	-	-
Interest expense on deposits	795	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	5.047	0,003%
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 N.V., 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 17.980 as of 30 September 2017 (30 September 2016: TRY 16.780).

VI. EXPLANATIONS AND NOTES RELATED TO THE SUBSEQUENT EVENTS

Established with TRY 100.000 (full TRY) capital as a subsidiary of the Parent Bank, Halk Varlık Kiralama A.Ş. has been registered to the Turkish Trade Registry on 3 October 2017. Works for incorporation of the Company have been completed.

Within the TRY 3 billion issue limit for the domestic sales of Tier 2 debt securities to qualified investors which was approved by the Capital Markets Board of Turkey on 29 September 2017 and numbered 34/1176, the sale of the Tier 2 notes (subordinated notes), with a maturity of 10 years (3.654 days), nominal value of TRY 1 billion (full TRY) and early redemption option after 5 years from issue date has been completed by the Parent Bank. The settlement of the debt securities is realized on 20 October 2017.

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SECTION VI: LIMITED REVIEW REPORT

I. EXPLANATIONS ON LIMITED REVIEW REPORT

The Group's consolidated financial statements and footnotes as at 30 September 2017, 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 November 2017 is presented in front of the consolidated financial statements.

II. EXPLANATION AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

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SECTION VII: 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

This year's agenda of the global economy is quite full with multiple topics. It is not only in the economy, but also considerable activity in the political and social spheres. The ongoing Catalan crisis in Spain directly affects the regional economy, while there is no change in the monetary policies of the Eurozone. On the U.K. front, the continued uncertainty over Brexit is putting significant pressure on investments in this region.

On the other hand, anticipated interest rate hikes have intensified on the Federal Reserve front as it prepares to shrink the size of its balance sheet in the last quarter. This situation, similar to the first quarter of the year, indicates a rise in the U.S. dollar exchange rate in the final quarter. Given that the Chinese economy has increased its real growth rate year-on-year in the second quarter, we expect an upward revision in its global growth forecast.

Developing countries have to manage the pressure created by new tensions in international relations as well as this busy agenda. The United Nations Security Council sanctions against North Korea, which continues its nuclear program and ballistic missile tests despite all warnings, has a negative impact on the global risk appetite. The economic policies planned to be adopted by the Trump administration coinciding with the Fed's approach will make it more difficult for banks vis-à-vis their terms of funding as well as their allocation of global liquidity.

The Turkish economy and banking sector are already well primed for these developments. As a result of our strong management approach, the planned recovery we have achieved during the year is gaining momentum in the sense of economic growth. Despite the unstable picture in the global markets, the first three quarters of the year have been quite productive thanks to the fiscal measures taken in our country together with the rise in investment loans, and all indicators are moving in a positive direction. The 7-percent growth estimate for the third quarter indicate that we are moving closer to the growth targets we set for year-end.

The Medium Term Program (MTP) declared during the process is set to carry us through to our 2023 targets and will be the guide for the public and private sectors. Our economic targets, which have been set until 2020 in the MTP, including unemployment declining to 9.6 percent, inflation rate of 5 percent, current account deficit to GDP ratio receding to 3.9 percent and a per capita income of \$13,000 will from hereon in be the guiding principles for our work. In line with these common targets, our bank will continue to fulfill its responsibilities towards SMEs, artisans, and exporters in its mission of providing them the biggest support in their access to financing.

The Credit Guarantee Fund (CGF) support we provide – easy access to finance for SMEs – has been a significant contribution to our country's 2017 performance. Our bank is one of the co-founding partners of the CGF, which supports our steady growth chart by removing such barriers to finance faced by SMEs as collateral requirements. We will continue to diversify the loans we provide as one of the main supporters of Productive Turkey, and to continue our uninterrupted support of the economy.

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SECTION VII: INTERIM ACTIVITY REPORT (continued)

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,

Whatever the circumstances, Halkbank will continue to move forward the bank itself and the sector, provide the best services to our customers, and strive to work for a powerful Turkey. Our main motivation in this process is to make Halkbank an international brand and to become an underwriter of our country's economic gains on its way to being a leading global competitor with its ever-active industry. We will grow for Turkey on the shoulders of our investors who believe in us for our modern, technology-oriented, youthful, and dynamic banking approach that is in synch with the spirit of the times. We thank you, our valuable stakeholders, for being with us in this process.

Best Regards,

R. Süleyman ÖZDİL
Chairman

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SECTION VII: INTERIM ACTIVITY REPORT (continued)

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

Assessment of General Manager ⁽¹⁾

In the global economy, where growth forecasts made at the beginning of the year are revised upwards in the third quarter, short-term risks stemming from tensions in international relations seem to have been overcome for now. On the other hand, the problem of low inflation in developed economies, particularly in the U.S., and changes in monetary policies are ongoing. The growing expectations of the Fed reducing the size of its balance sheet are also adding to the uncertainties experienced by market players.

The Turkish banking sector, which is closely following this process, is aware of the need to be cautious about liquidity. While our sector uses its financial resources most efficiently, it demonstrates at every turn that it has the knowledge and power to manage the demand for loans.

The stable environment of which the banking sector has been a major contributor also shows that the wheels of our economy are turning harmoniously. Increasing investment in the Turkish economy, coupled with the carrying of the performance of the first two quarters into the second half of the year, demonstrates the confidence of the real sector in our economy. The leap in the industrial production index is a reflection of this situation. The most rapid growth observed since the beginning of 2011 took place in this period, as the impact on the economy of last year's coup attempt was totally eliminated in just one year.

Turkey is on its way to becoming one of the leading countries in exports. As the biggest supporter of companies involved in production, exports, and providing employment, Halkbank also plays an important role in the success of our country with its lending policies. With the loans we grant with favorable terms, Halkbank is the first name that comes to mind in the field of SME banking today. The performance we have shown in the loans guaranteed by the Credit Guarantee Fund is particularly noteworthy at this stage. As of the end of September, we are proud to be the number one bank among all banks offering CGF-guaranteed loans.

We continue our pioneering work in the field of Artisans Banking and continue to offer loan options starting from zero interest and provide terms suitable for all types of needs. Finally, the Treasury interest-subsidized working capital loans offered by our bank to tradesmen and artisans have been increased to an upper limit of 200.000 Turkish lira. Furthermore, Treasury interest-subsidized loans with 500.000 Turkish lira limit have been put into effect to help our artisans purchase their own places of business and vehicles related to their activities.

By adding a new service to the banking services we have developed for retail depositors, we have launched a campaign called "Halkbank'tan Altın Günler" (Golden Days from Halkbank)." With this new service, we help our customers to convert into investment their "under-the-pillow" gold and jewelry, while enabling them to buy and sell their savings securely without having to worry about depreciation in value, storage, and theft.

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SECTION VII: INTERIM ACTIVITY REPORT (continued)

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)

Our total loans, including our cash and non-cash loans, increased by 20,4 percent at the end of September 2017 to reach 248,2 billion Turkish lira compared to the end of 2016. The volume of commercial loans, which include our bank's SME loans, also increased by 21,4 percent to 153,5 billion Turkish lira in this period. In the same period, our artisan loans amounted to 22,3 billion Turkish lira. By focusing on customer satisfaction and developing customized services in every field of banking, our bank also continued its retail banking activities successfully. By the end of September, our retail loans reached 40,7 billion Turkish lira, and the number of Paraf credit card holders reached 4 million. In the same time frame, our POS installations increased to 330.000, while member businesses increased to 322.000. Halkbank's balance sheet size increased by 20,9 percent to 279,7 billion Turkish lira, its shareholders' equity rose by 13,9 percent, and its net profit reached 3 billion Turkish lira by the end of September 2017 compared to 2016 year-end.

We became one of the companies that managed to secure a place in the Emerging Markets Index (FTSE4Good Russell) calculated by FTSE, an independent organization jointly owned by the Financial Times and the London Stock Exchange, in December 2016, in a period in which we marked a new financial success with every passing day. Our performance under environmental, social, and corporate governance criteria helped us rank in this index. We are delighted to find a place for our bank in this index that measures performance regarding in such topics as environmental and social performance, sustainable finance, corporate governance, ethical principles, risk management, combating climate change, human and employee rights.

Esteemed Stakeholders,

We are a very powerful country in terms of the characteristics we possess among developing countries. We will achieve even greater success with our energy and hard work. In this process, Halkbank will also continue to provide support to arts, sports, education, and environmental activities as well as to our young people, in order to meet the social expectations and requirements while contributing to our country's economy.

Best regards,
Osman Arslan
General Manager

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

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SECTION VII: INTERIM ACTIVITY REPORT (continued)

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

Major Consolidated Financial Information

Summary Balance			
Sheet (Million TRY)	September 2017	December 2016	Change (%)
Total Assets	286.888	237.726	20,7
Loans	195.770	159.323	22,9
<i>TRY</i>	134.708	103.252	30,5
<i>FC</i>	61.063	56.071	8,9
Marketable Securities	38.998	33.915	15,0
Deposit	185.627	150.399	23,4
<i>TRY</i>	103.464	86.549	19,5
<i>FC</i>	82.163	63.850	28,7
Total Equity	64.728	55.703	16,2

Summary Income Statement (Million TRY)			
	September 2017	September 2016	Change (%)
Interest Income	16.767	12.604	33,0
<i>On Loan</i>	13.495	10.352	30,4
<i>On Securities</i>	2.692	1.903	41,5
Interest Expense	10.606	7.344	44,4
<i>On Deposit</i>	7.672	5.940	29,2
Net Interest Income	6.161	5.260	17,1
Net Fee and Commission	1.463	866	68,9
Operating Income	9.266	7.659	21,0
Profit Before Tax	3.956	2.793	41,7
Net Profit	3.146	2.170	45,0

Ratio (%)	September 2017	December 2016
Interst Bearing Assets /Total Assets	83,13	82,11
Cash Loans/Total Asset	68,24	67,02
Non-Performing Loans/Total Cash Loans (Gross)	3,05	3,26
Demand Deposit/Total Deposit	16,33	19,21
Loan/Deposit Ratio	105,46	105,93
Average Return on Asset (ROA)	1,60	1,18
Average Return on Equity (ROE)	18,27	12,53
Capital Adequacy Ratio	13,36	12,50

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SECTION VII: INTERIM ACTIVITY REPORT (continued)

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

2017 Third quarter Interim Developments

Important Developments

Our Bank has issued bonds with a par value of 1,703,500,000 Turkish lira in total to qualified investors on July 11, 2017, July 13, 2017, July 18, 2017, July 26, 2017, August 1, 2017, August 3, 2017, August 14, 2017, August 24, 2017, and September 21, 2017.

Additionally, after the book building that took place on August 7-9, 2017, bonds were issued at a total nominal value of 750 million Turkish lira with a term of 175 days. The total subscription from the public offering amounted to a par value of 854,292,123 Turkish lira. At the end of the book building, domestic retail investors were allocated bonds with a total nominal value of 704,824,000 Turkish lira, and institutional investors were allocated a nominal value of 45,176,000 Turkish lira. The simple and compound interest rates for the bonds were 12.25 and 12.64 percent, respectively. Accordingly, the sale price of a bank bond with a par value of 1 Turkish lira was determined to be 0.94453 Turkish lira.

New Products and Campaigns

- Our bank launched a campaign called "Golden Days from Halkbank" to increase gold deposits of Halkbank and to sign new customers as well as channel the "under-the-pillow" gold stock into the economy.
- To meet the cash needs of our customers before Eid al-Adha, we launched the "Bayram Ettiren Kredi" (Festive Loan) campaign.
- In order to expand the number of transactions and the number of credit card holders, we organized a new campaign for our new credit card applicants.
- The "Paraf Debit" product was developed to keep customers loyal at a time when technological solutions and products have become abundant in the market, and to make our bank and our products indispensable.

Social Responsibility Projects

- Our bank continues to support as a solution partner the Common Mind Meetings with the collaboration of the Turkish Exporters' Assembly and Turkishtime Magazine in 10 different sectors.
- Our bank has supported cultural and art activities by sponsoring the Sixth International Clarinet Festival.
- Our Bank purchased wheelchairs in support of the social responsibility project implemented by the Ministry of Family and Social Policies for citizens with disabilities.
- Our bank contributed to the Ahi (Brotherhood) Week organized to ensure the survival of the culture of Ahi brotherhood or guild tradition and its passing on to future generations.
- Our bank made donations to the Turkish Red Crescent, which has been looked up to as a model organization in Turkey and worldwide in the field of humanitarian relief with its vision to extend a helping to those who are in dire need.