

*(Convenience Translation of Consolidated 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 31 December 2017  
With Auditors' Report Thereon**  
*(Convenience Translation of Consolidated  
Financial Statements and Related Disclosures and Footnotes  
Originally Issued in Turkish)*

14 February 2018

*This report contains "Auditors' Report"  
comprising 7 pages and; "Consolidated  
Financial Statements and Related Disclosures  
and Footnotes" comprising 141 pages.*

**(CONVENIENCE TRANSLATION OF  
INDEPENDENT AUDITOR’S REPORT ORIGINALLY ISSUED IN TURKISH)**

**INDEPENDENT AUDITOR'S REPORT**

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

**A) Report on the Audit of the Consolidated Financial Statements**

**1) Opinion**

We have audited the consolidated financial statements of Türkiye Halk Bankası A.Ş. (“the Bank”) and its consolidated subsidiaries (“the Group”), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of income, consolidated statement of income and expense items accounted for under shareholders' equity, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with “the Banking Regulation and Supervision Agency (“BRSA”) Accounting and 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 Standards (“TAS”) for the matters not legislated by the aforementioned regulations.

**2) Basis for Opinion**

We conducted our audit in accordance with the regulation on “Independent Auditing of Banks” published in the Official Gazette dated 2 April 2015 with No. 29314 and Standards on Independent Auditing (“SIA”) which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority (“POA”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Independent Auditors* (“Code of Ethics”) published by the POA, together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**3) Emphasis of Matter**

As detailed in Section 6 Note 1, one of the Bank’s former directors has been convicted for some of the charges in the first phase of the trial by the jury in the United States of America (“USA”) of the violation of the USA sanctions involving Iran. The subsequent legal process is not yet completed but ongoing for the defendant director of the Bank such as appeal and other legal rights following the first phase of the trial.

The Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the Bank. The Bank is also closely following this trial by hiring external legal counsel resident in the USA.

Separate from this trial, there is an uncertainty of any negative decisions by the USA authorities against the Bank affecting its financial position, if any. The Bank's management indicated that there are no enforcement or other actions against the Bank at this stage. No provision has been made in the accompanying financial statements related to this matter. Our opinion is not modified in respect of this matter.

#### 4) Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
<p><b><i>Classification and impairment of loans and receivables</i></b></p> <p>Impairment of loans and receivables to customer is a key area of judgement for the management. The Group has the total loans and receivables amounting to TRY 210.438.676 thousands, which comprise 67% of the Group's total assets in its consolidated financial statements and the total provision for impairment amounting to TRY 4.886.081 as at 31 December 2017.</p> <p>There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of the BRSA Accounting and Financial Reporting Legislation. Failure in determining the loans and receivables that are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Accordingly, impairment loans and receivables is considered as a key audit matter.</p> <p>Related explanations relating to the impairment of loans and receivables are presented in Section 5 Note I.5.</p>	<p>As part of our audit work, the following procedures were performed:</p> <ul style="list-style-type: none"> <li>• We assessed and tested the design, implementation and operating effectiveness of key controls applied by the Group with respect to classification of loans and receivables and determination and calculation of impairments.</li> <li>• We have performed loan review procedures on selected samples of loans and receivables with the objective of identifying whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the framework of the provisions of the relevant legislation.</li> <li>• We have selected samples and tested whether collaterals were taken into consideration in specific provisioning calculations with market values multiplied with specified valuation ratios and were adequately classified to correct collateral group as specified in the respective legislation.</li> <li>• We have mathematically tested the appropriateness of specific provision calculations made for non-performing loans in line with the relevant legislation.</li> <li>• For the portfolio of loans subject to the general provision, we have examined the appropriateness of the general provisions established in line with the BRSA regulations and other pronouncements made by the BRSA.</li> <li>• Based on our discussions with the Group management, we evaluated whether the key assumptions and other judgements underlying the estimation of impairment were reasonable.</li> </ul>

<b>Key Audit Matter</b>	<b>How the matter was addressed in the audit</b>
<p data-bbox="140 232 624 266"><b><i>Valuation of Pension Fund Obligations</i></b></p> <p data-bbox="140 295 724 528">Defined benefit pension plan that the Parent Bank provides to its employees is managed by Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı and T.C. Ziraat Bankası ve T. Halk Bankası Çalışanları Emekli Sandığı Vakfı (“Plan”) which were established by the 20th provisional article of the Social Security Law numbered 506 (“Law”).</p> <p data-bbox="140 568 724 1099">As disclosed in the Section III note XIX to the consolidated financial statements, the Plan is composed of benefits which are subject to transfer to the Social Security Foundation (“SSF”) as per the Social Security Law no.5510 provisional article 20, and other social rights and pension benefits provided by the Bank that are not transferable to the SSF. The Council of Ministers has been authorized to determine the transfer date. Following the transfer, the funds and the institutions that employ the funds’ members will cover the non-transferable social rights and pension benefits provided under the Plan.</p> <p data-bbox="140 1149 724 1760">As of 31 December 2017, the Bank’s transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by the Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No.26377. The valuation of the Plan liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in the Plan. Management uses expert opinion of the independent actuary in assessing uncertainties related to these underlying assumptions and estimates.</p> <p data-bbox="140 1798 724 2031">As described in Section V note II.9.f considering the subjectivity of key judgments and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the Law, we considered this a key audit matter.</p>	<p data-bbox="746 295 1350 329">Our audit work included the following procedures:</p> <ul data-bbox="746 356 1375 965" style="list-style-type: none"> <li data-bbox="746 356 1375 488">• We involved external experts (actuary) in our audit team to evaluate the assumptions used in the calculation of the pension obligations and the appropriateness of the estimates.</li> <li data-bbox="746 528 1375 638">• It has been tested whether the plan assets meet plan obligations in accordance with the methods and assumptions used.</li> <li data-bbox="746 678 1375 766">• In addition, reconciliations and tests were carried out through sampling of the accuracy of the data provided to the Bank’s actuary.</li> <li data-bbox="746 804 1375 965">• We have assessed whether there is a significant change in the actuarial assumptions, methods, legal regulations and legislation used in the calculations and whether the assumptions are reasonable</li> </ul>

<b>Key Audit Matter</b>	<b>How the matter was addressed in the audit</b>
<p data-bbox="140 232 539 264"><i>Information Technologies Audit</i></p> <p data-bbox="140 293 724 730">The Group and its finance functions are dependent on the IT-infrastructure for the continuity of its operations, and the demand for technology-enabled business services is rapidly growing in the Group and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems within the Group means that the controls over access rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be key area of focus as part of our risk based scoping.</p>	<p data-bbox="746 293 1369 356">Procedures within the context of our information technology audit work:</p> <ul data-bbox="794 394 1369 1854" style="list-style-type: none"> <li data-bbox="794 394 1369 501">• We identified and tested the Group' controls over information systems as part of our audit procedures.</li> <li data-bbox="794 539 1369 898">• Information generation comprise all layers of information systems including applications, networks, transmission systems and database. The information systems controls tested are categorized in the following areas: <ul style="list-style-type: none"> <li data-bbox="847 797 1086 828">• Manage security</li> <li data-bbox="847 831 1086 862">• Manage changes</li> <li data-bbox="847 864 1114 896">• Manage operations</li> </ul> </li> <li data-bbox="794 936 1369 1122">• We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether accesses to financial data had been identified in a timely manner.</li> <li data-bbox="794 1160 1369 1301">• We tested the accesses and logging controls underlying all applications that have direct or indirect impacts on financial data generation.</li> <li data-bbox="794 1339 1369 1480">• Automated controls and integration controls are tested to underly and detect changes and accesses in the process of financial data generation.</li> <li data-bbox="794 1518 1369 1704">• We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components.</li> <li data-bbox="794 1742 1369 1854">• Finally, we understood and tested the controls over database, network, application and operating system layers of applications.</li> </ul>

## **5) Other Matters**

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on 13 February 2017.

## **6) Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the BRSA Accounting and Reporting Regulations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **7) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Responsibilities of independent auditors in an independent audit are as follows:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and SIA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Bank's set of accounts for the period 1 January-31 December 2017 does not comply with TCC and the provisions of the Bank's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Hasan Kılıç.

### **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 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 financial statements differ materially from IFRS. Accordingly, the accompanying consolidated financial statements are not intended to present the Group’s consolidated financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

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

Hasan Kılıç  
Partner

İstanbul, 14 February 2018



**TÜRKİYE HALK BANKASI AŞ**  
**THE CONSOLIDATED FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED 31 DECEMBER 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](http://www.halkbank.com.tr)  
E-mail: halkbank.ir@halkbank.com.tr

The consolidated year 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 OF PARENT BANK
- **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** : OTHER EXPLANATIONS
- **Section Seven** : AUDITORS' REPORT

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

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

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

Istanbul, 14 February 2018

R. Süleyman Özdil	Sadık Tiltak	Yahya Bayraktar	Osman Arslan	Yusuf Duran Ocak	Osman Bektaş
<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

## **SECTION ONE**

### General Information About the Parent Bank

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

## **SECTION TWO**

### Consolidated Financial Statements

I. Consolidated Balance Sheet (Consolidated Statement of Financial Position)	11
II. Consolidated Statement of Off-Balance Sheet Items	13
III. Consolidated Statement of Income	14
IV. Consolidated Statement of Income and Expense Items Accounted under Shareholders' Equity	15
V. Consolidated Statement of Changes in Shareholders' Equity	16
VI. Consolidated Statement of Cash Flows	17
VII. Consolidated Statement of Profit Distribution	18

## **SECTION THREE**

### Explanations on Consolidated Accounting Policies

I. Explanations on Basis of Presentation	19
II. Explanations on the Strategy of Use of Financial Instruments and Foreign Currency Transactions	21
III. Information About the Consolidated Associates and Subsidiaries	22
IV. Explanations on Futures and Option Contracts and Derivative Instruments	25
V. Explanations on Interest Income and Expenses	25
VI. Explanations on Fee and Commission Income and Expenses	25
VII. Explanations on Financial Assets	25
VIII. Explanations on Impairment of Financial Assets	28
IX. Explanations on Offsetting Financial Instruments	29
X. Explanations on Sales and Repurchase Agreements and Transactions on Securities Loaned	29
XI. Explanations on Assets Held For Sale, Assets of Discontinued Operations and Related Liabilities	30
XII. Explanations on Goodwill and Other Intangible Assets	30
XIII. Explanations on Property, Plant and Equipment	30
XIV. Explanations on Investment Properties	31
XV. Explanations on Leasing Transactions	31
XVI. Explanations on Insurance Technical Income and Expense	32
XVII. Explanations on Insurance Technical Provisions	32
XVIII. Explanations on Provisions and Contingent Liabilities	33
XIX. Explanations on Employee Benefit Liabilities	33
XX. Explanations on Taxation	34
XXI. Additional Explanations on Borrowings	38
XXII. Explanations on Shares Issued	38
XXIII. Explanations on Bill Guarantees and Acceptances	38
XXIV. Explanations on Government Incentives	39
XXV. Explanations on Segment Reporting	39
XXVI. Explanations on Other Matters	39

#### **SECTION FOUR**

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

I.	Explanations on Capital	40
II.	Explanations on Consolidated Credit Risk	47
III.	Explanations on Consolidated Currency Risk	60
IV.	Explanations on Consolidated Interest Rate Risk	62
V.	Explanations on Consolidated Position Risk of Shares	66
VI.	Explanations on Consolidated Liquidity Risk Management and Liquidity Coverage Ratio	67
VII.	Explanations on Consolidated Leverage Ratio	73
VIII.	Explanations on Consolidated Business Segmentation	74
IX.	Explanations on Presentation of Financial Assets and Liabilities at Fair Value	77
X.	Explanations Related To Transactions Made on Behalf of Others and Transactions Based on Trust	80
XI.	Explanations on Risk Management and Risk Weighted Amounts	
XII.	Explanations on Remuneration Policies	91

#### **SECTION FIVE**

##### Explanation and Notes Related to the Consolidated Financial Statements

I.	Explanation and Notes Related to the Consolidated Assets	93
II.	Explanation and Notes Related to the Consolidated Liabilities	114
III.	Explanation and Notes Related to the Consolidated Off-Balance Sheet Items	126
IV.	Explanation and Notes Related to the Consolidated Income Statement	129
V.	Explanations and Notes Related to the Statement of Changes in Shareholders' Equity	133
VI.	Explanations and Notes Related to the Cash Flow Statements	134
VII.	Explanations Related to the Risk Group of the Parent Bank	136
VIII.	Explanations on The Bank's Domestic Branches, Agencies/Branches Abroad and Off-Shore Branches	138
IX.	Explanation and Notes Related to the Subsequent Events	139

#### **SECTION SIX**

##### Other Explanations and Notes

I.	Other Explanations on the Parent Bank's Other Activities	140
----	--	-----

#### **SECTION SEVEN**

##### Auditors' Report

I.	Explanations on the Auditor's Report	141
II.	Explanations and Notes Prepared by the Auditors	141

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 31 December 2017 the shareholders’ structure and their respective ownerships are summarized as follows:

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

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> TRY 82 of the shares included in the “Other Shareholders” group belong to shareholders whose shares do not trade on the exchange (though these shareholders have been dematerialized in their own accounts) while TRY 2 of which belong to shareholders whose shares are monitored under the shares not registered under the custody of the Central Securities Depository of Turkey due to the ongoing legal action.

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

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

<b>Name</b>	<b>Title</b>
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors, Independent Member of the Board of Director, Chairman of the Audit Committee
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, Corporate and Internal Systems

<sup>(1)</sup> 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**  
**STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

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

- a) The professionals to the Parent Bank’s top management who have assigned to their position in 2017 are listed with titles and dates of assignment.

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**  
**STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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**

a) General information about the Parent Bank:

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 31 December 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 29 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
- Halk Varlık Kiralama

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.



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

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

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.

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 Bank'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.

Halk Varlık Kiralama A.Ş. was established on 3 October 2017 with the purpose of issuing "Lease Certificate" in accordance with the Capital Markets Board Law No. 6362, the CMB Communiqué and the related regulations of the CMB.

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 YEAR ENDED 31 DECEMBER 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, Halk Varlık Kiralama A.Ş. 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 YEAR ENDED 31 DECEMBER 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
- VII. Consolidated Statement of Profit Distribution

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

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

ASSETS	Note	Audited Current period			Audited Prior period		
		31 December 2017			31 December 2016		
		TRY	FC	Total	TRY	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	(1)	<b>12.917.490</b>	<b>23.763.887</b>	<b>36.681.377</b>	<b>3.534.389</b>	<b>26.677.577</b>	<b>30.211.966</b>
<b>II. FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)</b>	(2)	<b>10.120.010</b>	<b>363.498</b>	<b>10.483.508</b>	<b>88.251</b>	<b>360.675</b>	<b>448.926</b>
2.1 Trading financial assets		10.120.010	363.498	10.483.508	88.251	360.675	448.926
2.1.1 Public sector debt securities		10.095.327	-	10.095.327	65.538	-	65.538
2.1.2 Share certificates		354	886	1.240	2.413	682	3.095
2.1.3 Financial assets held for trading		118	362.398	362.516	4	359.807	359.811
2.1.4 Other marketable securities		24.211	214	24.425	20.296	186	20.482
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
<b>III. BANKS</b>	(3)	<b>677.360</b>	<b>5.635.807</b>	<b>6.313.167</b>	<b>362.526</b>	<b>1.602.324</b>	<b>1.964.850</b>
<b>IV. MONEY MARKET PLACEMENTS</b>		<b>1.288.168</b>	<b>-</b>	<b>1.288.168</b>	<b>1.072.397</b>	<b>-</b>	<b>1.072.397</b>
4.1 Interbank money market placements		1.258.647	-	1.258.647	-	-	-
4.2 Istanbul Stock Exchange Money Market placements		29.211	-	29.211	1.067.712	-	1.067.712
4.3 Receivables from reverse repurchase agreements		310	-	310	4.685	-	4.685
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	(4)	<b>11.599.564</b>	<b>6.099.614</b>	<b>17.699.178</b>	<b>10.915.994</b>	<b>4.565.225</b>	<b>15.481.219</b>
5.1 Share certificates		24.561	54.538	79.099	23.682	36.149	59.831
5.2 Public sector debt securities		11.575.003	6.045.076	17.620.079	10.890.372	4.529.076	15.419.448
5.3 Other marketable securities		-	-	-	1.940	-	1.940
<b>VI. LOANS AND RECEIVABLES</b>	(5)	<b>139.626.734</b>	<b>65.925.861</b>	<b>205.552.595</b>	<b>103.252.263</b>	<b>56.070.896</b>	<b>159.323.159</b>
6.1 Loans and receivables		138.299.409	65.842.861	204.142.270	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		138.299.409	65.842.861	204.142.270	102.076.226	55.981.809	158.058.035
6.2 Loans under follow-up		6.106.597	189.809	6.296.406	5.140.082	180.430	5.320.512
6.3 Specific provisions (-)		4.779.272	106.809	4.886.081	3.964.045	91.343	4.055.388
<b>VII. FACTORING RECEIVABLES</b>		<b>1.051.939</b>	<b>159.993</b>	<b>1.211.932</b>	<b>849.637</b>	<b>284.891</b>	<b>1.134.528</b>
<b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>	(6)	<b>19.304.493</b>	<b>2.682.606</b>	<b>21.987.099</b>	<b>15.875.022</b>	<b>2.469.604</b>	<b>18.344.626</b>
8.1 Public sector debt securities		19.261.098	2.682.606	21.943.704	15.841.619	2.469.604	18.311.223
8.2 Other marketable securities		43.395	-	43.395	33.403	-	33.403
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	(7)	<b>22.590</b>	<b>330.548</b>	<b>353.138</b>	<b>22.393</b>	<b>270.028</b>	<b>292.421</b>
9.1 Accounted under equity method		16.270	330.548	346.818	16.073	270.028	286.101
9.2 Unconsolidated associates		6.320	-	6.320	6.320	-	6.320
9.2.1 Financial investments		-	-	-	-	-	-
9.2.2 Non-financial investments		6.320	-	6.320	6.320	-	6.320
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	(8)	<b>52.178</b>	<b>-</b>	<b>52.178</b>	<b>41.243</b>	<b>-</b>	<b>41.243</b>
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		52.178	-	52.178	41.243	-	41.243
<b>XI. JOINT VENTURES (Net)</b>	(9)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
11.1 Accounted under equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
<b>XII. FINANCE LEASE RECEIVABLES (Net)</b>	(10)	<b>626.642</b>	<b>2.044.611</b>	<b>2.671.253</b>	<b>365.336</b>	<b>1.945.994</b>	<b>2.311.330</b>
12.1 Finance lease receivables		788.528	2.378.704	3.167.232	459.604	2.258.623	2.718.227
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		161.886	334.093	495.979	94.268	312.629	406.897
<b>XIII. DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT</b>	(11)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
13.1 Fair value risk hedging		-	-	-	-	-	-
13.2 Cash flow risk hedging		-	-	-	-	-	-
13.3 Net foreign investment risk hedging		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	(12)	<b>3.658.962</b>	<b>92.638</b>	<b>3.751.600</b>	<b>3.192.451</b>	<b>74.533</b>	<b>3.266.984</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	(13)	<b>120.393</b>	<b>22.702</b>	<b>143.095</b>	<b>95.056</b>	<b>20.173</b>	<b>115.229</b>
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		120.393	22.702	143.095	95.056	20.173	115.229
<b>XVI. INVESTMENT PROPERTIES (Net)</b>	(14)	<b>905.720</b>	<b>4.658</b>	<b>910.378</b>	<b>860.521</b>	<b>3.595</b>	<b>864.116</b>
<b>XVII. TAX ASSET</b>	(15)	<b>87.747</b>	<b>6.296</b>	<b>94.043</b>	<b>97.750</b>	<b>1.775</b>	<b>99.525</b>
17.1 Current tax asset		2.841	4.021	6.862	-	-	-
17.2 Deferred tax asset		84.906	2.275	87.181	97.750	1.775	99.525
<b>XVIII. ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)</b>	(16)	<b>790</b>	<b>-</b>	<b>790</b>	<b>1.537</b>	<b>-</b>	<b>1.537</b>
18.1 Held for sale purpose		790	-	790	1.537	-	1.537
18.2 Held from discontinued operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	(17)	<b>2.630.828</b>	<b>395.429</b>	<b>3.026.257</b>	<b>2.203.011</b>	<b>549.200</b>	<b>2.752.211</b>
<b>TOTAL ASSETS</b>		<b>204.691.608</b>	<b>107.528.148</b>	<b>312.219.756</b>	<b>142.829.777</b>	<b>94.896.490</b>	<b>237.726.267</b>

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

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

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

	Note	Audited			Audited		
		Current period			Prior period		
		31 December 2017			31 December 2016		
LIABILITIES AND SHAREHOLDERS' EQUITY		TRY	FC	Total	TRY	FC	Total
<b>I. DEPOSITS</b>	(1)	<b>116.559.965</b>	<b>76.710.656</b>	<b>193.270.621</b>	<b>86.549.173</b>	<b>63.849.704</b>	<b>150.398.877</b>
1.1 Deposits Held by the Risk Group of the Bank		21.534	8	21.542	8.771	-	8.771
1.2 Other		116.538.431	76.710.648	193.249.079	86.540.402	63.849.704	150.390.106
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	(2)	<b>146</b>	<b>150.527</b>	<b>150.673</b>	<b>59</b>	<b>224.534</b>	<b>224.593</b>
<b>III. FUNDS BORROWED</b>	(3)	<b>1.436.861</b>	<b>18.621.623</b>	<b>20.058.484</b>	<b>1.171.764</b>	<b>20.417.347</b>	<b>21.589.111</b>
<b>IV. MONEY MARKET BALANCES</b>		<b>29.615.560</b>	<b>5.387.762</b>	<b>35.003.322</b>	<b>17.648.265</b>	<b>1.373.871</b>	<b>19.022.136</b>
4.1 Interbank money market borrowings		29.030.813	1.247.014	30.277.827	7.003.306	-	7.003.306
4.2 Istanbul Stock Exchange Takasbank borrowings		377.295	-	377.295	1.174.218	-	1.174.218
4.3 Funds from repurchase agreements		207.452	4.140.748	4.348.200	9.470.741	1.373.871	10.844.612
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>	(4)	<b>3.381.225</b>	<b>8.640.905</b>	<b>12.022.130</b>	<b>2.067.703</b>	<b>10.684.708</b>	<b>12.752.411</b>
5.1 Treasury bills		3.280.789	-	3.280.789	2.067.703	-	2.067.703
5.2 Asset-backed securities		100.436	-	100.436	-	-	-
5.3 Bonds		-	8.640.905	8.640.905	-	10.684.708	10.684.708
<b>VI. FUNDS</b>	(5)	<b>2.724.634</b>	<b>-</b>	<b>2.724.634</b>	<b>2.339.808</b>	<b>-</b>	<b>2.339.808</b>
6.1 Borrower Funds		860	-	860	36.600	-	36.600
6.2 Other		2.723.774	-	2.723.774	2.303.208	-	2.303.208
<b>VII. SUNDRY CREDITORS</b>		<b>3.678.813</b>	<b>179.545</b>	<b>3.858.358</b>	<b>2.743.078</b>	<b>123.544</b>	<b>2.866.622</b>
<b>VIII. OTHER LIABILITIES</b>	(6)	<b>11.476.631</b>	<b>526.985</b>	<b>12.003.616</b>	<b>1.503.590</b>	<b>439.963</b>	<b>1.943.553</b>
<b>IX. FACTORING PAYABLES</b>		<b>2.307</b>	<b>755</b>	<b>3.062</b>	<b>383</b>	<b>205</b>	<b>588</b>
<b>X. FINANCE LEASE PAYABLES</b>	(7)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
<b>XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT</b>	(8)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
11.1 Fair value risk hedging		-	-	-	-	-	-
11.2 Cash flow risk hedging		-	-	-	-	-	-
11.3 Net foreign investment risk hedging		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(9)	<b>5.299.348</b>	<b>40.741</b>	<b>5.340.089</b>	<b>4.485.747</b>	<b>87.352</b>	<b>4.573.099</b>
12.1 General loan provisions		2.288.701	28.456	2.317.157	2.027.964	21.172	2.049.136
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Employee benefits provisions		854.242	6.198	860.440	728.172	3.287	731.459
12.4 Insurance technical reserves (Net)		1.810.804	-	1.810.804	1.400.148	-	1.400.148
12.5 Other provisions		345.601	6.087	351.688	329.463	62.893	392.356
<b>XIII. TAX LIABILITY</b>	(10)	<b>1.244.449</b>	<b>7.244</b>	<b>1.251.693</b>	<b>639.422</b>	<b>6.527</b>	<b>645.949</b>
13.1 Current tax liability		672.431	5.092	677.523	352.600	4.375	356.975
13.2 Deferred tax liability		572.018	2.152	574.170	286.822	2.152	288.974
<b>XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)</b>	(11)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Held from discontinued operations		-	-	-	-	-	-
<b>XV. SUBORDINATED CAPITAL</b>	(12)	<b>1.004.385</b>	<b>-</b>	<b>1.004.385</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>XVI. SHAREHOLDERS' EQUITY</b>	(13)	<b>25.378.161</b>	<b>150.528</b>	<b>25.528.689</b>	<b>21.541.471</b>	<b>(171.951)</b>	<b>21.369.520</b>
16.1 Paid-in capital		1.250.000	-	1.250.000	1.250.000	-	1.250.000
16.2 Capital reserves		3.088.739	(240.647)	2.848.092	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		(366.800)	(240.961)	(607.761)	(291.223)	(427.705)	(718.928)
16.2.4 Tangible assets revaluation reserves		2.253.371	275	2.253.646	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		1.157.708	39	1.157.747	1.099.383	51	1.099.434
16.3 Profit reserves		16.900.753	180.650	17.081.403	14.562.537	111.025	14.673.562
16.3.1 Legal reserves		1.750.382	8.559	1.758.941	1.558.859	3.313	1.562.172
16.3.2 Statutory reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		15.103.229	27.317	15.130.546	12.956.536	-	12.956.536
16.3.4 Other profit reserves		47.142	144.774	191.916	47.142	107.712	154.854
16.4 Profit/Loss		3.932.096	206.974	4.139.070	2.585.417	115.139	2.700.556
16.4.1 Prior years income/loss		(4.150)	104.981	100.831	84.650	82.299	166.949
16.4.2 Period profit/loss		3.936.246	101.993	4.038.239	2.500.767	32.840	2.533.607
16.5 Minority shares		206.573	3.551	210.124	183.918	29.240	213.158
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>201.802.485</b>	<b>110.417.271</b>	<b>312.219.756</b>	<b>140.690.463</b>	<b>97.035.804</b>	<b>237.726.267</b>

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

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

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

**II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS**

		Audited			Audited		
		Current period			Prior period		
		31 December 2017			31 December 2016		
OFF-BALANCE SHEET ITEMS	Note	TRY	FC	Total	TRY	FC	Total
<b>A. COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>55.825.715</b>	<b>59.017.870</b>	<b>114.843.585</b>	<b>46.265.354</b>	<b>51.600.941</b>	<b>97.866.295</b>
<b>I. GUARANTEES AND SURETYSHIPS</b>	(1)	<b>28.091.702</b>	<b>30.695.956</b>	<b>58.787.658</b>	<b>20.999.538</b>	<b>26.878.181</b>	<b>47.877.719</b>
1.1 Letters of guarantee		26.885.534	22.774.574	49.660.108	20.194.359	19.924.546	40.118.905
1.1.1 Guarantees subject to public procurement law		1.522.672	10.045.779	11.568.451	1.049.993	11.366.716	12.416.709
1.1.2 Guarantees given for foreign trade operations		-	24.183	24.183	-	16.644	16.644
1.1.3 Other letters of guarantee		25.362.862	12.704.612	38.067.474	19.144.366	8.541.186	27.685.552
1.2 Bank loans		16.829	3.676.678	3.693.507	12.876	2.812.590	2.825.466
1.2.1 Import acceptances		-	226.526	226.526	-	320.953	320.953
1.2.2 Other bank acceptances		16.829	3.450.152	3.466.981	12.876	2.491.637	2.504.513
1.3 Letters of credit		47.204	4.100.917	4.148.121	18.091	4.001.009	4.019.100
1.3.1 Documentary letters of credit		47.204	4.100.917	4.148.121	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		1.142.135	143.787	1.285.922	774.212	140.036	914.248
1.9 Other suretyships		-	-	-	-	-	-
<b>II. COMMITMENTS</b>	(1)	<b>22.879.077</b>	<b>2.235.117</b>	<b>25.114.194</b>	<b>23.261.724</b>	<b>1.492.636</b>	<b>24.754.360</b>
2.1 Irrevocable commitments		22.879.077	1.310.028	24.189.105	23.261.724	901.095	24.162.819
2.1.1 Forward asset purchase commitments		248.484	661.967	910.451	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		4.191.402	493.963	4.685.365	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		3.269.281	-	3.269.281	5.805.008	-	5.805.008
2.1.8 Tax and fund liabilities from export commitments		38.072	-	38.072	28.864	-	28.864
2.1.9 Commitments for credit card expenditure limits		11.562.109	37.787	11.599.896	10.794.813	29.260	10.824.073
2.1.10 Commitments for credit cards and banking services promotions		32.736	-	32.736	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		3.536.993	116.311	3.653.304	3.293.812	168.484	3.462.296
2.2 Revocable commitments		-	925.089	925.089	-	591.541	591.541
2.2.1 Revocable loan granting commitments		-	57.071	57.071	-	52.315	52.315
2.2.2 Other revocable commitments		-	868.018	868.018	-	539.226	539.226
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>		<b>4.854.936</b>	<b>26.086.797</b>	<b>30.941.733</b>	<b>2.004.092</b>	<b>23.230.124</b>	<b>25.234.216</b>
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value risk hedging transactions		-	-	-	-	-	-
3.1.2 Cash flow risk hedging transactions		-	-	-	-	-	-
3.1.3 Net foreign investment risk hedging transactions		-	-	-	-	-	-
3.2 Transactions for trading		4.854.936	26.086.797	30.941.733	2.004.092	23.230.124	25.234.216
3.2.1 Forward foreign currency buy/sell transactions		2.711.228	6.374.073	9.085.301	1.162.609	5.842.701	7.005.310
3.2.1.1 Forward foreign currency transactions-buy		1.359.880	4.498.627	5.858.507	564.492	3.958.285	4.522.777
3.2.1.2 Forward foreign currency transactions-sell		1.351.348	1.875.446	3.226.794	598.117	1.884.416	2.482.533
3.2.2 Currency and interest rate swaps		1.353.630	15.891.963	17.245.593	581.914	14.785.050	15.366.964
3.2.2.1 Currency swap-buy		418.414	2.843.148	3.261.562	148.821	2.707.908	2.856.729
3.2.2.2 Currency swap-sell		935.216	2.162.053	3.097.269	433.093	2.332.612	2.765.705
3.2.2.3 Interest rate swap-buy		-	5.443.381	5.443.381	-	4.872.265	4.872.265
3.2.2.4 Interest Rate swap-sell		-	5.443.381	5.443.381	-	4.872.265	4.872.265
3.2.3 Currency, interest rate and marketable securities options		790.078	1.090.343	1.880.421	259.569	420.684	680.253
3.2.3.1 Currency call options		394.932	545.279	940.211	129.783	210.341	340.124
3.2.3.2 Currency put options		395.146	545.064	940.210	129.786	210.343	340.129
3.2.3.3 Interest rate call options		-	-	-	-	-	-
3.2.3.4 Interest rate put options		-	-	-	-	-	-
3.2.3.5 Marketable securities call options		-	-	-	-	-	-
3.2.3.6 Marketable securities put options		-	-	-	-	-	-
3.2.4 Currency futures		-	-	-	-	-	-
3.2.4.1 Currency futures-buy		-	-	-	-	-	-
3.2.4.2 Currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate buy/sell futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		-	2.730.418	2.730.418	-	2.181.689	2.181.689
<b>B. CUSTODY AND PLEDGED ASSETS (IV+V+VI)</b>		<b>835.132.210</b>	<b>209.876.872</b>	<b>1.045.009.082</b>	<b>661.477.039</b>	<b>156.010.441</b>	<b>817.487.480</b>
<b>IV. CUSTODIES</b>		<b>394.414.878</b>	<b>29.275.633</b>	<b>423.690.511</b>	<b>344.066.173</b>	<b>23.722.398</b>	<b>367.788.571</b>
4.1 Assets under management		-	-	-	-	-	-
4.2 Custody marketable securities		177.566.380	518.467	178.084.847	167.030.333	728.810	167.759.143
4.3 Cheques in collection process		15.489.840	22.716.178	38.206.018	12.751.492	17.280.141	30.031.633
4.4 Commercial notes in collection process		193.733.321	491.087	194.224.408	137.519.788	518.733	138.038.521
4.5 Other assets in collection process		-	-	-	-	-	-
4.6 Underwritten securities		-	-	-	-	-	-
4.7 Other custodies		4.136.680	127.221	4.263.901	3.486.346	98.721	3.585.067
4.8 Custodians		3.488.657	5.422.680	8.911.337	23.278.214	5.095.993	28.374.207
<b>V. PLEDGED ASSETS</b>		<b>440.717.332</b>	<b>180.601.239</b>	<b>621.318.571</b>	<b>317.410.866</b>	<b>131.158.600</b>	<b>448.569.466</b>
5.1 Marketable securities		4.512.526	571.558	5.084.084	4.077.924	476.540	4.554.464
5.2 Collateral notes		7.261.444	911.790	8.173.234	7.297.816	820.012	8.117.828
5.3 Commodity		25.813	145.204	171.017	25.813	-	25.813
5.4 Warranty		-	-	-	-	-	-
5.5 Land and buildings		324.029.119	151.762.384	475.791.503	259.332.850	116.459.706	375.792.556
5.6 Other pledged assets		67.075.089	23.900.616	90.975.705	42.616.278	12.035.647	54.651.925
5.7 Pledges		37.813.341	3.309.687	41.123.028	4.060.185	1.366.695	5.426.880
<b>VI. ACCEPTED BILL GUARANTEES AND SURETIES</b>		-	-	-	-	<b>1.129.443</b>	<b>1.129.443</b>
<b>TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)</b>		<b>890.957.925</b>	<b>268.894.742</b>	<b>1.159.852.667</b>	<b>707.742.393</b>	<b>207.611.382</b>	<b>915.353.775</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**CONSOLIDATED STATEMENT OF INCOME AS OF 31 DECEMBER 2017**  
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

**III. CONSOLIDATED STATEMENT OF INCOME**

			Audited	Audited
			Current period	Prior period
			1 January- 31 December 2017	1 January- 31 December 2016
INCOME AND EXPENSES		Note		
<b>I.</b>	<b>INTEREST INCOME</b>	(1)	<b>23.665.069</b>	<b>17.363.213</b>
1.1	Interest on loans		19.060.838	14.307.866
1.2	Interest received from reserve deposits		132.398	57.062
1.3	Interest received from banks		256.701	114.682
1.4	Interest received from money market placements		57.090	703
1.5	Interest income on marketable securities		3.765.532	2.571.404
1.5.1	Financial assets held for trading		3.209	7.601
1.5.2	Financial assets at fair value through profit and loss		-	-
1.5.3	Financial assets available-for-sale		1.582.407	1.082.042
1.5.4	Investments held-to-maturity		2.179.916	1.481.761
1.6	Finance lease income		197.704	158.434
1.7	Other interest income		194.806	153.062
<b>II.</b>	<b>INTEREST EXPENSE</b>	(2)	<b>15.308.777</b>	<b>10.014.672</b>
2.1	Interest on deposits		11.085.857	8.051.618
2.2	Interest on borrowings		540.285	489.642
2.3	Interest on money market borrowings		2.719.811	794.106
2.4	Interest on bonds issued		845.535	590.748
2.5	Other interest expense		117.289	88.558
<b>III.</b>	<b>NET INTEREST INCOME (I – II)</b>		<b>8.356.292</b>	<b>7.348.541</b>
<b>IV.</b>	<b>NET FEES AND COMMISSIONS INCOME</b>		<b>1.921.134</b>	<b>1.238.103</b>
4.1	Fees and commissions income		2.506.800	1.740.141
4.1.1	Non-cash loans		405.366	295.134
4.1.2	Other		2.101.434	1.445.007
4.2	Fees and commissions expenses		585.666	502.038
4.2.1	Non-cash loans		3.986	2.574
4.2.2	Other		581.680	499.464
<b>V.</b>	<b>DIVIDEND INCOME</b>	(3)	<b>11.639</b>	<b>39.986</b>
<b>VI.</b>	<b>NET TRADING PROFIT (NET)</b>	(4)	<b>78.625</b>	<b>182.966</b>
6.1	Profit/loss from capital market operations		35.077	20.281
6.2	Profit/loss from financial derivative transactions		(195.718)	11.158
6.3	Foreign exchange gains/losses		239.266	151.527
<b>VII.</b>	<b>OTHER OPERATING INCOME</b>	(5)	<b>2.156.583</b>	<b>1.825.904</b>
<b>VIII.</b>	<b>TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>		<b>12.524.273</b>	<b>10.635.500</b>
<b>IX.</b>	<b>LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)</b>	(6)	<b>1.505.871</b>	<b>2.205.909</b>
<b>X.</b>	<b>OTHER OPERATING EXPENSES(-)</b>	(7)	<b>5.886.203</b>	<b>5.097.462</b>
<b>XI.</b>	<b>NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>		<b>5.132.199</b>	<b>3.332.129</b>
<b>XII.</b>	<b>AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER</b>		-	-
<b>XIII.</b>	<b>PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES</b>		21.511	17.309
<b>XIV.</b>	<b>GAIN / (LOSS) ON NET MONETARY POSITION</b>		-	-
<b>XV.</b>	<b>INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)</b>	(8)	<b>5.153.710</b>	<b>3.349.438</b>
<b>XVI.</b>	<b>TAX INCOME PROVISION (±)</b>	(9)	<b>(1.102.986)</b>	<b>(809.982)</b>
16.1	Current tax provision		(855.655)	(625.363)
16.2	Deferred tax provision		(247.331)	(184.619)
<b>XVII.</b>	<b>NET OPERATING INCOME AFTER TAX (XV±XVI)</b>	(10)	<b>4.050.724</b>	<b>2.539.456</b>
<b>XVIII.</b>	<b>INCOME FROM DISCONTINUED OPERATIONS</b>		-	-
18.1	Property and equipment income held for sale		-	-
18.2	Sale profits from associates, subsidiaries and joint ventures (business partners)		-	-
18.3	Other income from terminated operations		-	-
<b>XIX.</b>	<b>EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>		-	-
19.1	Property and equipment expense held for sale		-	-
19.2	Sale losses from associates, subsidiaries and joint ventures (business partners)		-	-
19.3	Other expenses from discontinued operations		-	-
<b>XX.</b>	<b>INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)</b>	(8)	-	-
<b>XXI.</b>	<b>PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)</b>	(9)	-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
<b>XXII.</b>	<b>NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)</b>	(10)	-	-
<b>XXIII.</b>	<b>NET PROFIT/(LOSS) (XVII+XXII)</b>	(11)	<b>4.050.724</b>	<b>2.539.456</b>
23.1	Group's profit/loss		4.038.239	2.533.607
23.2	Minority shares profit/loss		12.485	5.849
Earnings/losses per share (Full TRY)			3,2406	2,02689

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

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

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

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

	Audited	Audited
	Current period	Prior period
	1 January- 31 December 2017	1 January- 31 December 2016
<b>STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY</b>		
<b>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS</b>	<b>20.605</b>	<b>(626.135)</b>
<b>II. TANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>285.864</b>	<b>542.934</b>
<b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>	<b>-</b>	<b>-</b>
<b>IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS</b>	<b>(4.311)</b>	<b>43.912</b>
<b>V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)</b>	<b>-</b>	<b>-</b>
<b>VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)</b>	<b>-</b>	<b>-</b>
<b>VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES</b>	<b>-</b>	<b>-</b>
<b>VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS</b>	<b>144.062</b>	<b>(76.753)</b>
<b>IX. DEFERRED TAX OF VALUATION DIFFERENCES</b>	<b>(50.209)</b>	<b>18.034</b>
<b>X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)</b>	<b>396.011</b>	<b>(98.008)</b>
<b>XI. PROFIT/LOSS</b>	<b>4.050.724</b>	<b>2.539.456</b>
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	38.564	21.586
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	4.012.160	2.517.870
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)</b>	<b>4.446.735</b>	<b>2.441.448</b>

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



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

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

**V. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

<b>Audited</b>	<b>Note</b>	<b>Paid in capital</b>	<b>Effect of inflation adjustments on paid in capital</b>	<b>Share premium</b>	<b>Share certificate cancellati on profit</b>	<b>Legal reserves</b>	<b>Statutory reserves</b>	<b>Extra-ordinary reserves</b>	<b>Other reserves</b>	<b>Current period net income/(loss)</b>	<b>Prior period net income/(loss)</b>	<b>Valuation changes in marketable sec.</b>	<b>Revaluation changes in prop. and equip. and int. assets</b>	<b>Bonus shares from shareholders</b>	<b>Hedging funds</b>	<b>Value change in pro. and equip. held for sale purp./term. op.</b>	<b>Total equity excluding minority shares</b>	<b>Minority shares</b>	<b>Total equity</b>
<b>1 January 2016 – 31 December 2016</b>																			
I.	Balance at end of prior period	1.250.000	1.220.451	39.488	-	1.393.927	-	11.045.915	140.904	2.317.984	164.806	(285.131)	1.672.931	3.973	-	-	18.965.248	201.426	19.166.674
II.	Corrections and Accounting Policy Changes Made According to TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	Effects of Corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Effects of the Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Adjusted Beginning Balance (I+II)	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
IV.	Changes in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Increase/decrease generated by merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	Valuation changes in marketable securities	-	-	-	-	-	-	-	-	-	-	(433.797)	-	-	-	-	(433.797)	47	(433.750)
VI.1	Hedging funds (effective portion)	-	-	-	-	-	-	-	(65.764)	-	-	-	-	-	-	-	(65.764)	-	(65.764)
6.1	Cash-flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Hedges for investment made in foreign countries	-	-	-	-	-	-	-	(65.764)	-	-	-	-	-	-	-	(65.764)	-	(65.764)
VII.	Revaluation changes of property and equipment	-	-	-	-	-	-	-	-	-	-	-	434.347	-	-	-	434.347	-	434.347
VIII.	Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Bonus shares from investment and associates, subsidiaries and joint ventures (business partners).	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Foreign exchange differences	-	-	-	-	-	-	-	43.768	-	-	-	-	-	-	-	-	43.768	144
XI.	Changes after disposal of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Changes after reclassification of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Effect of changes in shareholders equity of investments and associates to bank's shareholders equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Increase in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2	From internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Issuance of share certificates at end of period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	Other	-	-	249	-	(160)	-	1.788	(85.071)	-	-	-	-	750	-	-	(82.444)	5.692	(76.752)
XIX.	Net profit or losses	-	-	-	-	-	-	-	-	2.533.607	-	-	-	-	-	-	2.533.607	5.849	2.539.456
XX.	Profit distribution	-	-	-	-	168.405	-	1.908.833	-	(2.317.984)	2.143	-	-	-	-	-	(238.603)	-	(238.603)
20.1	Dividends distributed	-	-	-	-	-	-	-	-	-	(238.603)	-	-	-	-	-	(238.603)	-	(238.603)
20.2	Transfers to legal reserves	-	-	-	-	168.405	-	1.908.833	-	-	(2.077.238)	-	-	-	-	-	-	-	-
20.3	Other	-	-	-	-	-	-	-	-	(2.317.984)	2.317.984	-	-	-	-	-	-	-	-
	<b>Closing balance</b>	<b>1.250.000</b>	<b>1.220.451</b>	<b>39.737</b>	<b>-</b>	<b>1.562.172</b>	<b>-</b>	<b>12.956.536</b>	<b>33.837</b>	<b>2.533.607</b>	<b>166.949</b>	<b>(718.928)</b>	<b>2.107.278</b>	<b>4.723</b>	<b>-</b>	<b>-</b>	<b>21.156.362</b>	<b>213.158</b>	<b>21.369.520</b>
<b>1 January 2017 – 31 December 2017</b>																			
I.	Balance at end of prior period	1.250.000	1.220.451	39.737	-	1.562.172	-	12.956.536	33.837	2.533.607	166.949	(718.928)	2.107.278	4.723	-	-	21.156.362	213.158	21.369.520
II.	Changes within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Increase or decrease generated by merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV.	Valuation changes in marketable securities	-	-	-	-	-	-	-	-	-	-	111.167	-	-	-	-	111.167	(1.275)	109.892
IV.1	Hedging Funds (effective portion)	-	-	-	-	-	-	-	115.265	-	-	-	-	-	-	-	115.265	-	115.265
4.1	Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedges for investments made in foreign countries	-	-	-	-	-	-	-	115.265	-	-	-	-	-	-	-	115.265	-	115.265
V.	Revaluation changes of property and equipment	-	-	-	-	-	-	-	-	-	-	-	146.368	-	-	-	146.368	-	146.368
VI.	Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Foreign exchange differences	-	-	-	-	-	-	-	(4.896)	-	-	-	-	-	-	-	(4.896)	585	(4.311)
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5.087)
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(846)
XV.	Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(846)
XVI.	Other	-	-	-	-	(1.182)	-	(8.873)	(14.994)	4.038.239	36.936	-	-	-	-	-	11.887	(8.139)	3.748
XVII.	Net profit or losses	-	-	-	-	-	-	-	-	4.038.239	-	-	-	-	-	-	4.038.239	12.485	4.050.724
XVIII.	Profit distribution	-	-	-	-	197.951	-	2.182.883	-	(2.533.607)	(103.054)	-	-	-	-	-	(255.827)	(757)	(256.584)
18.1	Dividends distributed	-	-	-	-	-	-	-	-	-	(255.827)	-	-	-	-	-	(255.827)	(757)	(256.584)
18.2	Transfers to legal reserves	-	-	-	-	197.951	-	2.182.883	-	-	(2.380.834)	-	-	-	-	-	-	-	-
18.3	Other	-	-	-	-	-	-	-	-	(2.533.607)	2.533.607	-	-	-	-	-	-	-	-
	<b>Closing balance</b>	<b>1.250.000</b>	<b>1.220.451</b>	<b>39.737</b>	<b>-</b>	<b>1.758.941</b>	<b>-</b>	<b>15.130.546</b>	<b>129.212</b>	<b>4.038.239</b>	<b>100.831</b>	<b>(607.761)</b>	<b>2.253.646</b>	<b>4.723</b>	<b>-</b>	<b>-</b>	<b>25.318.565</b>	<b>210.124</b>	<b>25.528.689</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS OF CASH FLOWS AS OF 31 DECEMBER 2017**

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

**VI. CONSOLIDATED STATEMENT OF CASH FLOWS**

		<b>Audited</b>	<b>Audited</b>
		<b>Current period</b>	<b>Prior period</b>
	<b>Note</b>	<b>1 January- 31 December 2017</b>	<b>1 January- 31 December 2016</b>
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1</b>	<b>Operating profit before changes in operating assets and liabilities</b>	<b>3.656.363</b>	<b>2.082.911</b>
1.1.1	Interest received	21.730.125	16.611.483
1.1.2	Interest paid	(14.302.974)	(9.495.583)
1.1.3	Dividend received	8.888	39.986
1.1.4	Fees and commissions received	2.512.134	1.740.141
1.1.5	Other income	1.850.733	1.629.820
1.1.6	Collections from previously written off loans	728.163	555.940
1.1.7	Cash payments to personnel and service suppliers	(2.194.575)	(1.925.872)
1.1.8	Taxes paid	(541.969)	(883.058)
1.1.9	Other	(1)	(6.189.946)
<b>1.2</b>	<b>Assets and Liabilities Subject to Banking Operations</b>	<b>11.595.937</b>	<b>4.629.944</b>
1.2.1	Net decrease in financial assets held for sale	(31.389)	(3.080)
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	22.540	(26.657)
1.2.4	Net (increase) decrease in loans	(46.260.521)	(32.478.568)
1.2.5	Net (increase) decrease in other assets	(132.409)	(1.422.828)
1.2.6	Net increase (decrease) in bank deposits	(3.603.141)	15.052.270
1.2.7	Net increase (decrease) in other deposits	45.457.843	12.675.136
1.2.8	Net increase (decrease) in loans borrowed	(1.527.805)	(554.361)
1.2.9	Net increase (decrease) in matured payables	-	-
1.2.10	Net increase (decrease) in other liabilities	(1)	11.388.032
<b>I.</b>	<b>Net cash provided from banking operations</b>	<b>15.252.300</b>	<b>6.712.855</b>
<b>B. CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
<b>II.</b>	<b>Net cash provided from / (used in) investing activities</b>	<b>(4.581.992)</b>	<b>(4.794.213)</b>
2.1	Cash paid for purchase of joint ventures, associates and subsidiaries	(14.994)	(3.213)
2.2	Cash obtained from sale of entities joint ventures, associates and subsidiaries	-	-
2.3	Fixed assets purchases	(549.618)	(269.671)
2.4	Fixed assets sales	199.519	51.558
2.5	Cash paid for purchase of financial assets available for sale	(9.672.067)	(6.118.249)
2.6	Cash obtained from sale of financial assets available for sale	7.909.271	3.102.821
2.7	Cash paid for purchase of investment securities	(4.893.951)	(4.254.198)
2.8	Cash obtained from sale of investment securities	2.476.081	2.712.189
2.9	Other	(36.233)	(15.450)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III.</b>	<b>Net cash used in financing activities</b>	<b>24.122</b>	<b>3.331.697</b>
3.1	Cash obtained from loans borrowed and securities issued	9.216.726	10.667.444
3.2	Cash used for repayment of loans borrowed and securities issued	(8.936.020)	(7.097.144)
3.3	Bonds issued	-	-
3.4	Dividends paid	(256.584)	(238.603)
3.5	Payments for finance leases	-	-
3.6	Other	-	-
<b>IV.</b>	<b>Effect of change in foreign exchange rate on cash and cash equivalents</b>	<b>(1)</b>	<b>897.165</b>
<b>V.</b>	<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>11.591.595</b>	<b>6.674.695</b>
<b>VI.</b>	<b>Cash and cash equivalents at beginning of the period</b>	<b>(4)</b>	<b>15.530.596</b>
<b>VII.</b>	<b>Cash and cash equivalents at end of the period</b>	<b>(5)</b>	<b>27.122.191</b>
		<b>15.530.597</b>	<b>15.530.597</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED STATEMENT OF**  
**PROFIT DISTRIBUTION AS OF 31 DECEMBER 2017**

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

**VII. CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION<sup>(1)</sup>**

	Audited	Audited
	Current Period 31 December 2017 <sup>(1)</sup>	Prior Period 31 December 2016
<b>I. DISTRIBUTION OF CURRENT YEAR PROFIT</b>		
1.1. Current Period Profit	4.709.582	3.351.550
1.2. Taxes and Legal Duties Payables (-)	(984.120)	(793.285)
1.2.1. Corporate Tax (Income Tax)	(749.669)	(553.481)
1.2.2. Withholding Tax	-	-
1.2.3. Other Taxes and Duties	(234.451)	(239.804)
<b>A. Net Profit For The Period (1.1-1.2)</b>	<b>3.725.462</b>	<b>2.558.265</b>
1.3. Accumulated Losses (-)	-	-
1.4. First Legal Reserves (-)	-	127.913
1.5. Other Statutory Reserves (-)	-	-
<b>B. Net Profit Available for Distribution [(A)-(1.3+1.4+1.5)]</b>	<b>-</b>	<b>2.430.352</b>
1.6. First Dividend to shareholders (-)	-	62.500
1.6.1. To Owners of Ordinary Shares	-	62.500
1.6.2. To Owners of Privileged Shares	-	-
1.6.3. To Owners of Redeemed Shares	-	-
1.6.4. To Profit Sharing Bonds	-	-
1.6.5. To Holders of Profit and Loss Sharing Certificates	-	-
1.7. Dividends to personnel (-)	-	-
1.8. Dividends to Board of Directors (-)	-	-
1.9. Second Dividend to Shareholders (-)	-	193.327
1.9.1. To Owners of Ordinary Shares	-	193.327
1.9.2. To Owners of Privileged Shares	-	-
1.9.3. To Owners of Redeemed Shares	-	-
1.9.4. To Profit Sharing Bonds	-	-
1.9.5. To Holders Of Profit And Loss Sharing Certificates	-	-
1.10. Second Legal Reserves (-)	-	35.378
1.11. Status Reserves (-)	-	-
1.12. Extraordinary Reserves	-	2.139.147
1.13. Other Reserves	-	-
1.14. Special Funds	-	-
<b>II. Distribution of Reserves</b>		
2.1. Appropriated Reserves	-	-
2.2. Second Legal Reserves (-)	-	-
2.3. Dividends to Shareholders (-)	-	255.827
2.3.1. To Owners of Ordinary Shares	-	255.827
2.3.2. To Owners of Privileged Shares	-	-
2.3.3. To Owners of Redeemed Shares	-	-
2.3.4. To Profit Sharing Bonds	-	-
2.3.5. To Holders of Profit and Loss Sharing Certificates	-	-
2.4. Dividends to Personnel (-)	-	160.451 <sup>(2)</sup>
2.5. Dividends to Board of Directors (-)	-	-
<b>III. Earnings per Share</b>		
3.1. To Owners of Ordinary Shares	2.9804	2.0466
3.2. To Owners of Ordinary Shares (%)	298.04%	204.7%
3.3. To Owners of Privileged Shares	-	-
3.4. To Owners of Privileged Shares (%)	-	-
<b>IV. Dividend per Share</b>		
4.1. To Owners of Ordinary Shares	-	0,205
4.2. To Owners of Ordinary Shares (%)	-	20.47%
4.3. To Owners of Privileged Shares	-	-
4.4. To Owners of Privileged Shares (%)	-	-

<sup>(1)</sup>Board of Directors meeting was not held as of 31 December 2017 financial reporting date.

<sup>(2)</sup>Dividends to personnel which added to 2016 net profit as a provision not sentenced in profit distribution, only shown in the table for information.

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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.

**Additional paragraph for convenience translation to English**

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

**Disclosures of TFRS 9 Financial Instruments:**

TFRS 9 “Financial Instruments”, which is effective as at 1 January 2018 is published by the Public Oversight Accounting and Auditing Standards Authority (“POA”) in the Official Gazette numbered 29953 dated 19 January 2017. TFRS 9 will replace TAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The Bank will apply the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**I. EXPLANATIONS ON BASIS OF PRESENTATION (continued)**

Disclosures of TFRS 9 Financial Instruments (continued):

The combined application of the contractual cash flow characteristics and business models as at 1 January 2018 is expected to result in no major difference in the classification of financial assets when compared to the classification under TAS 39.

Classification and measurement of financial assets:

According to TFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent “solely payments of principal and interest (SPPI).

Upon initial recognition each financial asset will be classified as either fair value through profit or loss (“FVTPL”), amortized cost or fair value through other comprehensive income (“FVOCI”). As the requirements under TFRS 9 are different than the assessments under the existing TAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under TAS 39.

Impairment of financial assets:

As of 1 January 2018, the Bank will recognize provisions for impairment in accordance with the TFRS 9 requirements according to the “Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside” published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA as mentioned in the Section 3 Part VII of Explanation on Accounting Policies will be changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

It is not anticipated a significant impact on the total equity as a result of the impairment calculation based expected credit loss model in accordance with TFRS 9. The impact of implementation for this standard is based on the assessments made so far. As of the transition date, it is still ongoing the revisions on the accounting policies, relevant processes and internal controls. Accordingly, there might be changes in the anticipated impact of TFRS 9 on the financial statements until announcement of the first time adoption financial statements including the opening balance sheet as of 1 January 2018. Besides, the Bank will calculate deferred tax on the expected credit losses calculated on stage 1 and 2 loans and the impact regarding calculated deferred tax asset will be accounted for under equity during transition.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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.

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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**III. INFORMATION ABOUT THE CONSOLIDATED ASSOCIATES AND SUBSIDIARIES**

**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, Halk Varlık Kiralama AŞ 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

1. Basis of consolidation (continued):

b. Basis of consolidation of associates (continued):

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

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

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

Accounting principles used by the consolidated associates accounted for at equity method, Demir Halk Bank 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.



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

Accounting for business combinations (continued)

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**IV. EXPLANATIONS ON FUTURES AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS**

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

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

Explanations related to credit derivatives and its risk exposures:

The 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 31 December 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

1. Cash and banks

Cash and bank balances in foreign currencies are valued by using the 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

a) 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.

b) Financial assets at fair value through profit and loss

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

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

3. Investments held to maturity

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

4. Financial assets available for sale

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

5. Loans and receivables

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

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

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

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

Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

**IX. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS**

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

**X. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS AND TRANSACTIONS ON SECURITIES LOANED**

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

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

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

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

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

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

*Classification of Investment Properties:*

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

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

**XIV. EXPLANATIONS ON INVESTMENT PROPERTIES**

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

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

**XV. EXPLANATIONS ON LEASING TRANSACTIONS**

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

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**XVI. EXPLANATIONS ON INSURANCE TECHNICAL INCOME AND EXPENSE**

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

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

**XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS**

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

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS (continued)**

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

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

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

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

**XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES**

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES (continued)**

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

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

In accordance with the related legislation, as of the transfer date, the income and expenses of the transferred funds will be considered by the insurance branches and the cash value of the liabilities will be calculated with the actuarial interest rate 9,8%. Moreover, after the transfer to SII, the unfulfilled other social rights and payments existed in the settlement deeds of the subjected pension funds of the transferred participants, members or the rightful owners will be continued to be fulfilled by the employer entities of the funds and its participants. Based on the results of the actuarial report prepared as of 31 December 2017, 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.

The corporate tax rate which has been applied at the rate of 20% in accordance with the Article 32 – paragraph 1 of the Corporate Tax Law No: 5520, was set as 22% for the tax bases of the years 2018, 2019, and 2020 (applicable as of the beginning of the accounting periods in the related year for institutions designated a special accounting period) as per the provisional article 10 incorporated by the Article 91 of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down up to 20%.

Tax rate used in the calculation of deferred tax assets and liabilities was %22 over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and %20 over temporary timing differences expected to be reversed in 2021 and the following years (31 December 2016: 20%).

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 and accrued advance tax for 1 January- 30 September 2017 period is paid in November 2017. Furthermore, accrued advance tax for 1 January 2017-31 December 2017 period will also be paid in February 2018.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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.

**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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**XXI. ADDITIONAL EXPLANATIONS ON BORROWINGS**

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

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

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

**XXII. EXPLANATIONS ON SHARES ISSUED**

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

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

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

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

Halk Varlık Kiralama A.Ş., applied to the the Capital Markets Board for public offering of lease certificates with regards to the initial issue of TRY 100.000 with the maturity of 87 days, within the total public offering limit of TRY 1.000.000, as approved by the Capital Markets Board on 14 December 2017. The issue was made on 18 December 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**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.



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**I. EXPLANATIONS ON 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 31 December 2017, the Group's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 13,59% (31 December 2016: 12,50%), the equity is calculated as TRY 28.415.296 in accordance with the principles of "Regulation on Equities of Banks" (31 December 2016: TRY 22.857.357).

1. Information on Components of Consolidated Capital:

<b>Current Period</b>	<b>Amount</b>	<b>Amounts related to treatment before 1/1/2014<sup>(*)</sup></b>
<b>COMMON EQUITY TIER 1 CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	17.028.610	
Other Comprehensive Income according to TAS	1.635.974	
Profit	4.139.070	
Current Period Profit	4.038.239	
Prior Period Profit	100.831	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interest	1.655	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>25.320.220</b>	
<b>Deductions From Common Equity Tier I Capital</b>		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	-	
Leasehold Improvements on Operational Leases	64.929	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	114.476	143.095
Net Deferred Tax Asset/Liability	-	
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined pension benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital	-	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
<b>Total Deductions From Common Equity Tier 1 Capital</b>	<b>179.405</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>25.140.815</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

<b>ADDITIONAL TIER I CAPITAL</b>	
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Shares of Third Parties in Additional Tier I Capital	-
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-
<b>Additional Tier I Capital before Deductions</b>	-
<b>Deductions from Additional Tier I Capital</b>	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-
Other items to be defined by the BRSA (-)	-
<b>Items to be Deducted from Tier I Capital During the Transition Period</b>	<b>28.619</b>
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	28.619
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
<b>Total Deductions from Additional Tier I Capital</b>	-
<b>Total Additional Tier I Capital</b>	-
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>25.112.196</b>
<b>TIER II CAPITAL</b>	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.000.000
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)	2.317.157
<b>Tier II Capital Before Deductions</b>	<b>3.317.157</b>
<b>Deductions From Tier II Capital</b>	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments in equity instruments issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and having conditions stated in the Article 8 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
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 (-)	-
<b>Total Deductions from Tier II Capital</b>	-
<b>Total Tier II Capital</b>	<b>3.317.157</b>
<b>Total Capital (The sum of Tier I Capital and Tier II Capital)</b>	<b>28.429.353</b>
<b>Total Tier I Capital and Tier II Capital ( Total Equity)</b>	<b>28.415.296</b>
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-
Other items to be Defined by the BRSA (-)	14.047

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

<b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period</b>	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-
<b>TOTAL CAPITAL</b>	
Total capital	28.415.296
Total risk weighted amounts	209.028.282
<b>CAPITAL ADEQUACY RATIOS</b>	
Core Capital Adequacy Ratio	12,03
Tier I Capital Adequacy Ratio	12,01
Capital Adequacy Ratio	13,59
<b>BUFFERS</b>	
Bank-specific total CET1 Capital Ratio (%)	6,278
Capital Conservation Buffer Ratio (%)	1,250
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,028
Systemic Bank Buffer Ratio (%)	0,500
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,594
<b>Amounts Lower Than Excesses as per Deduction Rules</b>	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	65.577
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 (**)	1.965.971
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	317.442
<b>Limits for Provisions Used in Tier II Capital Calculation</b>	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.317.157
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2.317.157
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-
<b>Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)</b>	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

<b>Prior Period</b>	<b>Amount</b>	<b>Amounts related to treatment before 1/1/2014<sup>(*)</sup></b>
<b>COMMON EQUITY TIER 1 CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	39.737	
Reserves	14.553.153	
Other Comprehensive Income according to TAS	1.387.742	
Profit	2.700.556	
Current Period Profit	2.533.607	
Prior Period Profit	166.949	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	4.723	
Minority Interests	16.333	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>21.172.695</b>	
<b>Deductions From Common Equity Tier I Capital</b>		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	-	
Leasehold Improvements on Operational Leases (-)	72.880	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	69.137	110.427
Net Deferred Tax Asset/Liability	-	
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined pension benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital	-	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
<b>Total Deductions From Common Equity Tier 1 Capital</b>	<b>142.017</b>	
<b>Total Common Equity Tier 1 Capital</b>	<b>21.030.678</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

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

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

2. 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

3. Details of Subordinated Liabilities:

<b>Details on Subordinated Liabilities:</b>	
Issuer	T. Halk Bankası A.Ş.
Unique identifier (ex CUSIP, ISIN or Bloomberg identifier for private placement)	TRSTHALE2716
Governing Law(s) of the instrument	BRSA and CMB Legislation
<b>Regulatory treatment</b>	
Transitional Basel III rules	No
Eligible at unconsolidated / consolidated	Consolidated -Consolidated
Instrument type (types to be specified by each jurisdiction)	Public Sector Bond
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	1.000
Par value of instrument	1.000
Accounting classification	346.011
Original date of issuance	20.10.2017
Perpetual or dated	Dated
Original maturity date	20.10.2017
Issuer call subject to prior supervisory approval	At the end of the fifth year, the Bank has an early redemption option.
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
<b>Coupons / dividends</b>	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	Government Debt Security for 5 years+350 base points
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	-
<b>Convertible or non-convertible</b>	
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
<b>Write-down feature</b>	
If write-down, write-down trigger(s)	-
If write-down, full or partial	-
If write-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-
In compliance with article number 7 and 8 of "Own fund regulation"	The instrument is in compliance with article number 8.
Details of incompliances with article number 7 and 8 of "Own fund regulation"	The instrument is not in compliant with article numbered 7.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK**

Credit risk is defined as risks and losses that may occur if the counterparty fails to comply with the agreement's requirements and cannot perform its obligations partially or completely on the terms set. In compliance with the legislation, the credit limits are set for the financial position and credit requirements of customers within the authorization limits assigned for Branches, Regional Lending Committees, Lending Departments, Executive Vice President responsible of Lending, General Manager, Credit Committee and Board of Directors. The limits are subject to revision if necessary.

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

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

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

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

As prescribed in the Communiqué on "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside", the credit worthiness of the debtors of the loans and other receivables is monitored regularly. Credit limits are determined according to the audited statement of accounts. Guarantee factors are developed in accordance with the decision of the credit committee and updated according to the top management's initiatives and changes in the economic conditions. The Group receives sufficient collaterals in consideration of the loans and other receivables granted. Guarantees obtained are surety ships, immovable mortgages, cash blockages and customer or real person cheques.

When the Group is exposed to significant credit risks, it has the tendency to discontinue cease its forward or similar type of transactions by exercising rights, fulfilling the requirements of the acquisitions or disposing of the agreements entered into to mitigate the total risk.

The Group's largest 100 and 200 cash loan customers compose 24,00% and 29,15% of the total cash loan portfolio, respectively.

The Group's largest 100 and 200 non-cash loan customers compose 44,37% and 54,41% of the total non-cash loan portfolio, respectively.

The Group's largest 100 ve 200 cash and non-cash loan customers represent 16,92% and 21,35% of the total "on and off balance sheet" assets, respectively.

General loan loss provision related to the credit risk incurred by the Parent Bank in accordance with the legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" is TRY 2.317.157 (31 December 2016: TRY 2.049.136).



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Exposure Categories:	Current Period		Prior Period	
	Risk Amount <sup>(1)</sup>	Average Risk Amount	Risk Amount <sup>(1)</sup>	Average Risk Amount
Conditional and unconditional exposures to central governments or central banks	86.569.516	74.915.955	68.234.630	53.160.680
Conditional and unconditional exposures to regional governments or local authorities	3.067.554	2.472.885	1.913.131	1.385.766
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	1.660.748	1.314.455	740.264	709.612
Conditional and unconditional exposures to multilateral development banks	-	-	-	-
Conditional and unconditional exposures to international organisations	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	13.717.654	10.382.528	6.407.389	5.518.048
Conditional and unconditional exposures to corporates	97.997.365	90.892.897	83.297.300	75.938.784
Conditional and unconditional retail exposures	61.922.342	58.718.635	54.433.959	53.350.422
Conditional and unconditional exposures secured by real estate property	57.799.207	52.307.972	45.580.377	35.640.519
Past due items	1.441.160	1.462.049	1.269.390	1.135.435
Items in regulatory high-risk categories	57.407	123.794	50.578	1.350.442
Exposures in the form of bonds secured by mortgages	-	-	-	-
Securitisation positions	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-
Other items	12.233.922	12.089.549	10.356.218	9.501.546

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

<sup>(2)</sup> As of 31 December 2017, there is an overdraft finance lease receivable amounting to TRY 76.635 which is 100% risk-weighted in the risk class overdue receivables risk class in the credit risk table. (31 December 2016: TRY 72.332)

**TÜRKİYE HALK BANKASI AŞ**

**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Profile of significant exposures in major regions:

	Risk Classifications <sup>(1)</sup>										Total
	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to regional governments or local authorities	Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due receivables	Items in regulatory high-risk categories	Other	
<b>Current Period</b>											
1. Domestic	86.569.515	3.067.554	1.660.722	12.049.313	95.967.363	61.809.588	57.445.940	1.414.190	57.407	12.206.480	332.248.072
2. European Union (EU) Countries	-	-	26	905.606	613.615	107.759	268.877	26.953	-	27.442	1.950.278
3. OECD Countries	-	-	-	101.859	612	2.115	19.227	17	-	-	123.830
4. Off-Shore Banking Regions	-	-	-	509	-	13	-	-	-	-	522
5. USA, Canada	-	-	-	280.681	301.487	84	360	-	-	-	582.612
6. Other Countries	1	-	-	379.686	1.114.288	2.783	64.803	-	-	-	1.561.561
7. Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-
8. Unallocated Assets/Liabilities <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>86.569.516</b>	<b>3.067.554</b>	<b>1.660.748</b>	<b>13.717.654</b>	<b>97.997.365</b>	<b>61.922.342</b>	<b>57.799.207</b>	<b>1.441.160</b>	<b>57.407</b>	<b>12.233.922</b>	<b>336.466.875</b>
<b>Prior Period</b>											
1. Domestic	68.234.621	1.913.131	740.208	6.279.382	81.079.482	54.330.563	45.349.383	1.251.604	50.578	10.340.747	269.569.699
2. European Union (EU) Countries	-	-	56	54.616	664.177	100.032	213.895	17.783	-	15.471	1.066.030
3. OECD Countries	-	-	-	20.552	5.674	1.507	14.148	3	-	-	41.884
4. Off-Shore Banking Regions	-	-	-	-	-	23	-	-	-	-	23
5. USA, Canada	-	-	-	13.139	217.206	96	347	-	-	-	230.788
6. Other Countries	9	-	-	39.700	1.330.761	1.738	2.604	-	-	-	1.374.812
7. Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-
8. Unallocated Assets/Liabilities <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>68.234.630</b>	<b>1.913.131</b>	<b>740.264</b>	<b>6.407.389</b>	<b>83.297.300</b>	<b>54.433.959</b>	<b>45.580.377</b>	<b>1.269.390</b>	<b>50.578</b>	<b>10.356.218</b>	<b>272.283.236</b>

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

<sup>(2)</sup> Assets and liabilities that are not consistently allocated.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017**  
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Profile of significant exposures by sectors:

Current Period	Risk Classifications <sup>(1)</sup>												
	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to regional governments or local authorities	Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due receivables	Receivables in regulatory high-risk categories	Other	TRY	FC	Total
Agriculture	1	5	15	10.365	616.431	695.401	140.782	32.107	-	85.400	875.269	705.238	1.580.507
<i>Farming and Stockbreeding</i>	1	3	15	10.365	222.147	572.922	128.461	20.777	-	393	823.323	131.761	955.084
<i>Forestry</i>	-	2	-	-	272.134	89.058	1.005	9.812	-	78.714	5.520	445.205	450.725
<i>Fishery</i>	-	-	-	-	122.150	33.421	11.316	1.518	-	6.293	46.426	128.272	174.698
Manufacturing	764.116	64.451	1.268.425	382.597	41.173.234	12.709.085	16.119.424	874.369	-	419.292	37.959.276	35.815.717	73.774.993
<i>Mining and Quarrying</i>	-	-	584.772	983	1.271.114	190.474	181.561	14.881	-	16.208	706.534	1.553.459	2.259.993
<i>Production</i>	764.116	64.424	664.185	381.614	30.911.345	12.455.581	14.611.325	859.488	-	400.667	34.374.980	26.737.765	61.112.745
<i>Electricity, Gas and Water</i>	-	27	19.468	-	8.990.775	63.030	1.326.538	-	-	2.417	2.877.762	7.524.493	10.402.255
Construction	38	2	144	133.503	13.362.849	2.309.935	1.716.747	102.175	-	116.411	10.272.919	7.468.885	17.741.804
Services	617.743	41.629	228.075	13.178.512	33.799.735	29.921.492	16.399.928	382.260	-	5.920.072	58.278.088	42.211.358	100.489.446
<i>Wholesale and Retail Trade</i>	176	9.272	29.098	10.165	12.931.392	19.644.944	7.802.434	190.039	-	71.925	34.394.147	6.295.298	40.689.445
<i>Accommodation and Dining</i>	3	128	1.667	3.645	6.052.569	1.020.038	4.423.745	67.561	-	13.654	2.307.516	9.275.494	11.583.010
<i>Transportation and Telecom.</i>	-	13.300	142.869	3.667	6.330.973	7.609.568	827.688	19.810	-	6.746	8.808.691	6.145.930	14.954.621
<i>Financial Institutions</i>	369.534	-	3.766	13.148.707	2.747.140	50.944	716.879	14	-	5.720.976	8.577.346	14.180.614	22.757.960
<i>Real Estate and Rental Services</i>	174.232	18.740	-	130	3.124.606	445.252	1.595.358	77.750	-	8.330	1.325.798	4.118.600	5.444.398
<i>Professional Services</i>	2	2	4	-	13	742.627	132.057	1.666	-	-	875.950	421	876.371
<i>Educational Services</i>	194	176	23.692	7.290	1.118.843	168.378	293.811	3.132	-	11.217	888.117	738.616	1.626.733
<i>Health and Social Services</i>	73.602	11	26.979	4.908	1.494.199	239.741	607.956	22.288	-	87.224	1.100.523	1.456.385	2.556.908
Other	85.187.618	2.961.467	164.089	12.677	9.045.116	16.286.429	23.422.326	50.249	57.407	5.692.747	97.170.842	45.709.283	142.880.125
<b>Total</b>	<b>86.569.516</b>	<b>3.067.554</b>	<b>1.660.748</b>	<b>13.717.654</b>	<b>97.997.365</b>	<b>61.922.342</b>	<b>57.799.207</b>	<b>1.441.160</b>	<b>57.407</b>	<b>12.233.922</b>	<b>204.556.394</b>	<b>131.910.481</b>	<b>336.466.875</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017**  
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Profile of significant exposures by sectors: (continued)

Prior Period	Risk Classifications <sup>(1)</sup>											TRY	FC	Total
	Conditional and unconditional exposures to central governments or central banks	Conditional and unconditional exposures to regional governments or local authorities	Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	Conditional and unconditional exposures to banks and brokerage houses	Conditional and unconditional exposures to corporates	Conditional and unconditional retail exposures	Conditional and unconditional exposures secured by real estate property	Past due receivables	Receivables in regulatory high-risk categories	Other				
Agriculture	11	14	100	-	308.503	528.610	92.659	24.536	-	12	666.763	287.682	954.445	
<i>Farming and Stockbreeding</i>	11	14	70	-	184.521	478.317	84.136	22.572	-	12	618.615	151.038	769.653	
<i>Forestry</i>	-	-	5	-	54.730	23.917	643	759	-	-	12.015	68.039	80.054	
<i>Fishery</i>	-	-	25	-	69.252	26.376	7.880	1.205	-	-	36.133	68.605	104.738	
Manufacturing	48	55	361.455	-	35.259.454	8.593.342	13.066.982	730.962	-	69.923	25.552.883	32.529.338	58.082.221	
<i>Mining and Quarrying</i>	-	-	139.590	-	1.097.764	149.325	168.125	18.997	-	-	406.969	1.166.832	1.573.801	
<i>Production</i>	48	28	107.988	-	26.558.330	8.408.488	11.980.103	710.042	-	69.923	23.271.964	24.562.986	47.834.950	
<i>Electricity, Gas and Water</i>	-	27	113.877	-	7.603.360	35.529	918.754	1.923	-	-	1.873.950	6.799.520	8.673.470	
Construction	13	16	129	-	9.610.201	1.650.379	1.459.239	123.384	-	-	6.544.187	6.299.174	12.843.361	
Services	401.823	33.266	288.624	4.984.874	27.156.931	22.598.261	13.253.355	386.604	-	3.497.401	46.308.048	26.293.091	72.601.139	
<i>Wholesale and Retail Trade</i>	17	694	102.093	-	9.655.999	14.283.744	6.507.261	195.895	-	2.075	25.077.068	5.670.710	30.747.778	
<i>Accommodation and Dining</i>	-	47	13	-	3.899.276	695.392	3.676.091	63.006	-	9.402	1.589.708	6.753.519	8.343.227	
<i>Transportation and Telecom.</i>	-	17.250	172.328	-	6.980.709	6.306.663	651.510	17.851	-	184	6.986.634	7.159.861	14.146.495	
<i>Financial Institutions</i>	202.060	-	1.189	4.984.874	3.249.029	42.636	582.349	583	-	3.483.535	9.875.901	2.670.354	12.546.255	
<i>Real Estate and Rental Services</i>	129.739	15.237	-	-	1.963.357	320.073	916.500	73.623	-	12	858.960	2.559.581	3.418.541	
<i>Professional Services</i>	4	6	17	-	10.469	706.050	135.471	2.086	-	-	846.435	7.668	854.103	
<i>Educational Services</i>	25.513	-	238	-	662.189	83.452	248.809	2.374	-	2.193	438.742	586.026	1.024.768	
<i>Health and Social Services</i>	44.490	32	12.746	-	735.903	160.251	535.364	31.186	-	-	634.600	885.372	1.519.972	
Other	67.832.735	1.879.780	89.956	1.422.515	10.962.211	21.063.367	17.708.142	3.904	50.578	6.788.882	81.118.393	46.683.677	127.802.070	
<b>Total</b>	<b>68.234.630</b>	<b>1.913.131</b>	<b>740.264</b>	<b>6.407.389</b>	<b>83.297.300</b>	<b>54.433.959</b>	<b>45.580.377</b>	<b>1.269.390</b>	<b>50.578</b>	<b>10.356.218</b>	<b>160.190.274</b>	<b>112.092.962</b>	<b>272.283.236</b>	

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Analysis of maturity-bearing exposures according to remaining maturities <sup>(\*)</sup><sup>(\*\*)</sup>:

Current Period Exposure Categories	Term to Maturity				
	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year
1. Conditional and unconditional exposures to central governments or central banks	1.537.354	512.331	1.200.790	2.999.040	80.320.001
2. Conditional and unconditional exposures to regional governments or local authorities	49.077	17.414	74.464	165.900	2.760.699
3 Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	725.004	5.371	7.920	109.237	813.216
4. Conditional and unconditional exposures to banks and brokerage houses	12.857.780	674.329	87.475	74.633	23.437
5. Conditional and unconditional exposures to corporates	12.376.238	6.745.485	10.755.811	17.893.970	71.588.636
6 Conditional and unconditional retail exposures	4.909.361	2.111.072	3.874.026	10.956.580	76.565.142
7. Past due items	1.433.547	-	1	2	7.610
8. Other Items	880.464	199.310	48.674	31.085	11.074.389
<b>Total</b>	<b>34.768.825</b>	<b>10.265.312</b>	<b>16.049.161</b>	<b>32.230.447</b>	<b>243.153.130</b>

<sup>(\*)</sup>Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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

Prior Period Exposure Categories	Term to Maturity				
	Up to 1 month	Up to 1 month	Up to 1 month	Up to 1 month	Up to 1 month
1. Conditional and unconditional exposures to central governments or central banks	431.030	65.939	408.242	923.263	66.406.156
2. Conditional and unconditional exposures to regional governments or local authorities	31.540	590	10.178	45.272	1.825.551
3 Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	380.080	164.819	8.018	181.329	6.018
4. Conditional and unconditional exposures to banks and brokerage houses	4.841.217	37.892	64.165	44.613	1.419.502
5. Conditional and unconditional exposures to corporates	12.874.283	5.354.254	8.834.772	14.636.163	59.977.646
6 Conditional and unconditional retail exposures	4.750.129	2.346.716	4.694.522	11.378.060	58.515.669
7. Past due items	1.196.810	-	-	22	72.558
8. Other Items	469.233	113.255	-	38	9.773.692
<b>Total</b>	<b>24.974.322</b>	<b>8.083.465</b>	<b>14.019.897</b>	<b>27.208.760</b>	<b>197.996.792</b>

<sup>(\*)</sup> Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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

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

Islamic International Rating Agency (IIRA) country ratings are taken into account in calculating the Bank's capital adequacy. For other portfolios, the ratings given by the Fitch Ratings are used for the counterparties resident abroad.

Islamic International Rating Agency (IIRA) notes are used in the "Central Government or Receivables from Central Banks" portfolio. Fitch Ratings' rating grades are used for the risk classes listed below, provided that they are resident abroad.

- Receivables on banks and intermediary institutions
- Receivables on regional governments or local authorities
- Receivables on administrative bodies and other non-commercial undertakings
- Receivables on multilateral development banks

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

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

- Corporate Receivables

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

In the 26th Article of the Regulation on the Principles Regarding the Authorization and Activities of Rating Agencies, IIRA grades are used in the below table of maturity in determining the credit quality level of the country grades, central government and central banks receivables. In the case of other risk classes included in the table, Fitch Ratings notes are taken into account if the rated party is a foreign resident, the supervisor of the relevant country has equivalent regulation and supervision structure, authorized in the country notes.

Implementation of the risk weights to receivables from Regional Governments or local authorities are subject to the same conditions as receivables from banks and intermediary institutions but this implementation exemption cannot be applied for the receivables from banks and intermediary institutions which have less than 90 days to maturity.

The implementation of the risk weights to receivables from multilateral development banks except those listed in the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks, are subject to the same conditions as receivables from banks and intermediary institutions but this implementation exemption cannot be applied for the receivables from banks and intermediary institutions which have less than 90 days to maturity.

The implementation of the risk weight for unrated receivables from banks and intermediary institutions can not be lower than the risk weight of receivables from sovereigns which they are settled in.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Credit Quality Grade and Rating Matching Table								
Credit Quality Grade	IIRA		Fitch					
	Rating	Exposures to Central Governments or Central Banks	Exposures to administrative bodies and other non-commercial undertakings			Exposures to Banks and Brokerage Houses		Exposures to Corporates
			Rating	Institutions and Organizations listed in the sections (I), (II), (III) and (IV) of Annex 5018 Public Financial Management and Control Law	Other Public Institutions and organizations	Exposures with Original Maturities Less Than 90 Days	Exposures with Original Maturities More Than 90 Days	
1	AAA	0	AAA	0%	20%	20%	20%	20%
	AA+		AA+					
	AA		AA					
2	AA-	20	AA-	20%	50%	20%	50%	50%
	A+		A+					
	A		A					
3	A-	50	A-	50%	100%	20%	50%	100%
	BBB+		BBB+					
	BBB		BBB					
4	BBB-	100	BBB-	100%	100%	50%	100%	100%
	BB+		BB+					
	BB		BB					
5	BB-	100	BB-	100%	100%	50%	100%	150%
	B+		B+					
	B		B					
6	B-	150	B-	150%	150%	150%	150%	150%
	CCC+		CCC+					
	CCC		CCC					
	CC		CC					
	C		C					
D	D							

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

**Receivables from consolidated private sector :**

Country	RWA Calculations for Private Sector Loans in Banking Book	RWA Calculations for Trading Book	Total
TURKEY	168.612.011	16.096	168.628.107
MACEDONIA	2.518.316	-	2.518.316
VIRGIN ISLANDS(US)	950.316	-	950.316
TRNC	398.271	186	398.457
SERBIA	287.429	856	288.285
SWEDEN	228.463	-	228.463
KIRGHIZSTAN	66.413	-	66.413
UNITED KINGDOM	63.402	-	63.402
SWITZERLAND	53.056	-	53.056
SAUDI ARABIA	25.318	-	25.318
GERMANY	26.664	-	26.664
LUXEMBOURG	18.122	-	18.122
FRANCE	16.908	-	16.908
UNITED STATES	11.502	50.028	61.530
OTHER	16.743	-	16.743

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

**Exposures by risk weights:**

<b>Current Period</b>											<b>Deductions from Equity</b>
<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>35%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>250%</b>	
1. Exposures before Credit Risk Mitigation	59.532.270	-	6.906.873	-	22.474.709	108.695.802	138.365.815	57.407	-	433.999	222.081
2. Exposures after Credit Risk Mitigation	78.174.802	19	8.028.877	34.775.748	48.618.780	59.842.697	106.534.546	57.407	-	433.999	222.081

  

<b>Prior Period</b>											<b>Deductions from Equity</b>
<b>Risk Weights</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>35%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>	<b>250%</b>	
1. Exposures before Credit Risk Mitigation	38.234.691	-	5.150.545	-	37.425.377	83.868.575	107.167.842	50.578	-	385.627	364.474
2. Exposures after Credit Risk Mitigation	41.396.138	832.839	5.500.768	25.862.844	56.843.514	52.918.351	88.492.576	50.578	-	385.627	364.474



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Information by major sectors and type of counterparties:

Current Period Major Sectors /Counterparties	Credits			
	Impaired Credits <sup>(1)</sup>	Past Due Credits <sup>(2)</sup>	Value Adjustments	Provisions
<b>Agriculture</b>	<b>92.749</b>	<b>12.915</b>	<b>226</b>	<b>75.549</b>
<i>Farming and Stockbreeding</i>	83.371	12.205	212	67.697
<i>Forestry</i>	8.904	-	-	7.387
<i>Fishery</i>	474	710	14	465
<b>Manufacturing</b>	<b>2.798.522</b>	<b>784.706</b>	<b>15.348</b>	<b>2.032.134</b>
<i>Mining and Quarrying</i>	130.201	13.126	239	115.312
<i>Production</i>	2.664.709	391.994	7.524	1.913.972
<i>Electricity, Gas and Water</i>	3.612	379.586	7.585	2.850
<b>Construction</b>	<b>1.149.091</b>	<b>119.290</b>	<b>2.023</b>	<b>995.733</b>
<b>Services</b>	<b>2.195.411</b>	<b>1.178.444</b>	<b>22.942</b>	<b>1.742.358</b>
<i>Wholesale and Retail Trade</i>	1.322.062	723.120	14.007	947.799
<i>Accommodation and Dining</i>	145.087	73.441	1.391	118.960
<i>Transportation and Telecommunication</i>	102.766	173.655	3.382	65.875
<i>Financial Institutions</i>	11.834	941	19	10.740
<i>Real Estate and Rental Services</i>	537.563	163.105	3.262	532.337
<i>Professional Services</i>	-	26.058	521	-
<i>Educational Services</i>	6.885	6.620	132	3.752
<i>Health and Social Services</i>	69.214	11.504	228	62.895
<b>Others</b>	<b>60.633</b>	<b>395.024</b>	<b>10.545</b>	<b>40.307</b>
<b>Total</b>	<b>6.296.406</b>	<b>2.490.379</b>	<b>51.084</b>	<b>4.886.081</b>

<sup>(1)</sup> Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

<sup>(2)</sup> Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

Information by major sectors and type of counterparties: (continued)

Prior Period Major Sectors /Counterparties	Credits			Value Adjustments	Provisions
	Impaired Credits <sup>(1)</sup>	Past Due Credits <sup>(2)</sup>			
<b>Agriculture</b>	<b>95.323</b>	<b>14.055</b>		<b>273</b>	<b>72.418</b>
<i>Farming and Stockbreeding</i>	86.543	11.087		214	64.851
<i>Forestry</i>	472	-		-	464
<i>Fishery</i>	8.308	2.968		59	7.103
<b>Manufacturing</b>	<b>2.393.501</b>	<b>569.819</b>		<b>11.347</b>	<b>1.615.485</b>
<i>Mining and Quarrying</i>	133.994	12.674		253	116.630
<i>Production</i>	2.256.485	556.663		11.084	1.497.335
<i>Electricity, Gas and Water</i>	3.022	482		10	1.520
<b>Construction</b>	<b>456.166</b>	<b>118.552</b>		<b>2.355</b>	<b>360.921</b>
<b>Services</b>	<b>1.417.051</b>	<b>911.304</b>		<b>17.956</b>	<b>1.051.164</b>
<i>Wholesale and Retail Trade</i>	982.054	537.187		10.581	790.762
<i>Accommodation and Dining</i>	148.152	84.693		1.599	98.223
<i>Transportation and Telecommunication</i>	64.355	130.222		2.593	42.969
<i>Financial Institutions</i>	11.043	959		19	11.043
<i>Real Estate and Rental Services.</i>	123.450	121.216		2.424	50.005
<i>Professional Services</i>	9.808	19.805		396	8.045
<i>Educational Services</i>	5.985	12.617		252	3.611
<i>Health and Social Services</i>	72.204	4.605		92	46.506
<b>Others</b>	<b>958.471</b>	<b>213.800</b>		<b>6.242</b>	<b>955.400</b>
<b>Total</b>	<b>5.320.512</b>	<b>1.827.530</b>		<b>38.173</b>	<b>4.055.388</b>

<sup>(1)</sup> Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

<sup>(2)</sup> Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above. Movements in value adjustments and provisions:

Current Period	Provision				Closing Balance
	Opening Balance	for Period	Provision Reversals	Other Adjustments(*)	
1. Specific Provisions	4.055.388	1.139.908	309.215	-	4.886.081
2. General Provisions	2.049.136	268.934	913	-	2.317.157

Prior Period	Provision				Closing Balance
	Opening Balance	for Period	Provision Reversals	Other Adjustments(*)	
1. Specific Provisions	3.172.717	1.161.930	278.227	(1.032)	4.055.388
2. General Provisions	1.139.290	910.121	275	-	2.049.136

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

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

<b>Gross Maximum Exposure</b>	<b>Current Period</b>	<b>Prior Period</b>
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	36.681.377	30.211.966
Due from banks	6.313.167	1.964.850
Money Market Receivables	1.288.168	1.072.397
Financial Assets at Fair Value through profit or loss <sup>(1)</sup>	481.839	445.831
Financial Assets Available for Sale	17.620.079	15.421.388
Held to maturity Investments	21.987.099	18.344.626
Loans Given	205.552.595	159.323.159
Receivables form Leasing Transactions (Net)	2.671.253	2.311.330
Factoirmg Receivables	1.211.932	1.134.528
<b>Total</b>	<b>293.807.509</b>	<b>230.230.075</b>
Contingent Liabilities	58.787.658	47.877.719
Commitments	25.114.194	24.754.360
<b>Total</b>	<b>83.901.852</b>	<b>72.632.079</b>
<b>Total Credit Risk Exposure</b>	<b>377.709.361</b>	<b>302.862.154</b>

(1) As of 31 December 2017, TRY 10.000.429 of borrowed securities is not included in Financial Assets at Fair Value through profit or loss.

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, financial assets available for sale and held to maturity investments

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK:(continued)**

The net value and type of collaterals of the loans amounting TRY 5.128.482 followed under loans and other receivables under close monitoring section is below (31 December 2016: TRY 4.591.812):

<b>Collateral Types<sup>(1),(2)</sup></b>	<b>Net Value of Collateral Current Period</b>	<b>Net Value of Collateral Prior Period</b>
Real estate mortgage	3.127.124	3.286.676
Salary pledge, vehicle pledge and pledge of commercial undertaking	139.087	107.555
Financial collaterals (cash, securities pledge, etc.)	1.671	2.418
Cheque / bills	11.068	38.123
Surities	808.779	881.394
Other	1.040.753	275.646
<b>Total</b>	<b>5.128.482</b>	<b>4.591.812</b>

<sup>(1)</sup>The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered on the table above.

<sup>(2)</sup>Income accruals amounting to TRY 74.024 (31 December 2016: TRY 62.119) are not included in the table.

The net value and type of collaterals belongs to loans amounted TRY 6.296.406 followed under non-performing loans section is below (31 December 2016: TRY 5.320.512).

<b>Collateral Types<sup>(1)</sup></b>	<b>Net Value of Collateral Current Period</b>	<b>Net Value of Collateral Prior Period</b>
Cash	271	475
Mortgage	1.708.612	1.341.044
Pledge	236.880	225.056
Cheque / bills	8.527	24.561
Surities	1.688.191	1.523.452
Other <sup>(2)</sup>	2.653.925	2.205.924
<b>Total</b>	<b>6.296.406</b>	<b>5.320.512</b>

<sup>(1)</sup>The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered on the table above.

<sup>(2)</sup>Comprised of share certificates, blockage on receivables and salaries, uncollateralized, etc.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**III. EXPLANATIONS ON CONSOLIDATED 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:

	<u>22.12.2017</u>	<u>25.12.2017</u>	<u>26.12.2017</u>	<u>27.12.2017</u>	<u>28.12.2017</u>	<u>29.12.2017</u>
USD	3,7900000	3,7800000	3,7900000	3,7900000	3,7500000	3,7900000
CHF	3,8198000	3,8182000	3,8249000	3,8283000	3,8239000	3,8766000
GBP	5,0623000	5,0472000	5,0568000	5,0767000	5,0345000	5,1168000
JPY	0,0333802	0,0333230	0,0334126	0,0334082	0,0331918	0,0336338
EUR	4,4904000	4,4891000	4,4991000	4,5114000	4,4801000	4,5465000

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:

	<u>Monthly average</u>
USD	3,8142857
CHF	3,8547333
GBP	5,1035238
JPY	0,0337186
EUR	4,5142952

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**III. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (continued)**

Information related to the consolidated currency risk:

<b>Current Period</b>	<b>EUR</b>	<b>USD</b>	<b>OTHER FC</b>	<b>TOTAL</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	3.938.950	14.994.377	4.830.560	23.763.887
Banks	1.041.824	4.099.624	494.359	5.635.807
Financial assets at fair value through profit and loss <sup>(3)</sup>	39.374	315.250	8.874	363.498
Money market placements	-	-	-	-
Financial assets available-for-sale	460.502	5.196.182	442.930	6.099.614
Loans <sup>(2)</sup>	35.807.644	30.447.276	1.741.937	67.996.857
Subsidiaries, associates and entities under common control	330.548	-	-	330.548
Held-to-maturity investments	2.132	2.512.936	167.538	2.682.606
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	92.638	92.638
Intangible assets	-	-	-	-
Other assets <sup>(3)</sup>	1.650.635	899.494	60.675	2.610.804
<b>Total assets</b>	<b>43.271.609</b>	<b>58.465.139</b>	<b>7.839.511</b>	<b>109.576.259</b>
<b>Liabilities</b>				
Bank deposits	5.958.637	4.898.648	1.099.335	11.956.620
Foreign currency deposits	29.110.566	31.623.066	4.020.404	64.754.036
Money market balances	-	5.387.762	-	5.387.762
Funds provided from other financial institutions	8.332.951	10.256.357	32.315	18.621.623
Bonds issued	-	8.640.905	0	8.640.905
Sundry creditors	96.587	63.105	19.853	179.545
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities <sup>(3)</sup>	360.776	266.412	99.064	726.252
<b>Total liabilities</b>	<b>43.859.517</b>	<b>61.136.255</b>	<b>5.270.971</b>	<b>110.266.743</b>
<b>Net balance sheet position</b>	<b>(587.908)</b>	<b>(2.671.116)</b>	<b>2.568.540</b>	<b>(690.484)</b>
<b>Net off-balance sheet position</b>				
<b>Financial derivative assets<sup>(4)</sup></b>	<b>1.065.746</b>	<b>5.996.311</b>	<b>1.250.482</b>	<b>8.312.539</b>
<b>Financial derivative liabilities<sup>(4)</sup></b>	<b>842.548</b>	<b>3.461.364</b>	<b>3.245.551</b>	<b>7.549.463</b>
<b>Non-cash loans<sup>(1)</sup></b>	<b>12.618.873</b>	<b>16.362.849</b>	<b>1.714.234</b>	<b>30.695.956</b>
<b>Prior period</b>				
Total assets	35.253.731	55.542.878	5.949.688	96.746.297
Total liabilities	35.268.253	57.378.976	4.543.061	97.190.290
<b>Net balance sheet position</b>	<b>(14.522)</b>	<b>(1.836.098)</b>	<b>1.406.627</b>	<b>(443.993)</b>
<b>Net off-balance sheet position</b>				
<b>Financial derivative assets</b>	<b>1.387.874</b>	<b>4.185.717</b>	<b>1.571.243</b>	<b>7.144.834</b>
<b>Financial derivative liabilities</b>	<b>1.673.702</b>	<b>2.259.822</b>	<b>2.711.951</b>	<b>6.645.475</b>
<b>Non-cash loans<sup>(1)</sup></b>	<b>8.827.121</b>	<b>16.441.447</b>	<b>1.609.613</b>	<b>26.878.181</b>

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

<sup>(2)</sup> Includes TRY 2.070.996 of foreign currency indexed loans and their accruals (31 December 2016: TRY 1.998.635).

<sup>(3)</sup> In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", foreign currency in tangible assets (TRY 22.702), prepaid expenses (TRY 183) in assets; and shareholders' equity (TRY 150.528) and foreign currency minority shares (TRY 3.551) in liabilities are not taken into consideration in the currency risk measurement.

<sup>(4)</sup> Financial derivative assets include forward precious metal purchase transactions amounted to TRY 24.982. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 2.705.436. Besides, derivative transactions under forward foreign currency purchase and sale commitments are included.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**IV. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK**

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

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

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

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

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

Current period	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Non-bearing interest	Total
<b>Assets</b>							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	26.154.546	-	-	-	-	10.526.831	36.681.377
Banks and financial institutions	4.962.270	78.154	4.019	-	-	1.268.724	6.313.167
Financial assets at fair value through profit and loss	70.098	20.154	20.268	253	27	10.372.708	10.483.508
Money market placements	1.285.499	-	-	-	-	2.669	1.288.168
Financial assets available-for-sale	209.656	3.283.663	1.797.894	4.690.439	7.634.250	83.276	17.699.178
Loans	92.563.366	23.010.263	46.800.052	31.070.822	7.744.943	2.952.824	204.142.270
Held-to-maturity investments	378.421	8.694.535	1.541.221	4.447.720	6.925.202	-	21.987.099
Other assets <sup>(1)(2)</sup>	708.980	889.929	945.432	1.493.736	418.697	9.168.215	13.624.989
<b>Total assets</b>	<b>126.332.836</b>	<b>35.976.698</b>	<b>51.108.886</b>	<b>41.702.970</b>	<b>22.723.119</b>	<b>34.375.247</b>	<b>312.219.756</b>
<b>Liabilities</b>							
Bank deposits	13.061.761	2.079.237	212.098	1.094	-	3.860.508	19.214.698
Other deposits	98.554.760	33.932.876	14.099.653	785.744	9.584	26.673.306	174.055.923
Money market balances	33.735.853	1.216.309	2.938	3.603	-	44.619	35.003.322
Sundry creditors	1.815.820	3.003	50.894	123.013	-	1.865.628	3.858.358
Bonds issued	777.925	2.308.085	295.215	8.510.538	-	130.367	12.022.130
Funds provided from other financial institutions <sup>(4)</sup>	1.696.625	6.003.694	8.775.415	2.366.544	1.088.283	127.923	20.058.484
Other liabilities <sup>(3)</sup>	1.325.837	2.410.526	11.375.120	-	-	32.895.358	48.006.841
<b>Total liabilities</b>	<b>150.968.581</b>	<b>47.953.730</b>	<b>34.811.333</b>	<b>11.790.536</b>	<b>1.097.867</b>	<b>65.597.709</b>	<b>312.219.756</b>
Balance sheet long position	-	-	16.297.553	29.912.434	21.625.252	-	67.835.239
Balance sheet short position	(24.635.745)	(11.977.032)	-	-	-	(31.222.462)	(67.835.239)
Off-balance sheet long position	379.000	568.500	2.919.781	819.361	1.902.329	8.939.672	15.528.643
Off-balance sheet short position	-	(568.500)	(2.532.191)	(1.424.801)	(1.902.329)	(8.985.269)	(15.413.090)
<b>Total position</b>	<b>(24.256.745)</b>	<b>(11.977.032)</b>	<b>16.685.143</b>	<b>29.306.994</b>	<b>21.625.252</b>	<b>(31.268.059)</b>	<b>115.553</b>

(1) TRY 87.181 of deferred tax assets is disclosed under the non-bearing interest column in other assets and TRY 574.170 of deferred tax liability is disclosed under the non-bearing interest column in other liabilities.

(2) TRY 1.410.325 of non-performing loans with no special provision are disclosed under the non-bearing interest column in other assets.

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

Prior period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non-bearing interest	Total
<b>Assets</b>							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	20.210.851	-	-	-	-	10.001.115	30.211.966
Banks and financial institutions	785.635	148.477	12.343	-	-	1.018.395	1.964.850
Financial assets at fair value through profit and loss	419.809	10.683	9.906	210	107	8.211	448.926
Money market placements	3.475	1.068.922	-	-	-	-	1.072.397
Financial assets available-for-sale	678.903	3.030.194	2.628.760	3.356.766	5.723.381	63.215	15.481.219
Loans	58.808.334	20.957.655	42.095.743	29.171.482	5.547.844	1.476.977	158.058.035
Held-to-maturity investments	490.573	7.595.932	1.882.417	2.518.687	5.857.017	-	18.344.626
Other assets <sup>(1),(2)</sup>	5.200.663	281.671	673.280	1.400.468	287.219	4.300.947	12.144.248
<b>Total assets</b>	<b>86.598.243</b>	<b>33.093.534</b>	<b>47.302.449</b>	<b>36.447.613</b>	<b>17.415.568</b>	<b>16.868.860</b>	<b>237.726.267</b>
<b>Liabilities</b>							
Bank deposits	12.234.540	2.374.878	383.750	-	-	7.867.043	22.860.211
Other deposits	72.782.836	23.195.563	9.436.652	572.900	8.534	21.542.181	127.538.666
Money market balances	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Sundry creditors	1.250.040	97.688	380.694	877.669	29	260.502	2.866.622
Bonds issued	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Funds provided from other financial institutions <sup>(4)</sup>	4.209.850	5.060.030	8.988.390	2.615.467	696.208	19.166	21.589.111
Other liabilities <sup>(3)</sup>	212.335	2.048.286	1.109.721	-	-	27.726.768	31.097.110
<b>Total liabilities</b>	<b>107.665.549</b>	<b>35.315.225</b>	<b>24.683.654</b>	<b>11.941.408</b>	<b>704.771</b>	<b>57.415.660</b>	<b>237.726.267</b>
Balance sheet long position	-	-	26.297.982	29.912.434	21.625.252	-	77.835.668
Balance sheet short position	(24.635.745)	(11.977.032)	-	-	-	(41.222.891)	(77.835.668)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
<b>Total position</b>	<b>(20.716.306)</b>	<b>(2.046.191)</b>	<b>22.618.795</b>	<b>24.076.905</b>	<b>16.710.797</b>	<b>(40.546.800)</b>	<b>97.200</b>

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

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

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

2. Average interest rates applied to financial instruments:

<b>Current period</b>	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>TRY</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT <sup>(5)</sup>	-	1,25	-	4,00
Due from other banks and financial institutions <sup>(1)</sup>	0,08	1,41	-	13,32
Financial assets at fair value through profit and loss	1,10	1,86	-	9,86
Money market placements	-	-	-	12,78
Available-for-sale financial assets	4,60	5,46	-	15,00
Loans <sup>(2)</sup>	4,78	6,42	0,84	13,12
Held-to-maturity investments	2,50	5,89	-	18,33
<b>Liabilities</b>				
Bank deposits	1,59	4,24	0,10	10,67
Other deposits <sup>(4)</sup>	1,68	3,50	0,25	12,02
Money market borrowings	-	2,43	-	12,75
Sundry creditors <sup>(3)</sup>	-	-	-	4,75
Bonds issued	-	4,46	-	13,10
Funds provided from other financial institutions	1,14	3,03	0,84	12,22
<b>Prior Period</b>	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>TRY</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT	-	0,49	-	3,30
Due from other banks and financial institutions	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
<b>Liabilities</b>				
Bank deposits	0,44	3,17	-	7,82
Other deposits	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55

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

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

<sup>(3)</sup> Declared maximum deposits interest rate with a maturity of twelve months as of 31 December 2017.

<sup>(4)</sup> Customer based calculated interest rates are applied to TRY and FC deposits as of 31 December 2017.

<sup>(5)</sup> As of balance sheet date, required reserve ratio of the CBRT.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

3. The interest rate risk of the banking book items:

Standard interest rate shock methods are being used in respect of measuring the risk arising from re-pricing mismatch of asset and liability items. The duration within the limits are determined by BRSA that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Parent Bank among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

While maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and re-pricing dates are taken into account for flexible interest instruments. Non-performing loans are placed to relevant maturity periods except demand time interval that are not than not be less than six months by taking into account receiving durations are receivables ratios under other receivables and estimated receiving durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

<b>Current Period</b>			
<b>Currency</b>	<b>Applied Shock (+/- x base point)</b>	<b>Gains/Losses</b>	<b>Gains/Shareholders' Equity –Losses/ Shareholders' Equities</b>
1	TRY	500 (400)	(4.233.277) 4.242.774
2	EUR	200 (200)	508.529 (410.052)
3	USD	200 (200)	(652.368) 1.060.994
<b>Total (For negative shocks)</b>		<b>4.893.716</b>	<b>17,17%</b>
<b>Total (For positive shocks)</b>		<b>(4.377.116)</b>	<b>(15,37%)</b>
<b>Prior Period</b>			
<b>Currency</b>	<b>Applied Shock (+/- x base point)</b>	<b>Gains/Losses</b>	<b>Gains/Shareholders' Equity –Losses/ Shareholders' Equities</b>
1	TRY	500 (400)	(3.295.737) 3.353.847
2	EUR	200 (200)	510.345 (553.459)
3	USD	200 (200)	(86.661) 301.068
<b>Total (For negative shocks)</b>		<b>3.101.456</b>	<b>13,48%</b>
<b>Total (For positive shocks)</b>		<b>(2.872.053)</b>	<b>(12,48%)</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**V. EXPLANATIONS ON 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	405.316 <sup>(*)</sup>	313.709 <sup>(**)</sup>	-	6.274

(\*) Includes TRY 52.178 of unconsolidated subsidiary, TRY 346.818 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 31 December 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	-	24.688	24.688	-	-	-
<b>Total</b>	-	<b>24.688</b>	<b>24.688</b>	-	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VI. EXPLANATIONS ON CONSOLIDATED 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VI. EXPLANATIONS ON 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	October	197,49	October	118,43
Minimum	December	129,61	November	85,30

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

	Total Unweighted Value (average) <sup>(1)</sup>		Total Weighted Value (average) <sup>(1)</sup>	
	TRY+FC	FC	TRY+FC	FC
<b>Current Period</b>				
<b>High Quality Liquid Assets</b>				
High Quality Liquid Assets			41.538.443	27.288.632
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	89.583.117	31.827.153	7.824.424	3.182.715
Stable Deposits	22.677.760	-	1.133.888	-
Less Stable Deposits	66.905.357	31.827.153	6.690.536	3.182.715
Unsecured wholesale funding , of which;	80.572.284	39.354.420	45.103.830	23.098.605
Operational Deposits	1.475.503	25.764	368.876	6.441
Non-operational Deposits	70.160.212	34.173.507	37.427.882	19.355.493
Other Unsecured Funding	8.936.570	5.155.150	7.307.072	3.736.671
Secured Funding			-	-
Other cash outflows, of which;	5.608.065	3.687.070	2.673.873	2.164.857
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	230.559	918.474	230.559	918.474
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	5.377.506	2.768.596	2.443.314	1.246.383
Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	77.397.763	28.958.391	5.990.250	2.309.291
<b>Total Cash Outflows</b>			<b>61.592.377</b>	<b>30.755.469</b>
<b>Cash Inflows</b>				
Secured Receivables	585	-	-	-
Unsecured Receivables	29.527.022	14.311.864	22.340.233	12.953.281
Other Cash Inflows	-	-	-	-
<b>Total Cash Inflows</b>	<b>29.527.607</b>	<b>14.311.864</b>	<b>22.340.233</b>	<b>12.953.281</b>
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			<b>41.538.443</b>	<b>27.288.632</b>
<b>Total Net Cash Outflows</b>			<b>39.252.144</b>	<b>17.802.188</b>
<b>Liquidity Coverage Ratio (%)</b>			<b>106,23%</b>	<b>155,86%</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
<b>Assets</b>								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	2.355.019	34.253.174	-	73.184	-	-	-	36.681.377
Banks	1.469.350	4.761.546	78.154	4.117	-	-	-	6.313.167
Financial assets at fair value through profit and loss	7.035	202.848	110.736	10.152.858	8.764	27	1.240	10.483.508
Money market placements	-	1.288.168	-	-	-	-	-	1.288.168
Financial assets available-for-sale	-	209.656	93.398	1.797.894	5.581.120	9.938.011	79.099	17.699.178
Loans <sup>(2)</sup>	550.645	12.188.893	13.633.296	60.435.585	90.269.846	27.064.005	-	204.142.270
Held-to-maturity investments	534	378.421	164.241	1.541.221	9.293.959	10.608.723	-	21.987.099
Other assets <sup>(3)</sup>	1.594.337	706.366	889.854	945.432	1.493.736	418.697	7.576.567	13.624.989
<b>Total assets</b>	<b>5.976.920</b>	<b>53.989.072</b>	<b>14.969.679</b>	<b>74.950.291</b>	<b>106.647.425</b>	<b>48.029.463</b>	<b>7.656.906</b>	<b>312.219.756</b>
<b>Liabilities</b>								
Bank deposits	3.813.689	13.102.252	2.084.086	213.579	1.092	-	-	19.214.698
Other deposits	25.517.747	99.176.766	34.202.985	14.315.698	821.461	18.123	3.143	174.055.923
Funds provided from other financial institutions <sup>(4)</sup>	2.548	1.557.086	2.912.245	8.197.962	4.690.232	2.698.411	-	20.058.484
Money market balances	-	33.777.024	1.219.757	2.938	3.603	-	-	35.003.322
Bonds issued	-	822.105	2.584.804	104.683	8.510.538	-	-	12.022.130
Sundry creditors	14.501	1.744.972	8.058	108.231	1.724.488	1.702	256.406	3.858.358
Other liabilities <sup>(1)</sup>	569.562	1.810.254	63.546	15.641.345	274.960	3.246.745	26.400.429	48.006.841
<b>Total liabilities</b>	<b>29.918.047</b>	<b>151.990.459</b>	<b>43.075.481</b>	<b>38.584.436</b>	<b>16.026.374</b>	<b>5.964.981</b>	<b>26.659.978</b>	<b>312.219.756</b>
<b>Liquidity gap</b>	<b>(23.941.127)</b>	<b>(98.001.387)</b>	<b>(28.105.802)</b>	<b>36.365.855</b>	<b>90.621.051</b>	<b>42.064.482</b>	<b>(19.003.072)</b>	<b>-</b>
<b>Net off balance sheet position</b>								
Derivative financial assets	-	(30.015)	(18.941)	11.949	152.560	-	-	115.553
Derivative financial liabilities	-	5.319.725	1.400.784	2.606.753	2.396.724	3.804.657	-	15.528.643
Non-cash loans	19.713.335	(5.349.740)	(1.419.725)	(2.594.804)	(2.244.164)	(3.804.657)	300.033	(15.413.090)
<b>Net off balance sheet position</b>	<b>-</b>	<b>6.015.467</b>	<b>5.724.727</b>	<b>2.068.327</b>	<b>4.529.279</b>	<b>6.896.416</b>	<b>-</b>	<b>25.234.216</b>
<b>Prior period</b>								
Total assets	9.791.206	39.840.301	12.647.647	52.451.368	78.616.894	37.326.837	7.052.014	237.726.267
Total liabilities	30.251.982	106.793.208	30.356.470	27.055.074	14.585.267	3.803.809	24.880.457	237.726.267
<b>Liquidity gap</b>	<b>(20.460.776)</b>	<b>(66.952.907)</b>	<b>(17.708.823)</b>	<b>25.396.294</b>	<b>64.031.627</b>	<b>33.523.028</b>	<b>(17.828.443)</b>	<b>-</b>
<b>Net off balance sheet position</b>								
Derivative financial assets	-	3.005.140	2.850.328	1.034.659	2.313.274	3.448.208	-	12.651.609
Derivative financial liabilities	-	(3.010.327)	(2.874.399)	(1.033.668)	(2.216.005)	(3.448.208)	-	(12.582.607)
<b>Net off balance sheet position</b>	<b>-</b>	<b>6.015.467</b>	<b>5.724.727</b>	<b>2.068.327</b>	<b>4.529.279</b>	<b>6.896.416</b>	<b>-</b>	<b>25.234.216</b>

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

<sup>(2)</sup> TRY 1.410.325 of non-performing loans is disclosed under the undistributed column in other assets.

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

Analysis of non-derivative financial liabilities by remaining contractual maturities:

Current Period	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
<b>Liabilities</b>							
Deposits	138.695.766	38.658.365	14.982.260	931.101	18.141	(15.012)	193.270.621
Funds provided from other financial intuitions	1.576.388	2.915.231	8.374.854	5.232.948	2.621.216	(662.153)	20.058.484
Money market borrowings	33.612.342	1.410.455	-	-	-	(19.475)	35.003.322
Securities issued	829.636	2.347.213	340.952	9.247.008	-	(742.679)	12.022.130
Funds	92.303	13.766	127.641	274.391	2.246.745	(30.212)	2.724.634
<b>Total</b>	<b>174.806.435</b>	<b>45.345.030</b>	<b>23.825.707</b>	<b>15.685.448</b>	<b>4.886.102</b>	<b>(1.469.531)</b>	<b>263.079.191</b>

Prior Period	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
<b>Liabilities</b>							
Deposits	114.023.770	25.757.529	10.529.290	614.505	11.011	(537.228)	150.398.877
Funds provided from other financial intuitions	1.787.510	2.219.235	10.952.226	5.043.435	2.125.296	(538.591)	21.589.111
Money market borrowings	16.660.819	1.479.146	911.132	-	-	(28.961)	19.022.136
Securities issued	333.042	1.090.794	3.801.556	8.920.337	-	(1.393.318)	12.752.411
Funds	193.660	13.548	103.576	334.913	1.719.621	(25.510)	2.339.808
<b>Total</b>	<b>132.998.801</b>	<b>30.560.252</b>	<b>26.297.780</b>	<b>14.913.190</b>	<b>3.855.928</b>	<b>(2.523.608)</b>	<b>206.102.343</b>

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

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

Current Period: <sup>(1)</sup>	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	3.342.111	1.450.171	1.521.700	-	-	6.313.982
Forward Contracts – Sell	1.501.823	661.607	1.518.340	-	-	3.681.770
Swaps – Buy	2.085.148	30.824	387.590	758.000	-	3.261.562
Swaps – Sell	2.083.245	29.584	379.000	605.440	-	3.097.269
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	24.982	-	-	-	-	24.982
Forward Precious Metal - Sell	1.896.450	808.986	-	-	-	2.705.436
Money Buy Options	239.927	2.822	697.462	-	-	940.211
Money Sell Options	239.926	2.822	697.462	-	-	940.210
Swaps Interest – Buy	-	-	-	1.638.724	3.804.657	5.443.381
Swaps Interest – Sell	-	-	-	1.638.724	3.804.657	5.443.381
<b>Total</b>	<b>11.413.612</b>	<b>2.986.816</b>	<b>5.201.554</b>	<b>4.640.888</b>	<b>7.609.314</b>	<b>31.852.184</b>

<sup>(1)</sup>Forward asset purchase and sale commitments have been included in the table amounts of TRY 910.451.

Prior Period: <sup>(1)</sup>	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	1.118.830	2.504.618	875.467	232.448	-	4.731.363
Forward Contracts – Sell	1.118.179	467.553	874.715	230.950	-	2.691.397
Swaps – Buy	1.775.843	264.926	159.192	656.768	-	2.856.729
Swaps – Sell	1.781.941	263.813	158.953	560.998	-	2.765.705
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	59.714	-	-	-	59.714
Forward Precious Metal - Sell	-	2.121.975	-	-	-	2.121.975
Money Buy Options	307.574	32.550	-	-	-	340.124
Money Sell Options	307.584	32.545	-	-	-	340.129
Swaps Interest – Buy	-	-	-	-	4.872.265	4.872.265
Swaps Interest – Sell	-	-	-	-	4.872.265	4.872.265
<b>Total</b>	<b>6.409.951</b>	<b>5.747.694</b>	<b>2.068.327</b>	<b>1.681.164</b>	<b>9.744.530</b>	<b>25.651.666</b>

<sup>(1)</sup>Forward asset purchase and sale commitments have been included in the table amounts of TRY 417.450.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VII. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO**

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

	Current Period <sup>(2)</sup>	Prior Period <sup>(2)</sup>
Total Assets in The Consolidated Financial Statements Prepared in Accordance with TAS <sup>(1)</sup>	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 <sup>(1)</sup>	(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	17.716.168	12.750.123
The difference between total amount of risk investment securities or commodity collateral financing transactions in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk amount of such instruments	3.364.403	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	797.772	499.895
The other differences between amount of assets in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of Banks, and total risk amount of such items	-	-
<b>Total Risk Amount</b>	<b>393.862.493</b>	<b>304.496.860</b>

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

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

	Current Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>On-Balance Sheet Items</b>		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	306.253.039	231.246.177
Assets that are deducted from core capital	(169.958)	(142.844)
<b>Total on balance sheet exposures</b>	<b>306.083.081</b>	<b>231.103.333</b>
<b>Derivative exposures and credit derivatives</b>		
Replacement cost associated with derivative financial instruments and credit derivatives	456.562	426.047
The potential amount of credit risk with derivative financial instruments and credit derivatives	236.834	169.191
<b>The total amount of risk on derivative financial instruments and credit derivatives</b>	<b>693.396</b>	<b>595.238</b>
<b>Investment securities or commodity collateral financing transactions</b>		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	1.268.407	564.162
Risk amount of exchange brokerage operations	-	-
<b>Total risks related with securities or commodity financing transactions</b>	<b>1.268.407</b>	<b>564.162</b>
<b>Off -Balance Sheet Items</b>		
Gross notional amount of off-balance sheet items	86.615.381	72.734.022
Adjustments for conversion to credit equivalent amounts	(797.772)	(499.895)
<b>The total risk of off-balance sheet items</b>	<b>85.817.609</b>	<b>72.234.127</b>
<b>Capital and Total Exposures</b>		
Tier 1 Capital	24.625.572	20.935.086
<b>Total Exposures</b>	<b>393.862.493</b>	<b>304.496.860</b>
<b>Leverage Ratio</b>		
Leverage Ratio	6.25%	6.88%

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VIII. EXPLANATIONS ON 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VIII. EXPLANATIONS ON CONSOLIDATED BUSINESS SEGMENTATION (continued)**

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

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

<b>Current Period</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Integrated</b>	<b>Treasury / Investment<sup>(1)</sup></b>	<b>Other<sup>(2)</sup></b>	<b>Total</b>
<b>OPERATING INCOME / EXPENSES</b>						
<b>Interest income</b>	<b>2.140.662</b>	<b>3.272.456</b>	<b>13.414.498</b>	<b>4.430.253</b>	<b>407.200</b>	<b>23.665.069</b>
<i>Interest on loans</i>	2.138.905	3.271.343	13.148.169	502.421	-	19.060.838
<i>Interest income on marketable securities</i>	-	-	254.258	3.469.735	41.539	3.765.532
<i>Interest received from banks</i>	-	-	1	256.784	(84)	256.701
<i>Other interest income</i>	1.757	1.113	12.070	201.313	365.745	581.998
<b>Interest expense</b>	<b>1.448.879</b>	<b>726.547</b>	<b>8.274.963</b>	<b>4.680.531</b>	<b>177.857</b>	<b>15.308.777</b>
<i>Interest on deposits</i>	1.448.080	695.437	8.085.971	856.369	-	11.085.857
<i>Interest on borrowings</i>	661	6.907	27.289	359.802	145.626	540.285
<i>Interest on money market borrowings</i>	-	-	77.608	2.634.468	7.735	2.719.811
<i>Interest on marketable bonds issued</i>	-	-	-	822.173	23.362	845.535
<i>Other interest expense<sup>(2)</sup></i>	138	24.203	84.095	7.719	1.134	117.289
<b>Net interest income</b>	<b>691.783</b>	<b>2.545.909</b>	<b>5.139.535</b>	<b>(250.278)</b>	<b>229.343</b>	<b>8.356.292</b>
Net fees and commissions income / (expenses)	245.201	431.532	1.089.806	351.066	(196.471)	1.921.134
Net trading profit / (loss) (Net)	710	5.172	244.722	(200.270)	28.291	78.625
Dividend income	-	-	-	11.317	322	11.639
Other income	42.811	74.615	358.812	273.187	1.428.669	2.178.094
Loans and other receivables' impairment loss	17.973	443.525	581.533	462.840	-	1.505.871
Other expenses	30.307	69.703	1.822.805	2.788.638	1.174.750	5.886.203
<b>Income before taxes</b>	<b>932.225</b>	<b>2.544.000</b>	<b>4.428.537</b>	<b>(3.066.456)</b>	<b>315.404</b>	<b>5.153.710</b>
Income tax provision	-	-	-	(996.443)	(106.543)	(1.102.986)
<b>Net profit for the period</b>	<b>932.225</b>	<b>2.544.000</b>	<b>4.428.537</b>	<b>(4.062.899)</b>	<b>208.861</b>	<b>4.050.724</b>
<b>SEGMENT ASSETS</b>						
Marketable securities	-	-	5.489.437	44.036.225	281.607	49.807.269
Derivative financial assets held for trading	-	-	79.852	282.664	-	362.516
Banks and money market receivables	-	-	289	7.594.793	6.253	7.601.335
Associates and subsidiaries (net)	-	-	-	405.316	-	405.316
Loans	29.738.256	41.267.495	127.277.838	7.269.006	-	205.552.595
Other assets <sup>(1)</sup>	90.690	264.257	1.885.260	41.804.276	4.446.242	48.490.725
<b>TOTAL ASSETS</b>	<b>29.828.946</b>	<b>41.531.752</b>	<b>134.732.676</b>	<b>101.392.280</b>	<b>4.734.102</b>	<b>312.219.756</b>
<b>SEGMENT LIABILITIES</b>						
Deposits	27.081.876	16.011.238	136.068.623	14.108.884	-	193.270.621
Derivative financial liabilities held for trading	-	-	46.160	104.509	4	150.673
Money market balances	-	-	4.140.748	30.822.778	39.796	35.003.322
Borrowing funding loans	9.973	233.252	954.275	16.550.464	2.310.520	20.058.484
Bonds issued	-	-	-	11.727.130	295.000	12.022.130
Other liabilities	286.437	379.543	6.336.640	12.356.196	235.239	19.594.055
Provisions and tax payable	57.741	88.335	252.213	4.308.512	1.884.981	6.591.782
Shareholders' equity	767.670	2.565.774	4.065.401	16.797.501	1.332.343	25.528.689
<b>TOTAL LIABILITIES</b>	<b>28.203.697</b>	<b>19.278.142</b>	<b>151.864.060</b>	<b>106.775.974</b>	<b>6.097.883</b>	<b>312.219.756</b>
<b>OFF BALANCE SHEET ITEMS</b>						
Guarantees and surety ships	15.446.074	13.990.756	17.241.640	12.109.188	-	58.787.658
Commitments	63.996	878.037	10.134.667	14.002.992	34.502	25.114.194
Derivative financial instruments	-	-	6.914.990	24.026.071	672	30.941.733

(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 3.751.600, deferred tax assets amounting to TRY 94.043 is presented under the Other column.

(2) Branch interest expense is distributed in other interest income and other interest expenses.

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VIII. EXPLANATIONS ON CONSOLIDATED BUSINESS SEGMENTATION (continued)**

Details of the segment information prepared in accordance with the Act on “Disclosure of Financial Statements of Banks and The Related Presentations and Notes” as of 31 December 2016 are presented in the table below.

Prior Period	Corporate	Commercial	SME / Integrated	Treasury / Investment <sup>(1)</sup>	Other <sup>(3)</sup>	Total
<b>OPERATING INCOME / EXPENSES</b>						
<b>31 December 2016</b>						
<b>Interest income</b>	<b>1.474.585</b>	<b>2.138.386</b>	<b>10.406.769</b>	<b>3.026.965</b>	<b>316.508</b>	<b>17.363.213</b>
Interest on loans	1.474.545	2.137.979	10.263.159	432.183	-	14.307.866
Interest income on marketable securities	-	-	129.951	2.423.456	17.997	2.571.404
Interest received from banks	-	-	4.158	110.130	394	114.682
Other interest income <sup>(2)</sup>	40	407	9.501	61.196	298.117	369.261
<b>Interest expense</b>	<b>879.936</b>	<b>420.987</b>	<b>6.006.409</b>	<b>2.589.050</b>	<b>118.290</b>	<b>10.014.672</b>
Interest on deposits	866.637	405.981	5.889.288	889.712	-	8.051.618
Interest on borrowings	833	6.909	24.491	345.535	111.874	489.642
Interest on money market borrowings	-	-	26.815	767.291	-	794.106
Interest on marketable bonds issued	-	-	-	585.219	5.529	590.748
Other interest expense <sup>(2)</sup>	12.466	8.097	65.815	1.293	887	88.558
<b>Net interest income</b>	<b>594.649</b>	<b>1.717.399</b>	<b>4.400.360</b>	<b>437.915</b>	<b>198.218</b>	<b>7.348.541</b>
Net fees and commissions income / (expense)	194.413	221.663	754.129	257.443	(189.545)	1.238.103
Net trading profit / (loss)	735	6.200	312.171	(168.086)	31.946	182.966
Dividend income	-	-	-	39.873	113	39.986
Other income	8.744	26.552	254.916	352.252	1.200.749	1.843.213
Loans and other receivables' impairment loss	182.336	209.248	603.701	1.148.611	62.013	2.205.909
Other expenses	17.159	64.826	1.696.112	2.202.051	1.117.314	5.097.462
<b>Income before taxes</b>	<b>599.046</b>	<b>1.697.740</b>	<b>3.421.763</b>	<b>(2.431.265)</b>	<b>62.154</b>	<b>3.349.438</b>
Income tax provision	-	-	(1.980)	(797.969)	(10.033)	(809.982)
<b>Net profit for the period</b>	<b>599.046</b>	<b>1.697.740</b>	<b>3.419.783</b>	<b>(3.229.234)</b>	<b>52.121</b>	<b>2.539.456</b>
<b>SEGMENT ASSETS</b>						
<b>(31 December 2016)</b>						
Marketable securities	-	-	2.524.561	31.134.471	255.928	33.914.960
Derivative financial assets held for trading	-	-	75.054	284.757	-	359.811
Banks and money market receivables	-	-	244.328	2.782.330	10.589	3.037.247
Associates and subsidiaries (net)	-	-	-	333.664	-	333.664
Loans	24.281.411	32.125.832	97.373.009	5.542.907	-	159.323.159
Other assets <sup>(1)</sup>	81.246	441.908	1.805.746	34.519.527	3.908.999	40.757.426
<b>TOTAL ASSETS</b>	<b>24.362.657</b>	<b>32.567.740</b>	<b>102.022.698</b>	<b>74.597.656</b>	<b>4.175.516</b>	<b>237.726.267</b>
<b>SEGMENT LIABILITIES</b>						
<b>(31 December 2016)</b>						
Deposits	23.833.195	8.253.723	100.730.184	17.581.775	-	150.398.877
Derivative financial liabilities held for trading	-	-	42.426	169.422	12.745	224.593
Money market balances	-	-	1.373.871	17.648.265	-	19.022.136
Borrowing funding loans	1.445	187.747	830.155	18.562.250	2.007.514	21.589.111
Bonds issued	-	-	-	12.627.411	125.000	12.752.411
Other liabilities	254.825	278.741	5.100.179	1.383.137	133.689	7.150.571
Provisions and tax payable	66.549	57.621	191.543	3.450.920	1.452.415	5.219.048
Shareholders' equity	543.102	1.701.171	3.102.242	15.079.106	943.899	21.369.520
<b>TOTAL LIABILITIES</b>	<b>24.699.116</b>	<b>10.479.003</b>	<b>111.370.600</b>	<b>86.502.286</b>	<b>4.675.262</b>	<b>237.726.267</b>
<b>OFF BALANCE SHEET ITEMS</b>						
<b>(31 December 2016)</b>						
Guarantees and surety ships	13.605.528	10.831.393	12.513.027	10.927.771	-	47.877.719
Commitments	58.048	855.008	11.050.295	12.545.837	245.172	24.754.360
Derivative financial instruments	-	-	6.427.378	18.507.766	299.072	25.234.216

<sup>(1)</sup> Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank 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.

<sup>(2)</sup> Funds transfer pricing was distributed in other interest income and other interest expense.

<sup>(3)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kira lama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE**

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Current Period
<b>Finansal Varlıklar</b>	<b>292.387.846</b>	<b>228.959.936</b>	<b>304.642.951</b>	<b>219.320.338</b>
Cash and Balances with the Central Bank of Turkey	36.681.377	30.211.966	36.681.377	30.211.966
Financial assets at fair value through P&L <sup>(3) (4)</sup>	472.501	440.816	472.501	440.816
Banks	6.313.167	1.964.850	6.737.620	1.965.009
Money market placements	1.288.168	1.072.397	1.288.168	1.072.397
Available for sale financial assets <sup>(1)</sup>	17.620.079	15.421.388	17.683.863	15.506.164
Held to maturity investments	21.987.099	18.344.626	21.483.366	18.302.970
Loans <sup>(2)</sup>	204.142.270	158.058.035	216.412.871	148.375.158
Receivables from leasing transactions	2.671.253	2.311.330	2.671.253	2.311.330
Factoring receivables	1.211.932	1.134.528	1.211.932	1.134.528
<b>Finansal Liabilities</b>	<b>264.363.588</b>	<b>206.853.750</b>	<b>264.510.104</b>	<b>210.743.804</b>
Deposits	193.270.621	150.398.877	193.566.995	150.538.910
Derivative financial liabilities held for trading	150.673	224.593	150.673	224.593
Funds provided from other financial intuitions	20.058.484	21.589.111	21.126.639	25.926.472
Money market borrowings	35.003.322	19.022.136	34.966.894	19.006.498
Securities issued	12.022.130	12.752.411	10.811.949	12.188.982
Miscellaneous payables	3.858.358	2.866.622	3.886.954	2.858.349

<sup>(1)</sup> As of 31 December 2017, TRY 79.099 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above (31 December 2016: TRY 59.831).

<sup>(2)</sup> Net of follow-up loans has not been included in the table above.

<sup>(3)</sup> As of 31 December 2017, marketable securities amounting to TRY 10.578 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

<sup>(4)</sup> Securities lending transactions amounting to TRY 10.000.429 is not included in the financial assets at fair value through P&L.

As of 31 December 2017, fair values of Associates and Subsidiaries are shown at section 4 footnote 5. The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

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

*Classification of Fair Value Measurement*

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

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (continued)**

*Classification of Fair Value Measurement(continued)*

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

<b>Current Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit/loss:</b>				
Financial assets held for trading purpose <sup>(3)</sup>	109.985	362.516	-	472.501
<i>Debt securities</i>	94.898	-	-	94.898
<i>Derivative financial assets held for trading purpose</i>	-	362.516	-	362.516
<i>Stocks</i>	1.240	-	-	1.240
<i>Other Securities</i> <sup>(2)</sup>	13.847	-	-	13.847
Available-for-sale financial assets <sup>(1)</sup>	17.620.079	-	-	17.620.079
<i>Debt securities</i>	17.620.079	-	-	17.620.079
<i>Other Securities</i>	-	-	-	-
Subsidiaries	-	-	52.178	52.178
Association	-	-	353.138	353.138
<b>Total Financial Assets</b>	<b>17.730.064</b>	<b>362.516</b>	<b>405.316</b>	<b>18.497.896</b>
<b>Financial liabilities at fair value through profit/loss:</b>				
Derivative financial liabilities held for trading purpose	-	150.673	-	150.673
<b>Total Financial Liabilities</b>	<b>-</b>	<b>150.673</b>	<b>-</b>	<b>150.673</b>

<sup>(1)</sup> As of 31 December 2017, share certificates amounting to TRY 79.099 of “securities not quoted on the stock exchange” in available for sale financial assets are not included in the above table.

<sup>(2)</sup> As of 31 December 2017, marketable securities amounting to TRY 10.578 that are not valued at fair value, are not included in financial assets held for trading purpose.

<sup>(3)</sup> Securities lending transactions amounting to TRY 10.000.429 is not included in the financial assets at fair value through P&L.

<b>Prior Period</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit/loss:</b>				
Financial assets held for trading purpose <sup>(2)</sup>	81.005	359.811	-	440.816
<i>Debt securities</i>	65.538	-	-	65.538
<i>Derivative financial assets held for trading purpose</i>	-	359.811	-	359.811
<i>Stocks</i>	3.095	-	-	3.095
<i>Other Securities</i> <sup>(1)</sup>	12.372	-	-	12.372
Available-for-sale financial assets <sup>(1)</sup>	15.421.388	-	-	15.421.388
<i>Debt securities</i>	15.419.448	-	-	15.419.448
<i>Other Securities</i>	1.940	-	-	1.940
Subsidiaries	-	-	41.243	41.243
Association	-	-	292.421	292.421
<b>Total Financial Assets</b>	<b>15.502.393</b>	<b>359.811</b>	<b>333.664</b>	<b>16.195.868</b>
<b>Financial liabilities at fair value through profit/loss:</b>				
Derivative financial liabilities held for trading purpose	-	224.593	-	224.593
<b>Total Financial Liabilities</b>	<b>-</b>	<b>224.593</b>	<b>-</b>	<b>224.593</b>

<sup>(1)</sup> As of 31 December 2016, share certificates amounting to TRY 59.831 of “securities not quoted on the stock exchange” in available for sale financial assets are not included in the above table.

<sup>(2)</sup> As of 31 December 2016, marketable securities amounting to TRY 8.110 that are not valued at fair value, are not included in financial assets held for trading purpose.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (continued)**

The movement of financial assets in the third level are as follows:

	<b>Current Period</b>	<b>Prior Period</b>
Balance at the beginning of the period	333.664	302.060
Purchases during the year	-	-
Non-paid up shares	-	-
Valuation Difference	71.652	31.604
Transfers	-	-
<b>Period End Balance</b>	<b>405.316</b>	<b>333.664</b>

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

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



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Overview of RWA:**

		Risk Weighted Amounts		Minimum Capital Requirements
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk) (CCR)*	187.858.563	166.783.094	15.028.685
2	Standardised approach (SA)	187.858.563	166.783.094	15.028.685
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1.948.749	380.116	155.900
5	Standardised approach for counterparty credit (SA-CCR)	1.948.749	380.116	155.900
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity	-	-	-
8	Investments made in collective investment companies – look-through approach	-	-	-
9	Investments made in collective investment companies – mandate-based approach (*)	-	-	-
10	Investments made in collective investment companies - 1250% weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach (RBA)	-	-	-
14	IRB Supervisory Formula Approach (SFA)	-	-	-
15	SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	3.629.588	2.225.538	290.367
17	Standardised approach (SA)	3.629.588	2.225.538	290.367
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	867.044	715.254	69.364
24	Floor adjustment	-	-	-
25	<b>Total ( 1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>209.028.282</b>	<b>182.822.490</b>	<b>16.722.263</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Differences and Matching Between Asset and Liabilities' Carrying Values in Financial Statements and In Capital Adequacy Calculation**

Assets	Carrying values of items in accordance with Turkish Accounting Standards							Not subject to capital requirements or subject to deduction from capital
	Carrying values in financial statements prepared as per TAS	Carrying values for legal consolidation prepared as per TAS	Credit Risk	Counterparty credit risk	Securitization positions	Market Risk		
Cash and Balances with the Central Bank	-	36.681.377	36.681.377	-	-	-	-	
Available-for-Sale Financial Assets	-	10.483.508	-	362.516	-	483.079	10.000.429	
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-	
Banks	-	6.313.167	6.313.167	-	-	-	-	
Receivables from Money markets	-	1.288.168	1.287.858	-	-	310	-	
Financial assets available for sale (net)	-	17.699.178	8.617.940	-	-	9.081.238	-	
Loans and receivables	-	205.552.595	205.538.539	-	-	-	14.057	
Receivables from factoring	-	1.211.932	1.211.932	-	-	-	-	
Investments held to maturity (net)	-	21.987.099	21.987.099	-	-	-	-	
Subsidiaries (net)	-	353.138	353.138	-	-	-	-	
Associates (net)	-	52.178	52.178	-	-	-	-	
Jointly controlled entities (joint ventures) (net)	-	-	-	-	-	-	-	
Finance lease receivables	-	2.671.253	2.671.253	-	-	-	-	
Derivative financial liabilities held for risk management	-	-	-	-	-	-	-	
Tangible Assets (net)	-	3.751.600	3.686.671	-	-	-	64.929	
Intangible Assets (net)	-	143.095	-	-	-	-	143.095	
Real estate for investment purpose (net)	-	910.378	910.378	-	-	-	-	
Tax asset	-	94.043	94.043	-	-	-	-	
Assets Held For Sale and Discontinued Operations (net)	-	790	790	-	-	-	-	
Other assets	-	3.026.257	3.026.257	-	-	-	-	
<b>Total Assets</b>	-	<b>312.219.756</b>	<b>292.432.620</b>	<b>362.516</b>	-	<b>9.564.627</b>	<b>10.222.510</b>	
<b>Liabilities</b>	-	-	-	-	-	-	-	
Deposits	-	193.270.621	-	-	-	-	193.270.621	
Derivative financial liabilities held for trading	-	150.673	-	-	-	150.673	-	
Loans	-	20.058.484	-	-	-	-	20.058.484	
Money market borrowings	-	35.003.322	-	4.348.200	-	1.062.896	33.940.426	
Securities issued	-	12.022.130	-	-	-	-	12.022.130	
Funds	-	2.724.634	-	-	-	-	2.724.634	
Miscellaneous payables	-	3.858.358	-	-	-	-	3.858.358	
Other liabilities	-	12.003.616	-	-	-	202	12.003.414	
Factoring payables	-	3.062	-	-	-	-	3.062	
Finance lease payables	-	-	-	-	-	-	-	
Derivative financial liabilities held for risk management	-	-	-	-	-	-	-	
Provisions	-	5.340.089	-	-	-	-	5.340.089	
Tax Liability	-	1.251.693	-	-	-	-	1.251.693	
Liabilities regarding assets held for sale and discontinued operations (net)	-	-	-	-	-	-	-	
Subordinated Debt	-	1.004.385	-	-	-	-	1.004.385	
Shareholders' equity	-	25.528.689	-	-	-	-	25.528.689	
<b>Total liabilities</b>	-	<b>312.219.756</b>	-	<b>4.348.200</b>	-	<b>1.213.771</b>	<b>311.005.985</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements**

	Total	Credit risk	Securitization positions	Counterparty credit risk	Market Risk
Asset carrying value amount under					
1 scope of regulatory consolidation	312.219.756	292.432.620	-	362.516	9.564.627
Liabilities carrying value amount under regulatory scope of					
2 consolidation	312.219.756	-	-	4.348.200	1.213.771
Total net amount under regulatory					
3 scope of consolidation	-	292.432.620	-	4.710.716	10.778.398
4 Off-balance Sheet Amounts	83.901.852	38.553.082		193.157	31.852.184
5 Differences in valuations	-	-	-	-	-
Differences due to different netting rules, other than those already					
6 included in row 2	-	-	-	-	-
Differences due to consideration of					
7 provisions	-	-	-	-	-
8 Differences due to prudential filters	-	-	-	-	-
9 Differences due to risk reduction	-	330.985.702	-	4.903.873	42.630.582

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

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

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

**Explanations Related to Counterparty Credit Risk**

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

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

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

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

Agreements entered into with counterparty financial institutions resulting in credit risk according to the attributes of the transaction are evaluated by taking into account ISDA framework and CSA framework for derivative transactions, GMRA framework for repurchase agreements. The risk is mitigated by receiving cash or other forms of collaterals as per the counterparty limits designated by the Board of Directors. In secured lending and repo transactions, the haircut amounts are reduced from the counterparty limits. In cases whereby possible decreases or increases in ratings affects the current replacement cost, margin call agreements are used as a risk mitigator.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

	Replacement cost	Potential Future exposure	EEPE(Effective Expected Positive Exposure)*	Alpha used for computing regulatory EAD	EAD post-CRM**	RWA
Standardised Approach - CCR (for derivatives)	362.810	193.157	-	1,4	652.538	468.964
Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-		-
Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					4.262.269	1.237.404
Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					1.323.235	242.381
Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
<b>Total</b>					<b>6.238.042</b>	<b>1.948.749</b>

\*Expected effective positive risk amount

\*\*This amount represents the post-correction amount for the KRAT and KDA risk.

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

	EAD post-CRM	Risk weight amount
Total portfolios subject to the Advanced CVA capital obligation	-	-
(i) VaR component (including the 3×multiplier)	-	-
(ii) Stressed VaR component (including the 3×multiplier)	-	-
All portfolios subject to the Standardised CVA capital obligation	652.538	468.964
<b>Total subject to the CVA capital obligation</b>	<b>652.538</b>	<b>468.964</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

<b>Risk weight / Risk Classifications</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>150%</b>	<b>Other</b>	<b>Total Credit Risk</b>
Claims on sovereigns and Central Banks	13.903	-	-	-	-	30	-	-	13.933
Claims on regional governments or local authorities	7.455	-	-	230	-	-	-	-	7.685
Claims on administrative bodies and other non-commercial undertakings	27.540	-	-	-	-	846	-	-	28.386
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	841.963	-	3.907.975	228.107	-	781.993	-	-	5.760.038
Claims on corporates	36.571	-	-	-	-	262.407	-	-	298.978
Claims included in the regulatory retail portfolios	118.726	19	-	-	10.277	-	-	-	129.022
Claims secured by residential property	-	-	-	-	-	-	-	-	-
Overdue loans	-	-	-	-	-	-	-	-	-
Higher risk categories decided by the Board	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1.046.158</b>	<b>19</b>	<b>3.907.975</b>	<b>228.337</b>	<b>10.277</b>	<b>1.045.276</b>	<b>-</b>	<b>-</b>	<b>6.238.042</b>

**Collaterals for Counterparty Credit Risk**

	<b>Collateral for derivative transactions</b>				<b>Collateral for other transactions</b>	
	<b>Received Collaterals</b>		<b>Given Collaterals</b>		<b>Received Collaterals</b>	<b>Given Collaterals</b>
	<b>Segregated</b>	<b>Unsegregated</b>	<b>Segregated</b>	<b>Unsegregated</b>		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	66.656	-	55.115	896	49.497
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>66.656</b>	<b>-</b>	<b>55.115</b>	<b>896</b>	<b>49.497</b>

**Counterparty Credit Risk-Credit Derivatives:**

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Exposures to Central Counterparties (CCP)**

	Exposure at default (post-CRM)	RWA
Exposure to Qualified Central Counterparties (QCCPs) (total)		1.331
Exposures for trades at QCCPs (excluding initial margin and default	1.329	1.329
(i) OTC Derivatives	-	-
(ii) Exchange-traded Derivatives	1.329	1.329
(iii) Securities financing transactions	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	9.861	
Non-segregated initial margin	-	-
Pre-funded default fund contributions	859	2
Unfunded default fund contributions	-	-
Exposures to non-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund		
contributions); of which )		
(i) OTC Derivatives	-	-
(ii) Exchange-traded Derivatives	-	-
(iii) Securities financing transactions	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Pre-funded default fund contributions	-	-
Unfunded default fund contributions	-	-

**Securitisations:**

None.

**Qualitative Disclosure on Credit Risk**

Credit risk, which is the most important risk profile of the Bank's business model, refers to risks and losses arising from the Bank's failure to meet its obligations under contracts that the Bank is a party to. Credit limits are set according to the risk appetite and capacity of the Bank.

Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors revised whenever required. As part of its risk policies, the Bank monitors limits designated by sectors and sub sectors.

Within the scope of internal systems, internal audit activities are carried out by the Internal Audit Department and the Internal Audit Department in order to ensure that the activities of the Bank are carried out in accordance with the Bank's policies in compliance with the legal regulations. The Risk Management Department, which is the risk unit within the internal systems, performs the functions of measuring, monitoring, controlling and reporting on the credit risk to which the Bank is exposed to. These identified units are regularly reporting on the risks exposed to the Bank's Senior Management.

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**XI. Credit Quality of Assets**

		Gross carrying value as per TAS		Allowances/amortisation and impairments **	Net values
		Defaulted *	Non-defaulted		
1	Loans	6.296.406	204.142.270	4.886.081	205.552.595
2	Debt Securities	-	40.202.914	397.314	39.805.600
	Off-balance sheet ***	-	83.901.852	-	83.901.852
3	exposures				
<b>4</b>	<b>Total</b>	<b>6.296.406</b>	<b>328.247.036</b>	<b>5.283.395</b>	<b>329.260.047</b>

\* Shows the receivables which identified non performing receivables in accordance with the regulation on "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the official gazette no.26333 dated 1 November 2006.

\*\* Refers Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside on methods and principles for the determination of loans and other receivables qualification and the provisions for these

\*\*\* As of 31 December 2017, TRY 10.000.429 of borrowed securities is not included in Financial Assets at Fair Value through profit or loss.

**Changes in Stock of Default Loans and Debt Securities**

1	Defaulted loans and debt securities at end of the previous reporting period	5.320.512
2	Loans and debt securities defaulted since the last reporting period	1.706.205
3	Receivables back to performing status	(93.949)
4	Amounts written off	(2.148)
5	Other changes	(634.214)
<b>6</b>	<b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)</b>	<b>6.296.406</b>

**Additional Disclosure Related To The Credit Quality Of Assets:**

**Exposures Provisioned Against By Maturity**

31 December 2017	Demands Up to 1 Month		1-3 Months	3-12 Months	1-5 Years	5 years and Over	Total
Loans and Advances	550.645	12.188.893	13.633.296	60.435.585	90.269.846	27.064.005	204.142.270

**Exposures Provisioned Against By Major Regions**

31 December 2017	Loans Under Follow-Up	Specific Provisions
Domestic	6.011.884	4.711.402
European Union (EU) Countries	27	27
OECD Countries	3	3
Off-Shore Banking Regions	-	-
USA, Canada	1	1
Other Countries	284.491	174.648
<b>Total</b>	<b>6.296.406</b>	<b>4.886.081</b>

**Exposures Provisioned Against By Sectors**

Explained in 4-II Information according to sectors and counterparties

**Aging analysis of overdue but not impaired financial assets**

**31 December 2017**

30-60 days overdue	1.721.522
60-90 days overdue	768.857
<b>Total</b>	<b>2.490.379</b>

**Breakdown of restructured receivables based on whether or not provisions are allocated**

**31 December 2017**

Loans Structured from Standard Loans and Other Receivables	3.598.515
Loans Composed of Follow-on Loans and Other Receivables	2.578.747
Loans Restructured from Non-Performing Loans	1.446.162



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Qualitative Disclosure on Credit Risk Mitigation Techniques**

The risk mitigating factors used in the lending activities of the Bank are listed below.

- Financial warranties (Treasury Bills, Government Bonds, Cash, Pledged Deposits, Gold, Pledged Securities)
- Guarantees
- Mortgage (Although mortgage lending in Basel II has been considered as a risk class, it has also been included in this section in terms of valuation methods and concentrations).

The financial guarantees in the bank are subject to valuation on a daily basis. The creditors' credits are monitored and assessed within the framework of credit revision schedules.

As long as the mortgage that constitutes the collateral of the credits continues to be related to the loan, the risk-guarantee balances will be monitored and revalued each year. Action plans are developed for the possibility of diminution in value of collaterals.

As per the BRSA regulations, guarantees given by the Treasury and banks are regarded as risk reduction elements and the creditworthiness of banks is regularly monitored.

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation.

The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques.

Financial collaterals that are composed of cash or similar assets and instruments of a high credit quality as well as real estate mortgages have been used in credit risk mitigation.

There is no on-balance sheet or off-balance sheet offsetting.

**Credit Risk Mitigation Techniques- Overview**

	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	financial guarantees, of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which secured amount
1 Loans*	130.687.185	73.455.085	56.003.821	387.266	387.266	-	-
2 Debt Instruments**	49.806.029	-	-	-	-	-	-
3 Total	180.493.214	73.455.085	56.003.821	387.266	387.266	-	-
4 Of which defaulted	258.153	1.152.172	852.419	8.691	8.691	-	-

\*As collateral, within the scope of the Standard Approach, collaterals to be used to mitigate credit risk, are taken into consideration.

\*\* As of 31 December 2017, TRY 10.000.429 of borrowed securities is not included in Financial Assets at Fair Value through profit or loss.

**Information about the Banks' Use of Ratings in Calculating Credit Risk by Using Standard Approach to Credit Risk**

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Standardised Approach- Credit Risk Exposure and Credit Risk Mitigation Techniques**

Risk Classification	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Claims on sovereigns and Central Banks	68.153.888	1.701.954	84.832.094	1.737.422	8.940.594	10,33%
Claims on regional governments or local authorities	2.986.510	161.052	2.986.428	81.126	1.522.659	49,64%
Claims on administrative bodies and other non-commercial undertakings	701.884	1.943.990	689.984	970.764	1.612.334	97,08%
Claims on multilateral development banks	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-
Claims on banks and intermediary institutions	11.958.837	2.952.704	11.963.914	1.753.740	5.305.936	38,68%
Claims on corporates	78.181.413	46.337.932	70.891.742	27.105.623	96.364.910	98,33%
Claims included in the regulatory retail portfolios	66.546.025	27.134.121	57.164.621	4.757.721	44.519.389	71,90%
Claims secured by residential property	34.590.317	1.259.551	34.590.091	689.643	12.523.547	35,50%
Claims secured by commercial property	21.148.630	1.869.900	21.148.630	1.370.843	11.259.736	50,00%
Overdue loans	1.407.953	66.006	1.407.953	33.207	1.302.117	90,35%
Higher risk categories decided by the Board	4.414	92.978	4.414	52.993	86.111	150,00%
Secured by mortgages	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-
Other receivables	11.807.588	-	11.807.588	-	6.290.462	53,27%
Equity share investments	426.334	-	426.334	-	946.561	222,02%
<b>Total</b>	<b>297.913.793</b>	<b>83.520.188</b>	<b>297.913.793</b>	<b>38.553.082</b>	<b>190.674.356</b>	<b>56,64%</b>

\*Secured with real estate mortgage.

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

Risk Classification/Risk weight amount	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total risk amount (post-CCF and CRM)
Claims on sovereigns and Central Banks	68.852.902	-	-	-	17.552.041	-	164.573	-	-	-	86.569.516
Claims on regional governments or local authorities	22.237	-	-	-	3.045.317	-	-	-	-	-	3.067.554
Claims on administrative bodies and other non-commercial undertakings	48.290	-	154	-	-	-	1.612.304	-	-	-	1.660.748
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	841.963	-	6.501.013	-	4.737.889	-	1.636.789	-	-	-	13.717.654
Claims on corporates	722.537	-	881.626	-	409.236	-	95.983.966	-	-	-	97.997.365
Claims included in the regulatory retail portfolios	2.392.650	19	232.486	-	-	59.297.187	-	-	-	-	61.922.342
Claims secured by residential property	28.734	-	8.007	34.775.748	-	467.244	1	-	-	-	35.279.734
Claims secured by commercial property	-	-	-	-	22.519.473	-	-	-	-	-	22.519.473
Overdue loans	23.030	-	-	-	232.025	-	1.186.105	-	-	-	1.441.160
Higher risk categories decided by the Board	-	-	-	-	-	-	-	57.407	-	-	57.407
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	79.516	-	-	346.818	426.334
Other receivables	5.242.459	-	405.591	-	122.799	78.266	5.871.292	-	-	87.181	11.807.588
<b>Total</b>	<b>78.174.802</b>	<b>19</b>	<b>8.028.877</b>	<b>34.775.748</b>	<b>48.618.780</b>	<b>59.842.697</b>	<b>106.534.546</b>	<b>57.407</b>	<b>-</b>	<b>433.999</b>	<b>336.466.875</b>

\*Secured with real estate mortgage.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

**Publicly Announced Qualitative Disclosure on Market Risk**

In accordance with the Bank' risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of "Regulation On Measurement and Evaluation Of Capital Adequacy Of Banks" published in Official Journal No 29111 by 23 October 2015.

It is the ultimate responsibility of the Board of Directors to apply and improve risk management strategies, policies and procedures that are approved by the board of directors, inform the board of directors about the important risks the Bank is exposed to, assess internal control, internal audit and risk reports with regard to the Banks' departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects and participate in the determination of risk limits. As part of this responsibility, the Board of Directors of the Bank designated VAR limits and the interest risk that the Bank can bear is limited to a ratio of the equity.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", the Bank's possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method. The following table discloses the amounts that are calculated using the standard method.

The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and non-periodic reports are prepared for board of directors, relevant committees and senior management.

**Market Risk: Standardised approach**

	<b>RWA</b>
<b>Outright products</b>	
Interest rate risk (general and specific)	2.240.950
Equity risk (general and specific)	117.975
Foreign exchange risk	1.243.838
Commodity risk	-
<b>Options</b>	
Simplified approach	-
Delta-plus method	26.285
Scenario approach	-
<b>Securitization</b>	-
<b>Total</b>	<b>3.629.588</b>

**Information related to Operational Risk**

The value at operational risk is calculated according to the basic indicator approach and once a year with year-end datas.

	<b>2 PP Amount</b>	<b>1 PP Amount</b>	<b>CP Amount</b>	<b>Total/ No. of Years of Positive Gross</b>	<b>Rate (%)</b>	<b>Total</b>
Gross Income	6.535.163	7.344.771	9.679.007	7.852.980	15	1.177.947
Value at Operational Risk (Total * 12.5%)						14.724.338

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**XII. EXPLANATIONS ON REMUNERATION POLICIES**

**1. Disclosures related with Remuneration Committee**

The Parent Bank's Remuneration Committee is comprised of two non-executive directors. The committee has convened for once during the year. The duties and responsibilities of the Committee include the following:

- The scope and structure of the Parent Bank's operations and strategies ensure the effectiveness of a wage policy and wage policy that is consistent with its long-term goals and risk management structures, prevents excessive risk taking and contributes to effective risk management.
- Controls and follows the remuneration practices on behalf of the Board of Directors
- Ensures accordance of ethical values, strategical targets and internal balance of the Parent Bank with the wage policy.
- Evaluates the remuneration policy and its practices in the context of risk management and submits proposals to the Board of Directors.
- Fullfils the other duties specified in the related regulations

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

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

The Parent Bank's board members, senior management and the Parent Bank personnel deemed to perform the functions having material impact on the Parent Bank's risk profile are considered as critical key directors; and by the end of 2017, the number of critical key directors is 23.

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

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

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

Remuneration Committee at its meeting in December 2017 has revised the remuneration policy and practices. It has been observed that, total benefits paid to the members of the Parent Bank's Board of Directors, senior management and other staff are in line with the Parent Bank's ethical values, internal balances and strategic objectives in 2017.

Regardless of the performance of the units that are audited by internal audit, the benefits of are determined on the basis of the general wage increase rate set by the Parent Bank.

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**XII. EXPLANATIONS ON REMUNERATION POLICIES (continued)**

**4. Evaluation about how the Parent Bank associates variable remunerations with performance**

The Parent Bank's variable payments as performance bonuses are mostly made to the personnel working at the branches and Regional Directorships. The paid amounts are not exceed a certain percentage of the monthly fixed fees. No performance premium payments are made to other members of the bank that are considered to have performed a function that has a significant effect on the risk profile of the bank and the members of the board of directors and senior managers who are designated as critical key personnel but only a dividend payment is made up to twice of the gross monthly salary of all personnel with the decision of the General Assembly of the Parent Bank,

**5. Evaluation about the bank's methods to adjust remunerations according to long-term performance**

The same rules apply for the ratios of deferral for all critical staff members regarding their variable remunerations.

**6. Evaluation about the instruments used by the bank for variable remunerations and the purposes of use of such instruments**

The type and weight of non-cash instruments used in payment of variable remuneration are same for all identified staff.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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	1.155.031	1.053.099	914.278	628.818
CBRT	11.762.459	22.491.457	2.620.111	25.902.219
Other <sup>(1)</sup>	-	219.331	-	146.540
<b>Total</b>	<b>12.917.490</b>	<b>23.763.887</b>	<b>3.534.389</b>	<b>26.677.577</b>

<sup>(1)</sup>As of 31 December 2017, required reserve deposits kept in Central Bank of Macedonia amounted TRY 78.808 and amounted TRY 140.516 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 <sup>(1)</sup>	11.647.057	3.585.219	2.563.615	3.345.458
Time unrestricted amount	-	-	-	-
Time restricted amount	437	2.425.300	-	5.359.104
Reserve deposits <sup>(2)</sup>	114.965	16.480.938	56.496	17.197.657
<b>Total</b>	<b>11.762.459</b>	<b>22.491.457</b>	<b>2.620.111</b>	<b>25.902.219</b>

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

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

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

With the amendment on 21 October 2014 the banks meeting certain conditions receive interests on Turkish Lira reserve requirements at 300 or 500 basis points less than the weighted average funding cost (W AFC) 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 1,5% for the reporting period (announced at 18 December 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.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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.	10.002.094	-	2.532	-
<b>Total</b>	<b>10.002.094</b>	<b>-</b>	<b>2.532</b>	<b>-</b>

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.	18.213	-	-	-
<b>Total</b>	<b>18.213</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	43.494	-	120.227
Swap transactions	-	318.842	-	239.460
Futures transactions	-	-	-	-
Options	118	62	4	120
Other	-	-	-	-
<b>Total</b>	<b>118</b>	<b>362.398</b>	<b>4</b>	<b>359.807</b>

(3) a) Information on banks and other financial institutions:

Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	601.804	4.126.869	192.757	26.801
Foreign banks	75.556	1.508.938	169.769	1.575.523
Branches and offices abroad	-	-	-	-
<b>Total</b>	<b>677.360</b>	<b>5.635.807</b>	<b>362.526</b>	<b>1.602.324</b>

b) Information on foreign banks:

	Unrestricted Balance		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	682.125	1.021.972	13.485	21.297
USA and Canada	279.816	143.531	-	8.538
OECD Countries	69.592	86.081	5.219	3.475
Offshore Banking Regions	111	190	-	-
Other	255.116	299.596	279.030	160.612
<b>Total</b>	<b>1.286.760</b>	<b>1.551.370</b>	<b>297.734</b>	<b>193.922</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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.	11.052.292	1.045.607	122.648	365.859
<b>Total</b>	<b>11.052.292</b>	<b>1.045.607</b>	<b>122.648</b>	<b>365.859</b>

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

	Current Period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	154.578	4.308.531	4.789.610	728.138
<b>Total</b>	<b>154.578</b>	<b>4.308.531</b>	<b>4.789.610</b>	<b>728.138</b>

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

	Current period	Prior period
Debt securities	17.990.330	15.698.700
<i>Quoted on a stock exchange</i>	17.667.333	15.692.826
<i>Not quoted</i>	322.997	5.874
Share certificates	106.162	343.595
<i>Quoted on a stock exchange</i>	67.523	53.292
<i>Not quoted</i>	38.639	290.303
Impairment provision(-)	397.314	561.076
<b>Total</b>	<b>17.699.178</b>	<b>15.481.219</b>



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(5) Information on loans:

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

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	275.131	-	226.188	-
<b>Total</b>	<b>275.131</b>	<b>-</b>	<b>226.188</b>	<b>-</b>

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

	Standard loans and other receivables <sup>(3)</sup>			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
<b>Cash loans</b>						
Non-specialized loans	162.943.290	3.540.177	-	4.851.861	2.541.455	-
<i>Corporation loans</i>	112.606.215	3.171.316	-	4.353.565	2.424.078	-
<i>Export loans</i>	3.459.289	-	-	970	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	1.384.531	-	-	-	-	-
<i>Consumer loans<sup>(1)</sup></i>	38.742.338	347.547	-	333.929	28.070	-
<i>Credit cards<sup>(2)</sup></i>	4.190.542	21.314	-	126.608	89.307	-
<i>Other</i>	2.560.375	-	-	36.789	-	-
Specialized lending	33.149.012	6.417	-	276.621	84	-
Other receivables	-	-	-	-	-	-
Accruals	2.847.462	51.921	-	74.024	37.208	-
<b>Total</b>	<b>198.939.764</b>	<b>3.598.515</b>	<b>-</b>	<b>5.202.506</b>	<b>2.578.747</b>	<b>-</b>

<sup>(1)</sup> Includes TRY 211.369 of personnel loans.

<sup>(2)</sup> Includes TRY 63.762 of personnel credit cards.

<sup>(3)</sup> The Bank has a cash loan exposure of USD 160.040.606 related with the company operating in the telecommunication sector with a key position are classified under "Loans and Other Receivables Under Follow-Up". 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.

<b>Number of modifications made to extend payment plan</b>	<b>Standard Loans and Other Receivables<sup>(1)</sup></b>	<b>Loans and Other Receivables Under Close Monitoring<sup>(2)</sup></b>
Extended by 1 or 2 times	3.509.557	2.433.238
Extended by 3,4 or 5 times	35.961	63.521
Extended by more than 5 times	1.076	44.780

<sup>(1)</sup> Accruals amounting to TRY 51.921 are not included in the table above.

<sup>(2)</sup> Accruals amounting to TRY 37.208 are not included in the table above.

<b>Extended period of time</b>	<b>Standard Loans and Other Receivables<sup>(1)</sup></b>	<b>Loans and Other Receivables Under Close Monitoring<sup>(2)</sup></b>
0-6 Months	486.220	326.404
6 Months - 12 Months	327.375	228.518
1-2 Years	360.410	179.629
2-5 Years	1.436.654	931.550
5 Years and over	935.935	875.438

<sup>(1)</sup> Accruals amounting to TRY 51.921 are not included in the table above.

<sup>(2)</sup> Accruals amounting to TRY 37.208 are not included in the table above.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(5) Information on loans: (continued)

c) *Maturity analysis of cash loans*

Current Period	Performing Loans and Other	Loans under Follow-Up and		
	Receivables	Other Receivables	Other Receivables	Other Receivables
		Loans and	Loans and	Loans and
		Receivables	Revised	Revised
		with	Contract	Contract
		Revised	Terms	Terms
	Loans and	Other	Other	Other
	Receivables	Receivables	Receivables	Receivables
<b>Short-term Loans</b>	<b>38.945.860</b>	<b>571.058</b>	<b>529.406</b>	<b>276.045</b>
Loans	38.040.669	562.819	521.779	272.062
Specialization Loans	350.807	-	107	-
Other Receivables	-	-	-	-
Discounts	554.384	8.239	7.520	3.983
<b>Medium and Long-term Loans</b>	<b>159.993.904</b>	<b>3.027.457</b>	<b>4.673.100</b>	<b>2.302.702</b>
Loans	124.902.621	2.977.358	4.330.082	2.269.393
Specialization Loans	32.798.205	6.417	276.514	84
Other Receivables	-	-	-	-
Discounts	2.293.078	43.682	66.504	33.225
<b>Prior Period</b>				
	Performing Loans and Other	Loans under Follow-Up and		
	Receivables	Other Receivables	Other Receivables	Other Receivables
		Loans and	Loans and	Loans and
		Receivables	Revised	Revised
		with	Contract	Contract
		Revised	Terms	Terms
	Loans and	Other	Other	Other
	Receivables	Receivables	Receivables	Receivables
<b>Short-term Loans</b>	<b>32.383.921</b>	<b>207.303</b>	<b>677.307</b>	<b>225.676</b>
Loans	31.650.019	201.323	668.077	221.000
Specialization Loans	301.548	-	171	-
Other Receivables	-	-	-	-
Discounts	432.354	5.980	9.059	4.676
<b>Medium and Long-term Loans</b>	<b>121.020.183</b>	<b>1.969.657</b>	<b>3.976.624</b>	<b>2.390.081</b>
Loans	91.976.995	1.930.052	3.657.948	2.356.626
Specialization Loans	27.411.514	6.895	265.616	116
Other Receivables	-	-	-	-
Discounts	1.631.674	32.710	53.060	33.339

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**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:

	<b>Short-term</b>	<b>Medium and long-term</b>	<b>Total</b>
Consumer loans-TRY	406.948	36.405.136	36.812.084
<i>Real estate loans</i>	10.525	20.856.426	20.866.951
<i>Automobile loans</i>	4.950	275.611	280.561
<i>Consumer loans</i>	391.473	15.273.099	15.664.572
<i>Other</i>	-	-	-
Consumer loans- Indexed to FC	1.422	167.229	168.651
<i>Real estate loans</i>	11	1.172	1.183
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	1.411	166.057	167.468
<i>Other</i>	-	-	-
Consumer loans- FC	5.758	881.118	886.876
<i>Real estate loans</i>	512	288.516	289.028
<i>Automobile loans</i>	33	4.780	4.813
<i>Consumer loans</i>	4.208	523.567	527.775
<i>Other</i>	1.005	64.255	65.260
Individual credit cards-TRY	2.931.375	1.900	2.933.275
<i>Installment</i>	1.197.690	-	1.197.690
<i>Non-installment</i>	1.733.685	1.900	1.735.585
Individual credit cards-FC	495	59.339	59.834
<i>Installment</i>	204	59.339	59.543
<i>Non-installment</i>	291	-	291
Personnel loans-TRY	11.167	179.270	190.437
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	11.167	179.270	190.437
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	23	2.287	2.310
<i>Real estate loans</i>	-	7	7
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	23	2.280	2.303
<i>Other</i>	-	-	-
Personnel loans-FC	189	18.433	18.622
<i>Real estate loans</i>	16	16.061	16.077
<i>Automobile loans</i>	-	34	34
<i>Consumer loans</i>	173	2.226	2.399
<i>Other</i>	-	112	112
Personnel credit cards-TRY	62.366	-	62.366
<i>Installment</i>	20.308	-	20.308
<i>Non-installment</i>	42.058	-	42.058
Personnel credit cards-FC	34	1.362	1.396
<i>Installment</i>	2	1.362	1.364
<i>Non-installment</i>	32	-	32
Overdraft accounts-TRY (Retail customer)	953.999	-	953.999
Overdraft accounts-FC (Retail customer)	43.183	105	43.288
<b>Total</b>	<b>4.416.959</b>	<b>37.716.179</b>	<b>42.133.138</b>

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**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	835.787	26.928.317	27.764.104
<i>Business residential loans</i>	-	681.102	681.102
<i>Automobile loans</i>	8.417	393.974	402.391
<i>Consumer loans</i>	827.370	25.853.241	26.680.611
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	36.242	43.900	80.142
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	36.242	43.900	80.142
Commercial installment loans - FC	449.460	10.956.464	11.405.924
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	14.226	9.695.831	9.710.057
<i>Other</i>	435.234	1.260.633	1.695.867
Corporate credit cards-TRY	1.258.098	-	1.258.098
<i>Installment</i>	529.167	-	529.167
<i>Non-installment</i>	728.931	-	728.931
Corporate credit cards-FC	25	2.156	2.181
<i>Installment</i>	-	2.156	2.156
<i>Non-installment</i>	25	-	25
Overdraft accounts-TRY (Commercial customer)	1.239.335	-	1.239.335
Overdraft accounts-FC (Commercial customer)	10.144	-	10.144
<b>Total</b>	<b>3.829.091</b>	<b>37.930.837</b>	<b>41.759.928</b>

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

e) Loans by customers:

	Current Period	Prior Period
Public	5.347.397	5.375.754
Private	198.794.873	152.682.281
<b>Total</b>	<b>204.142.270</b>	<b>158.058.035</b>

f) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	199.539.151	154.670.861
Foreign loans	4.603.119	3.387.174
<b>Total</b>	<b>204.142.270</b>	<b>158.058.035</b>

g) Loans granted to subsidiaries and associates:

None.

h) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	356.224	528.413
Loans and receivables with doubtful collectability	483.434	320.082
Uncollectible loans and receivables	4.046.423	3.206.893
<b>Total</b>	<b>4.886.081</b>	<b>4.055.388</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(5) Information on loans: (continued)

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

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period</b>	<b>77.659</b>	<b>59.104</b>	<b>1.309.399</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	77.659	59.104	1.309.399
<b>Prior period</b>	<b>68.585</b>	<b>16.658</b>	<b>1.281.781</b>
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	68.585	16.658	1.281.781

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
Prior period end balance	950.477	467.221	3.902.814
Additions (+)	1.544.335	34.415	127.455
Transfers from other categories of loans under follow-up (+)	-	1.601.059	1.230.296
Transfers to other categories of loans under follow-up (-)	1.627.408	1.203.947	-
Collections (-)	213.825	145.077	369.261
Write-offs (-)	-	-	2.148
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	2.148
<b>Current period end balance</b>	<b>653.579</b>	<b>753.671</b>	<b>4.889.156</b>
Specific provision (-)	356.224	483.434	4.046.423
<b>Net balance on balance sheet</b>	<b>297.355</b>	<b>270.237</b>	<b>842.733</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(5) Information on loans: (continued)

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period</b>			
Balance at the end of the period <sup>(*)</sup>	162.249	195.411	1.913.175
Specific provisions(-) <sup>(*)</sup>	96.465	150.886	1.230.028
<b>Net balance in the balance sheet</b>	<b>65.784</b>	<b>44.525</b>	<b>683.147</b>
<b>Prior period</b>			
Balance at the end of the period	240.218	81.699	1.637.222
Specific provisions(-)	146.630	44.779	1.146.049
<b>Net balance in the balance sheet</b>	<b>93.588</b>	<b>36.920</b>	<b>491.173</b>

(\*)Foreign currency non-performing loans amounting to TRY 189.809 and their related provisions amounting to TRY 106.109 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.

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

	<b>III. Group</b>	<b>IV. Group</b>	<b>V. Group</b>
	<b>Loans and receivables with limited collectability</b>	<b>Loans and receivables with doubtful collectability</b>	<b>Uncollectible loans and receivables</b>
<b>Current period (Net)</b>			
Loans to granted real persons and legal entities (Gross)	652.752	752.744	4.819.104
Specific provisions (-)	355.395	482.509	3.976.371
<b>Loans to granted real persons and legal entities (Net)</b>	<b>297.357</b>	<b>270.235</b>	<b>842.733</b>
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other loans and receivables (Gross)	829	925	70.052
Specific provisions (-)	829	925	70.052
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Prior period (Net)</b>			
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
<b>Loans to granted real persons and legal entities (Net)</b>	<b>422.064</b>	<b>147.139</b>	<b>695.921</b>
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
<b>Banks (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
<b>Other loans and receivables (Net)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(5) Information on loans: (continued)

j) 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.

k) Explanations on write-off policy:

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

(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	43.395	-	-	-
Treasury Bills	19.146.025	1.333.136	4.471.171	1.048.201
<b>Total</b>	<b>19.189.420</b>	<b>1.333.136</b>	<b>4.471.171</b>	<b>1.048.201</b>

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	34.794	1.169.918	5.079.533	933.840
<b>Total</b>	<b>34.794</b>	<b>1.169.918</b>	<b>5.079.533</b>	<b>933.840</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

	<b>Current period</b>	<b>Prior period</b>
Government bonds	21.791.279	18.198.316
Treasury bills	152.425	112.907
Other public sector debt securities	-	-
<b>Total</b>	<b>21.943.704</b>	<b>18.311.223</b>

c) Information on held-to-maturity investments:

	<b>Current period</b>	<b>Prior period</b>
Debt securities	21.987.099	18.344.626
<i>Quoted on a stock exchange</i>	<i>21.834.674</i>	<i>18.231.719</i>
<i>Not quoted</i>	<i>152.425</i>	<i>112.907</i>
Impairment provision (-)	-	-
<b>Total</b>	<b>21.987.099</b>	<b>18.344.626</b>

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

	<b>Current period</b>	<b>Prior period</b>
Beginning balance	18.344.626	16.904.877
Foreign currency differences on monetary assets	234.386	404.431
Purchases during the year <sup>(1)</sup>	5.884.168	3.731.489
Disposals through sales and redemptions	(2.476.081)	(2.696.171)
Impairment provision (-) / Provision Reversal (+)	-	-
<b>Balance at the of the period</b>	<b>21.987.099</b>	<b>18.344.626</b>

e) Information on held-to-maturity investments:

The breakdown of the held to maturity securities of the Group is as follows:

	<b>Current Period</b>				<b>Prior Period</b>			
	<b>Historical cost</b>		<b>Amortised cost</b>		<b>Historical cost</b>		<b>Amortised cost</b>	
	<b>TRY</b>	<b>FC</b>	<b>TRY</b>	<b>FC</b>	<b>TRY</b>	<b>FC</b>	<b>TRY</b>	<b>FC</b>
Obtained from Undersecretariat of Treasury of Republic of Turkey	13.458.454	1.729.969	15.582.933	1.763.017	10.879.630	1.606.363	12.255.566	1.636.997
Obtained with the transfer	-	-	-	-	-	-	-	-
Reclassified from other securities portfolios	2.990.979	738.610	3.721.560	749.919	3.089.700	685.399	3.619.456	695.671
Other	-	166.607	-	169.670	-	130.619	-	136.936
<b>Total</b>	<b>16.449.433</b>	<b>2.635.186</b>	<b>19.304.493</b>	<b>2.682.606</b>	<b>13.969.330</b>	<b>2.291.762</b>	<b>15.875.022</b>	<b>2.469.604</b>



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(7) Information on associates (Net):

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

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

b) Information on unconsolidated associates:

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

Information related to the associates as sorted above:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1	263.938	159.793	151.214	6.654	-	37.880	31.051	-
2	92.016	51.255	47.325	1.557	-	11.164	10.403	-

<sup>(1)</sup> The financial data is obtained from 31 December 2017 unreviewed financial statements.

<sup>(2)</sup> The financial data is obtained from 31 December 2017 reviewed financial statements.

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

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

Information related to the associates as sorted above:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value <sup>(2)</sup>
1.	8.309.515	1.101.826	15.913	246.934	6.594	71.048	56.364	313.709
2.	48.955	48.402	94	3.708	-	1.208	323	-
3.	24.113	6.225	536	442	-	1.684	1.379	-

<sup>(1)</sup> The information is presented from financial statements subject to consolidation as 31 December 2017.

<sup>(2)</sup> The financial information about the fair value of Demir-Halk Bank N.V. has been obtained from its valuation report as of 31 December 2017.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

d) Movement of associates:

	<b>Current period</b>	<b>Prior period</b>
Balance at the beginning of the period	292.421	264.031
Movements during the period	60.717	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>	60.717	28.390
<i>Provision for impairment (-) / reversals (+)</i>	-	-
<b>Balance at the end of the period</b>	<b>353.138</b>	<b>292.421</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

e) Sectoral information and related carrying amounts of associates:

	<b>Current period</b>	<b>Prior period</b>
Banks	330.548	270.028
Insurance companies	1.038	1.221
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	15.232	14.852
Other non-financial investments	6.320	6.320

f) Associates quoted to a stock exchange:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(8) Information on consolidated subsidiaries (Net):

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

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yöneti mi AŞ	Halk Bank A.D., Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd	Halk Varlık Kiralama AŞ
<b>CORE CAPITAL</b>										
Paid in Capital	82.000	187.000	412.000	820.000	272.250	18.000	147.843	70.000	53.667	100
Effect of Inflation Adjustment on Paid in Capital	-	-	-	-	-	-	-	-	-	-
Share premium	-	98	-	49.945	-	-	11.633	-	44.552	-
Reserves	12.762	20.701	63.369	65.172	9.221	1.259	170.462	4.079	109.655	-
Other Comprehensive Income according to TAS	3.617	(872)	(9.392)	1.491	(95)	(35)	4.469	(10)	9.053	-
<b>Profit / Loss</b>	<b>29.035</b>	<b>(87.680)</b>	<b>241.430</b>	<b>40.638</b>	<b>88.647</b>	<b>10.223</b>	<b>34.363</b>	<b>32.041</b>	<b>6.244</b>	<b>9</b>
Net Profit	29.035	66.061	224.197	40.638	55.443	9.738	34.363	32.041	6.244	9
Prior Period Profit/Loss	-	(153.741)	17.233	-	33.204	485	-	-	-	-
Bonus Shares from Associates, Subsidiaries and Joint Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	102	-	-	-	6.198	190	2.653	-
Intangible Assets (-)	758	3.082	1.193	106	975	6	3.913	588	3.608	-
<b>Total Core Capital</b>	<b>127.406</b>	<b>116.165</b>	<b>706.112</b>	<b>977.140</b>	<b>369.048</b>	<b>29.441</b>	<b>358.659</b>	<b>105.332</b>	<b>216.910</b>	<b>109</b>
<b>SUPPLEMENTARY CAPITAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25.218</b>	<b>-</b>	<b>3.238</b>	<b>-</b>
<b>CAPITAL</b>	<b>127.406</b>	<b>116.165</b>	<b>706.112</b>	<b>977.140</b>	<b>369.048</b>	<b>29.441</b>	<b>383.877</b>	<b>105.332</b>	<b>220.148</b>	<b>109</b>
<b>NET AVAILABLE CAPITAL</b>	<b>127.406</b>	<b>116.165</b>	<b>706.112</b>	<b>977.140</b>	<b>369.048</b>	<b>29.441</b>	<b>383.877</b>	<b>105.332</b>	<b>220.148</b>	<b>109</b>

<sup>(1)</sup>The information is presented from financial statements subject to consolidation as 31 December 2017.

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

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

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

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

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

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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 (%)					
1. Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ <sup>(1)</sup>	Istanbul	100,00		100,00					
		<b>Income from marketable securities portfolio</b>	<b>Current period profit / loss</b>	<b>Prior period profit / loss</b>	<b>Fair value<sup>(2)</sup></b>				
1.		48.176	32.300	6.212	1.242	1.791	7.287	4.650	52.178

<sup>(1)</sup> The financial information of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ is obtained from 31 December 2017 financial statements.

<sup>(2)</sup> The information is presented from valuation report as 31 December 2017.

d) Information on consolidated subsidiaries: (Net):

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)		Bank's risk group share percentage (%)	
1. Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96		99,96	
2. Halk Sigorta AŞ <sup>(4)</sup>	Istanbul	89,18		94,33	
3. Halk Hayat ve Emeklilik AŞ	Istanbul	100,00		100,00	
4. Halk Gayrimenkul Yatırım Ortaklığı AŞ <sup>(3)</sup>	Istanbul	79,33		79,36	
5. Halk Finansal Kiralama AŞ	Istanbul	100,00		100,00	
6. Halk Portföy Yönetimi AŞ	Istanbul	75,00		99,99	
7. Halk Banka A.D., Skopje	Macedonia	99,03		99,03	
8. Halk Faktoring AŞ	Istanbul	97,50		100,00	
9. Halk Banka A.D. Beograd	Serbia	99,89		99,89	
10. Halk Varlık Kiralama AŞ	Istanbul	100,00		100,00	

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

Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value <sup>(2)</sup>	
1.	873.701	127.406	2.395	94.133	1.207	29.035	14.388	193.371
2.	1.714.987	116.165	4.699	130.547	18.858	66.061	(64.631)	426.657
3.	1.226.576	706.112	3.016	133.006	28.803	224.197	158.359	1.212.842
4.	1.451.659	977.140	569.577	7.277	-	40.638	42.217	566.571
5.	2.967.745	369.048	1.636	198.056	-	55.443	9.518	474.507
6.	31.343	29.441	314	3.206	20	9.738	7.481	39.828
7.	3.002.463	383.877	60.292	114.899	13.078	34.363	24.595	380.149
8.	1.225.777	105.332	1.254	167.874	-	32.041	16.122	123.683
9.	1.519.558	220.148	33.433	56.306	6.736	6.244	3.544	156.822
10.	100.910	109	-	-	-	9	-	100

<sup>(1)</sup> The financial information is obtained from 31 December 2017 financial statements used in consolidation.

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

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

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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	748.884	191.890
<i>Purchases<sup>(1)</sup></i>	14.994	38.158
<i>Bonus shares obtained profit from current year's share</i>	230.201	171.560
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfer</i>	-	-
<i>Revaluation increase</i>	317.235	(16.043)
<i>Reversals / Provisions(-) for impairment</i>	27.562	(51.165)
<i>Currency Differences on Valuation of Foreign Subsidiaries</i>	158.892	49.380
Share capital elimination of subsidiaries	(3.574.530)	(2.836.581)
<b>Balance at the end of the period</b>	<b>52.178</b>	<b>41.243</b>
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

<sup>(1)</sup> As of 31 December 2017, The Parent Bank paid TRY 14.894 for 17,42% shares of Halkbank A.D. Beograd, which is located in Serbia, and increased its shares to 99,89%.

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

	Current period	Prior period
Banks	536.971	363.185
Insurance companies	1.639.499	1.288.582
Factoring companies	123.683	95.558
Leasing companies	474.507	415.786
Financing companies	-	-
Other financial subsidiaries	799.870	673.470
Other non-financial subsidiaries	52.178	41.243

h) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock <sup>(1) (2)</sup>	993.228	885.510
Quoted to foreign stock exchange	-	-

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

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

(9) Information on jointly controlled entities:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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	958.715	798.268	815.231	688.075
Between 1-4 years	1.756.371	1.446.211	1.426.002	1.220.074
More than 4 years	452.146	426.774	476.994	403.181
<b>Total</b>	<b>3.167.232</b>	<b>2.671.253</b>	<b>2.718.227</b>	<b>2.311.330</b>

b) Information on gross investments of financial lease:

	Current period	Prior period
Gross financial lease investment	3.167.232	2.718.227
Unearned revenues from financial lease	(495.979)	(406.897)
<b>Total</b>	<b>2.671.253</b>	<b>2.311.330</b>

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

	Current period	Prior period
Financial lease receivables with limited collectability	6.158	32.055
Financial lease receivables with doubtful collectability	14.353	5.418
Uncollectible financial lease receivables	282.817	249.256
Specific provisions	(226.693)	(214.397)
<b>Total</b>	<b>76.635</b>	<b>72.332</b>

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(12) Information on tangible assets:

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

<b>Current Period</b>	<b>Balance at the end of the prior period</b>	<b>Current Year Additions</b>	<b>Revaluation Increase</b>	<b>Current Year Disposals</b>	<b>Transfers, Net</b>	<b>Balance at the end of the period</b>
<b>Cost:</b>						
Immovable	2.498.692	89.452	288.145	54.016	-	2.822.273
Tangible assets purchased through financial lease	26.796	4	-	219	-	26.581
Office machines	498.526	169.512	-	26.702	-	641.336
Fixed assets obtained due to non-performing loans	648.547	239.184	-	144.126	-	743.605
Lease hold improvements costs	155.871	25.965	-	26.132	-	155.704
Other	313.851	25.501	-	8.616	(2.029)	328.707
<b>Total Cost</b>	<b>4.142.283</b>	<b>549.618</b>	<b>288.145</b>	<b>259.811</b>	<b>(2.029)</b>	<b>4.718.206</b>
<b>Accumulated depreciation (-) :</b>						
Immovable	194.651	14.993	6.392	11.557	-	204.479
Tangible assets purchased through financial lease	25.896	87	-	90	-	25.893
Office machines	301.662	75.856	-	7.807	-	369.711
Fixed assets obtained due to non-performing loans	17.408	6.180	-	7.364	-	16.224
Lease hold improvements costs	83.484	29.431	-	21.646	-	91.269
Other	235.356	17.275	-	7.466	-	245.165
<b>Total accumulated depreciation</b>	<b>858.457</b>	<b>143.822</b>	<b>6.392</b>	<b>55.930</b>	<b>-</b>	<b>952.741</b>
<b>Provision for impairment (-)</b>						
Immovable	5.817	397	-	1.966	-	4.248
Tangible assets purchased through financial lease	-	-	-	-	-	-
Office machines	-	-	-	-	-	-
Fixed assets obtained due to non-performing loans	11.025	988	-	2.396	-	9.617
<b>Total provision for impairment (-)</b>	<b>16.842</b>	<b>1.385</b>	<b>-</b>	<b>4.362</b>	<b>-</b>	<b>13.865</b>
<b>Net Book Value</b>	<b>3.266.984</b>	<b>404.411</b>	<b>281.753</b>	<b>199.519</b>	<b>(2.029)</b>	<b>3.751.600</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(12) Information on tangible assets (continued):

<b>Prior Period</b>	<b>Balance at the end of the prior period</b>	<b>Current Year Additions</b>	<b>Revaluation Increase</b>	<b>Current Year Disposals</b>	<b>Transfers, Net</b>	<b>Balance at the end of the period</b>
<b>Cost:</b>						
Immovable	2.431.830	16.759	216.993	3.302	(163.588)	2.498.692
Tangible assets purchased through financial lease	27.741	-	-	945	-	26.796
Office machines	463.072	54.046	-	18.592	-	498.526
Fixed assets obtained due to non-performing loans	570.604	174.456	-	96.513	-	648.547
Lease hold improvements costs	143.420	16.151	-	3.443	(257)	155.871
Other	309.230	8.259	-	333	(3.305)	313.851
<b>Total Cost</b>	<b>3.945.897</b>	<b>269.671</b>	<b>216.993</b>	<b>123.128</b>	<b>(167.150)</b>	<b>4.142.283</b>
<b>Accumulated depreciation (-) :</b>						
Immovable	194.491	10.999	9.154	19.378	(615)	194.651
Tangible assets purchased through financial lease	26.412	266	-	782	-	25.896
Office machines	257.261	62.502	-	18.101	-	301.662
Fixed assets obtained due to non-performing loans	13.253	6.527	-	2.372	-	17.408
Lease hold improvements costs	72.426	14.886	-	3.828	-	83.484
Other	229.240	32.634	-	26.518	-	235.356
<b>Total accumulated depreciation</b>	<b>793.083</b>	<b>127.814</b>	<b>9.154</b>	<b>70.979</b>	<b>(615)</b>	<b>858.457</b>
<b>Provision for impairment (-)</b>						
Immovable	1.313	4.510	-	6	-	5.817
Tangible assets purchased through financial lease	-	-	-	-	-	-
Office machines	-	-	-	-	-	-
Fixed assets obtained due to non-performing loans	7.134	4.476	-	585	-	11.025
<b>Total provision for impairment (-)</b>	<b>8.447</b>	<b>8.986</b>	<b>-</b>	<b>591</b>	<b>-</b>	<b>16.842</b>
<b>Net Book Value</b>	<b>3.144.367</b>	<b>132.871</b>	<b>207.839</b>	<b>51.558</b>	<b>(166.535)</b>	<b>3.266.984</b>



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(13) Information on other intangible assets:

<b>Current Period</b>	<b>Balance at the end of the prior period</b>	<b>Current Year Additions</b>	<b>Current Year Disposals</b>	<b>Transfers</b>	<b>Balance at the end of the period</b>
<b>Cost:</b>					
Other intangible assets	208.925	87.084	7.102	-	288.907
<b>Total Cost</b>	<b>208.925</b>	<b>87.084</b>	<b>7.102</b>	-	<b>288.907</b>
<b>Accumulated Depreciation:</b>					
Other intangible assets	93.696	52.343	227	-	145.812
<b>Total Accumulated Depreciation</b>	<b>93.696</b>	<b>52.343</b>	<b>227</b>	-	<b>145.812</b>
<b>Net Book Value</b>	<b>115.229</b>	<b>34.741</b>	<b>6.875</b>	-	<b>143.095</b>

<b>Prior Period</b>	<b>Balance at the end of the prior period</b>	<b>Current Year Additions</b>	<b>Current Year Disposals</b>	<b>Transfers</b>	<b>Balance at the end of the period</b>
<b>Cost:</b>					
Other intangible assets	157.462	54.071	2.608	-	208.925
<b>Total Cost</b>	<b>157.462</b>	<b>54.071</b>	<b>2.608</b>	-	<b>208.925</b>
<b>Accumulated Depreciation (-) :</b>					
Other intangible assets	55.148	38.621	73	-	93.696
<b>Total Accumulated Depreciation</b>	<b>55.148</b>	<b>38.621</b>	<b>73</b>	-	<b>93.696</b>
<b>Net Book Value</b>	<b>102.314</b>	<b>15.450</b>	<b>2.535</b>	-	<b>115.229</b>

(14) Information on investment property:

	<b>Current Period</b>	<b>Prior Period</b>
<b>Cost</b>		
<b>Opening Balance</b>	<b>934.058</b>	<b>550.093</b>
Acquisitions	55.273	7.118
Transfers	(407)	377.348
Disposals(-)	644	-
Impairment Charge / Cancellation(-)	-	501
<b>Ending Balance</b>	<b>988.280</b>	<b>934.058</b>
<b>Accumulated Depreciation</b>		
<b>Opening Balance</b>	69.942	64.499
Amortization Charge (-)	8.392	4.723
Disposals	25	-
Impairment Charge/Cancellation (-)	-	105
Transfers	(407)	615
<b>Ending Balance</b>	<b>77.902</b>	<b>69.942</b>
<b>Net Book Value</b>	<b>910.378</b>	<b>864.116</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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 31 December 2017, the Group has TRY 6.862 current tax asset. (31 December 2016: None).

b) Deferred tax assets:

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

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

	<b>Current period</b>	<b>Prior period</b>
Cost	790	3.984
Accumulated Depreciation (-) <sup>(1)</sup>	-	(2.447)
<b>Net Book Value</b>	<b>790</b>	<b>1.537</b>
<b>Opening Balance</b>	<b>1.537</b>	<b>2.694</b>
Acquisitions (Transfers) (Net)	-	(547)
Disposals (-) (Net)	747	811
Revaluation Increase	-	154
Impairment Charge / Cancellation(-)	-	-
Amortization Charge (-)	-	47
<b>Net Book Value</b>	<b>790</b>	<b>1.537</b>

<sup>(1)</sup> Accumulated depreciation is attributable to the recoverable amounts which are classified as held for sale in the current period.

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 3.026.257 and does not exceed 10% of the balance sheet total (31 December 2016: TRY 2.752.211).

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	<b>Demand</b>	<b>7 day call accounts</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6 months year</b>	<b>1 year and over</b>	<b>Cumulative deposits</b>	<b>Total</b>
Saving deposits	6.767.610	-	758.785	39.992.067	1.734.753	459.667	537.645	104.662	50.355.189
Foreign currency deposits	9.021.857	-	3.937.904	37.510.134	3.612.492	3.755.042	4.983.103	10.866	62.831.398
<i>Residents in Turkey</i>	6.816.699	-	3.464.401	34.802.545	3.232.691	2.913.211	2.590.680	10.511	53.830.738
<i>Residents abroad</i>	2.205.158	-	473.503	2.707.589	379.801	841.831	2.392.423	355	9.000.660
Public sector deposits	2.100.039	-	2.541.047	4.614.515	426.883	4.138.990	53.204	-	13.874.678
Commercial inst. deposits	5.235.492	-	5.853.719	19.976.270	1.714.801	2.288.182	267.237	-	35.335.701
Other inst. deposits	571.038	-	1.134.603	6.514.654	675.153	820.826	20.045	-	9.736.319
Precious metals	1.821.711	-	246	82.140	4.392	4.069	10.080	-	1.922.638
Interbank deposits	3.813.689	-	3.863.659	11.192.988	74.936	24.560	244.866	-	19.214.698
<i>CBRT</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	41.021	-	1.531.378	6.900.085	6.559	9.579	-	-	8.488.622
<i>Foreign banks</i>	3.763.920	-	1.974.804	3.930.882	68.377	14.981	167.973	-	9.920.937
<i>Participation banks</i>	8.748	-	357.477	362.021	-	-	76.893	-	805.139
<b>Total</b>	<b>29.331.436</b>	<b>-</b>	<b>18.089.963</b>	<b>119.882.768</b>	<b>8.243.410</b>	<b>11.491.336</b>	<b>6.116.180</b>	<b>115.528</b>	<b>193.270.621</b>

a.2. Prior period:

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

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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:

<b>Saving deposits</b>	<b>Under the guarantee insurance</b>		<b>Exceeding the insurance limit</b>	
	<b>Current period</b>	<b>Prior period</b>	<b>Current period</b>	<b>Prior period</b>
Saving deposits	25.612.387	23.535.650	24.595.796	16.938.565
Foreign currency saving deposits	9.203.420	7.502.986	19.607.544	14.742.676
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	211.478	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:

	<b>Current period</b>	<b>Prior period</b>
Foreign branches' saving deposits and other accounts	143.237	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	4.045	8.063
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26/9/2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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	-	88.977	-	137.422
Swap transactions	-	61.405	-	86.857
Future transactions	-	-	-	-
Options	146	145	59	255
Other	-	-	-	-
<b>Total</b>	<b>146</b>	<b>150.527</b>	<b>59</b>	<b>224.534</b>

(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from CBRT	-	-	-	-
Domestic banks and institutions	1.008.709	2.680.627	843.368	2.503.564
Foreign banks, institutions and funds	428.152	15.940.996	328.396	17.913.783
<b>Total</b>	<b>1.436.861</b>	<b>18.621.623</b>	<b>1.171.764</b>	<b>20.417.347</b>

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	1.261.518	5.789.308	968.495	4.927.580
Medium and long-term	175.343	12.832.315	203.269	15.489.767
<b>Total</b>	<b>1.436.861</b>	<b>18.621.623</b>	<b>1.171.764</b>	<b>20.417.347</b>

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

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

Main liability of the Group is deposit, which is composed of 26,05% of saving deposits and 32,51% 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 62,23% of banks deposits and 37,20% of other deposits consist of foreign currency deposits.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

- (3) Additional disclosures related to the concentrations of the Group's major liabilities: (continued)

Funds provided through repurchase transactions:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
<b>Domestic Transactions</b>	<b>206.722</b>	<b>-</b>	<b>9.464.294</b>	<b>-</b>
<i>Financial Institutions and Organisations</i>	53.043	-	9.396.299	-
<i>Other Institutions and Organisations</i>	119.913	-	29.220	-
<i>Individuals</i>	33.766	-	38.775	-
<b>Foreign Transactions</b>	<b>520</b>	<b>4.127.464</b>	<b>460</b>	<b>1.365.201</b>
<i>Financial Institutions and Organisations</i>	-	4.127.464	-	1.365.201
<i>Other Institutions and Organisations</i>	-	-	-	-
<i>Individuals</i>	520	-	460	-
Discounts	210	13.284	5.987	8.670
<b>Total</b>	<b>207.452</b>	<b>4.140.748</b>	<b>9.470.741</b>	<b>1.373.871</b>

- (4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	3.280.789	-	2.067.703	-
Asset Back Securities	100.436	-	-	-
Bonds	-	8.640.905	-	10.684.708
<b>Total</b>	<b>3.381.225</b>	<b>8.640.905</b>	<b>2.067.703</b>	<b>10.684.708</b>

- (5) Explanations to the funds:

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

- a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	1.213	2.723.421	37.539	2.302.269

- (6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 12.003.616 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:

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

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.

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

None.

- (9) Explanations on provisions:

- a) Information on general provisions:

	<b>Current period</b>	<b>Prior period</b>
<b>General provision</b>	<b>2.317.157</b>	<b>2.049.136</b>
Provisions for first group loans and receivables	2.080.595	1.834.503
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for second group loans and receivables	105.114	93.459
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for non-cash loans	131.448	121.174
Other	-	-

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

As of 31 December 2017 the Parent Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 1.923 (31 December 2016: TRY 23).

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

As of 31 December 2017, the Group's specific provision for unindemnified non-cash loans balance is TRY 123.060 (31 December 2016: TRY 139.551).

- d) Information on other provisions:

Total other provision balance amounting to TRY 351.688 (31 December 2016: TRY 392.356) consists of TRY 123.060 (31 December 2016: TRY 139.551) for specific provisions for unindemnified non-cash loans, TRY 110.968 (31 December 2016: TRY 94.679) for legal cases filed against the Group, TRY 117.660 (31 December 2016: TRY 158.126) of other provisions.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(9) Explanations on provisions: (continued)

e) Movement of employee termination benefits:

Severance indemnity provision as of 31 December 2017 is calculated by an independent company by using the actuarial conjectures. The amount calculated for the employee termination benefits as a result of the actuarial valuation according to TAS 19, is as follows;

	<b>Current Period</b>	<b>Prior Period</b>
Inflation Rate	8,90%	7,80%
Wage Growth	12,30%	11,20%
Estimated Real Wage Growth Rate	9,10%	8,00%

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

	<b>Current Period</b>	<b>Prior Period</b>
As of January 1	405.116	395.018
Charge for the year	39.745	37.372
Interest Expense	44.640	41.722
Actuarial gain/loss	11.258	(21.117)
Prior period service cost composed current period	52	849
Payment/The limitation of benefits/ Loss ( Gain) therefore discharge	8.229	1.546
Benefits paid within the period(-)	40.766	50.315
<b>Total</b>	<b>468.274</b>	<b>405.075</b>

f) Liabilities for employee benefits:

As of 31 December 2017, unused vacation accruals are TRY 161.876, personnel dividend provision is TRY 209.505, severance indemnity provision for the Parent Bank personnel is TRY 471.506 and severance indemnity provision for outsourcing firms is TRY 17.533 (31 December 2016: TRY 143.946 for unused vacation accruals; TRY 407.278 for severance indemnity provision for Bank personnel; TRY 14.007 for severance indemnity provision for outsources; TRY 166.228 for personnel dividend provision).

The Bank accounts for actuarial gains / losses under equity commencing from 1 January 2013.

g) Liabilities arising from retirement benefits:

g.1. Liabilities of pension funds founded as per the Social Security Institution:

None.

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



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(9) Explanations on provisions: (continued)

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

Based on the results of the actuarial reports prepared as of 31 December 2017, it was determined that no technical deficit for Türkiye Halk Bankası AŞ Emekli Sandığı, T.C. Ziraat Bankası and Türkiye Halk Bankası Çalışanları Emekli Sandığı Vakfı.

The above mentioned actuarial review, which was made in accordance with the principles of the related law, measures the present value of the liability as of 31 December 2017, in other words; it measures the amount to be paid to the Social Security Institution by the Bank. Actuarial assumptions used in the calculation are given below.

<b>Assumptions</b>	<b>Current Period</b>	<b>Prior Period</b>
Discount Rate	%9,8	%9,8
Mortality Rate	CSO 1980 woman/man	CSO 1980 woman/man

Some of the Bank's personnel are the members of T. Halk Bankası Çalışanları Emekli Sandığı Vakfı, ("Fund") which was established by 20th provisional article of Social Security Law Act numbered 506. As of 31 December 2017 the number of personnel who benefit from the Fund is 34.631 (31 December 2016: TRY 33.079).

Below table shows the present values of premiums and salary payments as of 31 December 2017, by taking into account the health expenses within the Social Security Institution limits.

<b>Transferable Pension and Medical Benefits:</b>	<b>Current Period</b>	<b>Prior Period</b>
Net Present Value of Total Liabilities Other Than Health	(1.938.100)	(1.601.730)
Net Present Value of Long Term Insurance Line Premiums	2.167.717	1.781.839
<b>Net Present Value of Total Liabilities Other Than Health</b>	<b>229.617</b>	<b>180.109</b>
Net Present Value of Health Liabilities	(435.970)	(392.002)
Net Present Value of Health Premiums	1.354.206	1.113.143
<b>Net Present Value of Health Liabilities</b>	<b>918.236</b>	<b>721.141</b>
<b>Pension Fund Assests</b>	<b>1.911.745</b>	<b>1.525.471</b>
General Administration Expenses (1%)	(23.741)	(19.937)
<b>Amount of Actuarial and Technical Deficit</b>	<b>3.035.857</b>	<b>2.406.784</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(9) Explanations on provisions: (continued)

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

Plan assets are comprised as follows:

<b>Total Assets</b>	<b>Current Period</b>	<b>Prior Period</b>
Banks	1.104.186	1.220.100
Marketable Securities	644.310	151.300
Property and Equipment	126.403	129.800
Other	36.846	24.271
<b>Total</b>	<b>1.911.745</b>	<b>1.525.471</b>

On the other hand, after the transfer, the currently paid health benefits will be revised within the framework of the Social Security Institution legislation and related regulations.

The sensitivity analysis of defined benefit obligation of excess liabilities and retirement indemnities are as follows:

**Change in Assumptions (%)**

<b>Assumptions</b>	<b>Pension Benefits</b>	<b>Death Benefits</b>	<b>Medical Benefits</b>	<b>Total</b>
Discount rate+1%	(0,1%)	(19,6%)	(19,0%)	<b>(19,0%)</b>
Discount rate -1%	0,1%	27,0%	26,1%	<b>26,0%</b>
Inflation rate +1%	0,1%	27,1%	32,4%	<b>32,30%</b>
Inflation rate -1%	(0,1%)	(19,9%)	(22,6%)	<b>(22,50%)</b>

Based on the results of the actuarial report prepared as of 31 December 2017, 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.

h) Insurance Technical Provisions (Net):

	<b>Current period</b>	<b>Prior period</b>
Life-Mathematical Provisions	330.550	255.917
Provisions for unearned premium claims	538.485	427.120
Provision for outstanding claims	932.912	696.078
Provisions for unexpired risk reserves	8.739	20.865
Other	118	168
<b>Total</b>	<b>1.810.804</b>	<b>1.400.148</b>

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 December 2017, the Group's corporate tax payable is amounting to TRY 175.402 and accounted for under corporate tax provision at the related date.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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:

	<b>Current period</b>	<b>Prior period</b>
Corporate tax payable	175.402	64.824
Income on securities tax	328.175	157.179
Property income tax	1.570	1.402
Banking and insurance transactions tax (BITT)	108.669	92.058
Foreign exchange transactions tax	21	48
Value added tax payable	4.727	3.797
Other	31.718	15.271
<b>Total</b>	<b>650.282</b>	<b>334.579</b>

a.3. Information on premiums:

	<b>Current period</b>	<b>Prior period</b>
Social insurance premiums-employee	857	768
Social insurance premiums-employer	1.785	1.419
Bank social aid pension fund premium-employee	9.221	7.621
Bank social aid pension fund premium-employer	12.800	10.452
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	60	48
Unemployment insurance-employer	174	132
Other	2.344	1.956
<b>Total</b>	<b>27.241</b>	<b>22.396</b>

b) Explanations regarding deferred tax liability:

	<b>Current period</b>	<b>Prior period</b>
<b>Deferred Tax Asset / (Liability)</b>		
Provisions <sup>(1)</sup>	301.129	277.574
Revaluation of Financial Assets	(600.353)	(375.878)
Other	(187.765)	(91.145)
<b>Net Deferred Tax Asset / (Liability):</b>	<b>(486.989)</b>	<b>(189.449)</b>
<b>Deferred tax accounted in shareholders' equity</b>	<b>48.674</b>	<b>(1.535)</b>
Fair value differences for available for sale financial assets	187.521	65.830
Actuarial gains and losses	2.633	241
Property Revaluation	(141.480)	(67.606)

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

As of 31 December 2017 net deferred tax liability represents TRY 486.989 deferred tax liability (31 December 2016: TRY 189.449), it consists of deferred tax assets which amount to TRY 87.181 (31 December 2016: TRY 99.525) and deferred tax liabilities amount to TRY 574.170 (31 December 2016: TRY 288.974).

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

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

Subordinated Liabilities:	Current Period		Prior Period	
	TRY	FC	TRY	FC
Domestic Banks	-	-	-	-
Other Domestic Institutions	1.004.385	-	-	-
Foreign Banks	-	-	-	-
Other Foreign Institutions	-	-	-	-
<b>Total</b>	<b>1.004.385</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (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 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)	19.303	5.385	10.869	39
Revaluation difference	19.303	5.385	10.869	39
Exchange rate difference	-	-	-	-
Available for sale financial assets	(386.103)	(246.346)	(302.092)	(427.744)
Revaluation difference	(386.103)	(246.346)	(302.092)	(427.744)
Exchange rate difference	-	-	-	-
<b>Total</b>	<b>(366.800)</b>	<b>(240.961)</b>	<b>(291.223)</b>	<b>(427.705)</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

Information on shareholders' equity: (continued)

i) Legal Reserves

	<b>Current Period</b>	<b>Prior Period</b>
I. Legal Reserve	1.122.063	981.962
II. Legal Reserve	598.418	546.732
Special Reserves	38.460	33.478
<b>Total</b>	<b>1.758.941</b>	<b>1.562.172</b>

j) Extraordinary Reserves:

	<b>Current</b> <b>Period</b>	<b>Prior Period</b>
Legal reserves that was allocated to be in compliance with the decisions made on the Annual General Assembly	15.130.546	12.956.536
Retained Earnings	-	-
Accumulated Losses	-	-
<b>Total</b>	<b>15.130.546</b>	<b>12.956.536</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

Information on shareholders' equity: (continued)

(14) Information on minority interest shares:

a) Information on minority interest shares:

	<b>Current Period</b>	<b>Prior Period</b>
Paid-in Capital	158.228	159.066
Export Premium	10.451	15.538
Marketable Securities Revaluation Fund	52	1.327
Legal Reserves	3.889	8.218
Extraordinary Reserves	10.906	9.161
Retained Earnings	12.500	8.006
Other Profit Reserves	1.613	5.993
Net Period Income / Loss	12.485	5.849
<b>Closing Balance</b>	<b>210.124</b>	<b>213.158</b>

b) Movement of minority interest shares:

	<b>Current Period</b>	<b>Prior Period</b>
Beginning Balance	213.158	201.426
Change in Minority Interest	(15.519)	5.883
Net Period Income / Loss	12.485	5.849
<b>Closing Balance</b>	<b>210.124</b>	<b>213.158</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

<b>Types of irrevocable commitments</b>	<b>Current period</b>	<b>Prior period</b>
Commitments for credit card expenditure limits	11.599.896	10.824.073
Payment commitments for cheques	3.269.281	5.805.008
Loan granting commitments	4.685.365	3.580.800
Two days forward foreign exchange buy/sell transactions	910.451	417.450
Commitments for credit cards and banking services promotions	32.736	44.328
Tax and fund liabilities from export commitments	38.072	28.864
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	3.653.304	3.462.296
<b>Total</b>	<b>24.189.105</b>	<b>24.162.819</b>

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

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

	<b>Current period</b>	<b>Prior period</b>
Letters of credit	4.148.121	4.019.100
Bank acceptance loans	3.693.507	2.825.466
Other guarantees	1.285.922	914.248
<b>Total</b>	<b>9.127.550</b>	<b>7.758.814</b>

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

	<b>Current period</b>	<b>Prior period</b>
Letters of certain guarantees	14.683.821	14.917.475
Letters of advance guarantees	4.296.948	3.501.034
Letters of tentative guarantees	744.300	512.981
Letters of guarantee given to customs offices	1.327.615	887.159
Other letters of guarantee	28.607.424	20.300.256
<b>Total</b>	<b>49.660.108</b>	<b>40.118.905</b>

b.3. Total non-cash loans:

	<b>Current period</b>	<b>Prior period</b>
Non-cash loans for providing cash loans	3.315.807	2.256.883
<i>Within one year or less original maturity</i>	824.244	414.973
<i>Within more than one year maturity</i>	2.491.563	1.841.910
Other non-cash loans	55.471.851	45.620.836
<b>Total</b>	<b>58.787.658</b>	<b>47.877.719</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

d.1. Sectoral risk concentration of non-cash loans

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agriculture	37.475	0,13	57.214	0,19	40.378	0,19	24.718	0,09
<i>Farming and Stockbreeding</i>	30.793	0,11	10.754	0,04	36.311	0,17	22.308	0,08
<i>Forestry</i>	183	-	-	-	199	-	-	-
<i>Fishery</i>	6.499	0,02	46.460	0,15	3.868	0,02	2.410	0,01
Manufacturing	7.184.357	25,58	14.044.051	45,75	5.006.181	23,84	14.017.581	52,15
<i>Mining and Quarrying</i>	113.424	0,40	40.293	0,13	140.712	0,67	66.010	0,25
<i>Productioni</i>	4.043.858	14,40	13.680.317	44,57	3.113.471	14,83	11.910.161	44,30
<i>Electricity, Gas and Water</i>	3.027.075	10,78	323.441	1,05	1.751.998	8,34	2.041.410	7,60
Construction	8.039.874	28,62	8.736.570	28,46	6.112.235	29,11	7.020.483	26,12
Services	12.511.669	44,54	7.683.503	25,03	9.676.704	46,08	5.498.471	20,46
<i>Wholesale and Retail Trade</i>	6.465.350	23,01	2.928.813	9,54	4.837.193	23,03	2.364.286	8,80
<i>Accomodation and Dining</i>	82.979	0,30	816.097	2,66	83.860	0,40	178.138	0,67
<i>Transportation and Telecom.</i>	306.795	1,09	1.744.681	5,68	186.011	0,89	505.600	1,88
<i>Financial Institutions</i>	3.210.202	11,43	312.975	1,02	3.214.131	15,31	544.054	2,02
<i>Real Estate and Rental Services</i>	2.155.546	7,67	1.792.249	5,84	1.187.469	5,65	1.836.181	6,83
<i>Professional Services</i>	20.133	0,07	839	-	17.781	0,08	370	-
<i>Educational Services</i>	89.042	0,32	49.462	0,16	26.483	0,13	45.486	0,17
<i>Health and Social Services</i>	181.622	0,65	38.387	0,13	123.776	0,59	24.356	,09
Other	318.327	1,13	174.618	0,57	164.040	0,78	316.928	1,18
<b>Total</b>	<b>28.091.702</b>	<b>100,00</b>	<b>30.695.956</b>	<b>100,00</b>	<b>20.999.538</b>	<b>100,00</b>	<b>26.878.181</b>	<b>100,00</b>

d.2. Non-cash loans classified under Group I and II

	Group I		Group II	
	TRY	FC	TRY	FC
<b>Non-Cash Loans</b>	<b>27.948.099</b>	<b>30.657.193</b>	<b>143.603</b>	<b>38.763</b>
Letters of Guarantee	26.741.931	22.737.735	143.603	36.839
Bills of Exchange and Bank Acceptances	16.829	3.676.678	-	-
Letters of Credit	47.204	4.098.993	-	1.924
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Surities	1.142.135	143.787	-	-



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

e) Information on derivative financial instruments:

	Derivative transactions according to purposes			
	Trading Derivatives		Derivative Financial Instruments held for Risk Management	
	Current Period	Prior Period	Current Period	Prior Period
Types of trading transactions				
<b>Foreign Currency related Derivative Transactions (I):</b>	<b>17.324.553</b>	<b>13.307.997</b>	-	-
Currency Forwards-Purchases/Sales	9.085.301	7.005.310	-	-
Currency Swaps-Purchases/Sales	6.358.831	5.622.434	-	-
Currency Futures-Purchases/Sales	-	-	-	-
Currency Options-Purchases/Sales	1.880.421	680.253	-	-
<b>Interest Rate related Derivative Transactions (II)</b>	<b>10.886.762</b>	<b>9.744.530</b>	-	-
Interest Rate Contracts	-	-	-	-
Interest Rate Swaps-Purchases/Sales	10.886.762	9.744.530	-	-
Interest Rate Options-Purchases/Sales	-	-	-	-
Interest Rate Futures-Purchases/Sales	-	-	-	-
<b>Other Trading Derivatives (III) <sup>(1)</sup></b>	<b>2.730.418</b>	<b>2.181.689</b>	-	-
<b>Total Trading Derivatives (I+II+III)</b>	<b>30.941.733</b>	<b>25.234.216</b>	-	-
<b>Derivative Financial Instruments held for Risk Management</b>	-	-	-	-
Fair Value Hedges	-	-	-	-
Cash Flow Hedges	-	-	-	-
FC investment in associates risk hedge	-	-	-	-
<b>A. Total Derivative Financial Instruments held for Risk Management</b>	-	-	-	-
<b>Total Derivative Transactions (A+B)</b>	<b>30.941.733</b>	<b>25.234.216</b>	-	-

<sup>(1)</sup> Other trading derivatives consist of forward buying and selling precious contracts amounting to TRY 24.982 and TRY 2.705.436, respectively.

h) Information on contingent liabilities and assets:

Bank's commitments for the cheques given to customers are TRY 3.269.281 (31 December 2016: TRY 5.805.008).

i) Services provided on behalf of others:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
<b>Interest on loans<sup>(1)</sup></b>				
Short term loans	4.454.399	225.871	3.753.474	198.481
Medium and long term loans	11.044.967	3.199.222	7.994.235	2.285.880
Interest on non-performing loans	133.052	3.327	69.789	6.007
Premiums from resource utilization support fund	-	-	-	-
<b>Total</b>	<b>15.632.418</b>	<b>3.428.420</b>	<b>11.817.498</b>	<b>2.490.368</b>

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

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
CBRT	99.640	83.263	69.911	13.189
Domestic banks	44.116	8.122	22.500	1.329
Overseas banks	8.409	13.151	4.071	3.682
Head office and branches	-	-	-	-
<b>Total</b>	<b>152.165</b>	<b>104.536</b>	<b>96.482</b>	<b>18.200</b>

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial assets held for trading	3.180	29	6.954	647
Financial assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	1.284.569	297.838	847.799	234.243
Held-to-maturity investments	2.038.882	141.034	1.361.916	119.845
<b>Total</b>	<b>3.326.631</b>	<b>438.901</b>	<b>2.216.669</b>	<b>354.735</b>

d) Interest income from associates:

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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	137.592	388.334	119.290	355.292
<i>CBRT</i>	-	279	-	-
<i>Domestic banks</i>	99.716	51.369	69.297	32.803
<i>Overseas banks</i>	37.876	336.686	49.993	322.489
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	12	14.347	13	15.047
<b>Total</b>	<b>137.604</b>	<b>402.681</b>	<b>119.303</b>	<b>370.339</b>

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	4.283	3.003

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	379.126	466.409	171.121	419.627
<b>Total</b>	<b>379.126</b>	<b>466.409</b>	<b>171.121</b>	<b>419.627</b>

d) Maturity structure of interest expenses on deposits:

Account name	Time deposits							Cumulative deposit	Total
	Demand deposits	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 Year	More than 1 year			
<b>Turkish Lira</b>									
Bank deposits	318	336.521	309.222	914	558	-	-	647.533	
Saving deposits	6	74.481	3.997.373	150.964	45.425	45.682	8.751	4.322.682	
Public deposits	47	178.874	298.891	66.829	392.510	4.394	-	941.545	
Commercial deposits	25	411.283	1.870.278	265.515	254.904	15.738	-	2.817.743	
Other deposits	-	62.220	371.336	78.037	52.286	8.526	-	572.405	
7 days call accounts	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>396</b>	<b>1.063.379</b>	<b>6.847.100</b>	<b>562.259</b>	<b>745.683</b>	<b>74.340</b>	<b>8.751</b>	<b>9.301.908</b>	
<b>Foreign currency</b>									
Deposits	207	76.500	1.164.740	212.884	54.129	65.406	354	1.574.220	
Bank deposits	242	191.700	230	509	2.305	14.554	36	209.576	
7 days call accounts	-	-	-	-	-	-	-	-	
Precious metal	153	-	-	-	-	-	-	153	
<b>Total</b>	<b>602</b>	<b>268.200</b>	<b>1.164.970</b>	<b>213.393</b>	<b>56.434</b>	<b>79.960</b>	<b>390</b>	<b>1.783.949</b>	
<b>Grand total</b>	<b>998</b>	<b>1.331.579</b>	<b>8.012.070</b>	<b>775.652</b>	<b>802.117</b>	<b>154.300</b>	<b>9.141</b>	<b>11.085.857</b>	

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**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:

	<b>Current period</b>	<b>Prior period</b>
From trading financial assets	194	81
From financial assets at fair value through Profit and loss	24	-
From available for sale financial assets	4.003	30.448
Other	7.418	9.457
<b>Total</b>	<b>11.639</b>	<b>39.986</b>

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

	<b>Current period</b>	<b>Prior period</b>
<b>Profit</b>	<b>45.384.051</b>	<b>15.307.780</b>
Profit from the capital market operations	48.558	21.425
Profit on derivative financial instruments	1.824.452	1.703.255
Foreign exchange gains	43.511.041	13.583.100
<b>Loss (-)</b>	<b>45.305.426</b>	<b>15.124.814</b>
Loss from the capital market operations	13.481	1.144
Loss on derivative financial instruments	2.020.170	1.692.097
Foreign exchange losses	43.271.775	13.431.573

b) Information on derivative financial instruments:

	<b>Current period</b>	<b>Prior period</b>
<b>Profit on derivative financial instruments</b>	<b>1.824.452</b>	<b>1.703.255</b>
Effect of the change in foreign exchange on profit	1.768.357	1.652.809
Effect of the change in interest rate on profit	56.095	50.446
<b>Loss on derivative financial instruments (-)</b>	<b>2.020.170</b>	<b>1.692.097</b>
Effect of the change in foreign exchange on loss	1.971.201	1.642.832
Effect of the change in interest rate on loss	48.969	49.265
<b>Profit/loss on derivative financial instruments</b>	<b>(195.718)</b>	<b>11.158</b>

(5) Explanations on other operating income:

	<b>Current period</b>	<b>Prior period</b>
Adjustments for prior period expenses	442.260	375.295
Insurance technical income	1.414.967	1.116.931
Income from the asset sale on credit terms	112.497	130.562
Rent income	49.417	51.930
Other income	137.442	151.186
<b>Total</b>	<b>2.156.583</b>	<b>1.825.904</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

(6) Impairment losses on loans and other receivables:

	<b>Current period</b>	<b>Prior period</b>
Specific provisions on loans and receivables	1.139.908	1.161.930
<i>Group - III loans and receivables</i>	373.220	534.454
<i>Group - IV loans and receivables</i>	528.643	313.230
<i>Group - V loans and receivables</i>	238.045	314.246
General loan provision expenses	268.934	910.121
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	97.029	133.858
<b>Total</b>	<b>1.505.871</b>	<b>2.205.909</b>

(7) Information on other operating expenses:

	<b>Current period</b>	<b>Prior period</b>
Personnel expenses	2.153.948	1.876.103
Reserve for employee termination benefits	96.833	83.517
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	410	4.713
Depreciation expenses of fixed assets	115.012	120.804
Intangible assets impairment expense	-	-
Goodwill Impairment	-	-
Amortization expenses of intangible assets	48.893	35.853
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	-	4.319
Amortization expenses of assets that will be disposed of	13.437	13.372
Impairment expense for property and equipment held for sale	-	95
Other operating expenses	2.305.737	1.305.467
<i>Operational leasing expenses</i>	204.389	214.401
<i>Maintenance expenses</i>	49.046	31.573
<i>Advertisement expenses</i>	226.048	165.782
<i>Other expenses</i>	1.826.254	893.711
Loss on sales of assets	363	1.330
Other	1.151.570	1.651.889
<b>Total</b>	<b>5.886.203</b>	<b>5.097.462</b>

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

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

- (8) Information on profit/loss from continuing and discontinued operations before taxes:  
The banks income before taxes consists of net interest income amounting to TRY 8.356.292 net fees and commission income amounting to TRY 1.921.134, and operating profit before taxes is TRY 5.153.710.
- (9) Information on tax provisions for continuing and discontinued operations:  
As of 31 December 2017, the Group's tax provision amounting to TRY 1.102.986 consists of TRY 855.655 of current tax charge and TRY 247.331 of deferred tax charge.
- (10) Information on net operating income/expense from continuing and discontinued operations after tax:  
For the period ended 31 December 2017, Banks' net operating income after tax is TRY 4.050.724.
- (11) Information on net profit/loss:
- a) Income and expenses from ordinary banking operations:  
None.
  - b) Effects of changes in accounting estimates on the current and future periods' profit/loss: There is no issue to be disclosed.
  - c) "Other" item under "Fees and Commissions Received" in the Income Statement are composed of fees and commissions received from credit card operations and various banking operations, mainly from capital market operations.

**V. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CHANGES IN**  
**SHAREHOLDERS' EQUITY**

Explanations on inflation adjustments for equity items:

As per the BRSA circular announced on 28 April 2005, inflation accounting applied in the banking system has been ceased as of 1 January 2005 in accordance with the BRSA decree numbered 1623 and dated 21 April 2005.

According to this circular, TRY 1.220.451 of inflation adjustment related to paid in capital was transferred to the "Other Capital Reserves" account, which was previously recognized in "Paid-in Capital Inflation Adjustment" account before 31 December 2005. However, inflation adjustments related to other equity items are presented under the related equity item.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VI. EXPLANATIONS AND NOTES RELATED TO THE CASH FLOW STATEMENT**

- (1) Disclosures for the “other” and “the effect of foreign exchange differences on cash and cash equivalents” items of cash flow statement:

The “net increase/(decrease) in other liabilities” under the changes in operating assets and liabilities is resulted from the changes in the funds obtained through repurchase agreements, miscellaneous payables, other external funding payables and taxes, duties and premiums payables and amounts to TRY 17.670.819 (31 December 2016: TRY 11.388.032) increase for the year 2017. The “others” item under operating income composes of fees and commissions paid, foreign exchange gains, other operating income and other operating expenses excluding employee costs, and amounts to TRY 6.134.162 decrease for the year 2017 (31 December 2016: TRY 6.189.949 decrease)

For the year ended 31 December 2017, the effect of change in foreign exchange rate on cash and cash equivalents is TRY 908.274 increase (31 December 2016: TRY 1.403.627 increase). The average exchange rates of last five weekdays were taken into consideration as of the balance sheet date when calculating the effect of change in the exchange rates.

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

	<b>Current period</b>	<b>Prior period</b>
Cash	30.211.966	23.500.539
<i>Cash in TRY and foreign currency</i>	<i>1.543.096</i>	<i>1.258.794</i>
<i>Central Bank and others<sup>(1)</sup></i>	<i>28.668.870</i>	<i>22.241.745</i>
Cash equivalents	3.010.590	2.671.525
<i>Demand and Time Deposits Up to 3 Months</i>	<i>1.938.193</i>	<i>2.617.651</i>
<i>Money Market Placements</i>	<i>1.072.397</i>	<i>53.874</i>
<b>Total cash and cash equivalents</b>	<b>33.222.556</b>	<b>26.172.064</b>
Reserve deposits in Central Bank of Turkey	(17.363.786)	(17.068.977)
Banks Blocked Amount <sup>(1)</sup>	(290.080)	(224.139)
Accruals on reserve deposits in Central Bank of Turkey	(36.875)	(21.204)
Due from Money Markets Placements	-	-
Accruals on banks	(1.219)	(1.842)
<b>Total Cash and Cash Equivalents</b>	<b>15.530.596</b>	<b>8.855.902</b>

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

<sup>(2)</sup> Blocked amount of TRY 248.138 given by the Undersecretariat of Treasury of the Republic of Turkey as collateral for technical provisions of Halk Hayat ve Emeklilik AŞ. In addition, blocked amount of TRY 41.492 is given by Halk Hayat Emeklilik AŞ to the Undersecretariat of Treasury of the Republic of Turkey as collateral.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VI. EXPLANATIONS AND NOTES RELATED TO THE CASH FLOW STATEMENT**  
**(continued)**

(1) Disclosures for the “other” and “the effect of foreign exchange differences on cash and cash equivalents” items of cash flow statement:

(5) Cash and cash equivalents balance at the end of the period:

	<b>Current Period</b>	<b>Prior Period</b>
Cash	36.681.377	30.211.966
<i>Cash in TRY and foreign currency</i>	2.208.130	1.543.096
<i>Central Bank and others<sup>(1)</sup></i>	34.473.247	28.668.870
Cash Equivalents	7.597.218	3.010.590
<i>Demand and Time Deposits Up to 3 Months</i>	6.309.050	1.938.193
<i>Money Market Placements</i>	1.288.168	1.072.397
<b>Cash and Banks</b>	<b>44.278.595</b>	<b>33.222.556</b>
Reserve deposits in Central Bank of Turkey	(16.725.443)	(17.363.786)
Banks Blocked Amount <sup>(1)</sup>	(325.226)	(290.080)
Accruals on reserve deposits in Central Bank of Turkey	(89.784)	(36.875)
Due from Money Markets Placements	2.669	-
Accruals on banks	(18.620)	(1.219)
<b>Total Cash and Cash Equivalents</b>	<b>27.122.191</b>	<b>15.530.596</b>

(1) Others items include cheques received.

(2) Blocked amount of TRY 278.506 given by the Undersecretariat of Treasury of the Republic of Turkey as collateral for technical provisions of Halk Hayat ve Emeklilik AŞ. In addition, blocked amount of TRY 46.720 is given by Halk Hayat Emeklilik AŞ to the Undersecretariat of Treasury of the Republic of Turkey as collateral



**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VII. 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:

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

Prior period:

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

- 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
	<b>Deposits</b>					
Beginning balance	8.771	5.823	-	-	-	-
Closing Balance	21.542	8.771	-	-	-	-
Interest expense on deposits	1.296	393	-	-	-	-

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

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VII. 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:

	<b>Amount</b>	<b>% compared to the amounts in the financial statements</b>
Cash loans	-	-
Non-cash loans	-	-
Deposits	21.542	0,01%
Forward and option contracts	11.936	0,11%
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 23.873 as of 31 December 2017 (31 December 2016: TRY 21.020).

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**VIII. EXPLANATIONS ON THE BANK'S DOMESTIC BRANCHES, AGENCIES/BRANCHES**  
**ABROAD AND OFF-SHORE BRANCHES**

- (1) Explanations on the Bank's domestic branches, agencies/branches abroad and off-shore branches

	Quantity	Number of Employees	Countries	Total Assets	Capital Legal
<b>Domestic Branches</b>	963	17.788			
<b>Abroad Agencies</b>	3	4	Teheran/IRAN London/ENGLAND		
<b>Overseas Branches</b>	5	28	Singapore/SINGAPORE Nicosia/ TRNC Gazimagosa/ TRNC Kyrenia/ TRNC Paşakoy/ TRNC Gonyeli/ TRNC	634.479 113.735 102.402 145 294.476	- - - - -
<b>Off-shore Branches</b>	1	3	Manama/BAHREYN	15.101.525	-

- (2) Explanations on branch and agency openings or closings of the Bank:

The Bank opened 4 domestic and 1 overseas branch during the year 2017.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

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

**IX. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS**

None.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**SECTION VI: OTHER EXPLANATIONS AND NOTES**

**I. OTHER EXPLANATIONS ON BANK'S OTHER ACTIVITIES**

One of the Bank's directors has been convicted for some of the charges in the first phase of the trial by the jury in the United States of America (the USA) of the violation of the USA sanctions involving Iran. The subsequent legal process is not yet completed but ongoing for the defendant director of the Bank such as appeal and other legal rights following the first phase of the trial.

The Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the Bank.

The Bank is always sensitive in complying with national and international regulations and puts considerable efforts in improving such compliance policies in line with international standards.

In providing the banking transactions, the Bank is not following the foreign trade applications, mechanisms, methods and systems, other than prevailing banking practices and those adopted by other banks. The foreign trade transactions and Money transfers are open and transparent, and easily be monitored by authorities. The Bank will continue to adopt the same policies of transparency and compliance with international regulations.

The Bank placed a high importance on this matter and established a separate "Compliance Department". The Bank is receiving advisory services from an international expert firm in forming effectiveness of this department's policies and control procedures and processes.

**TÜRKİYE HALK BANKASI AŞ**  
**EXPLANATION AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL**  
**STATEMENTS AS OF 31 DECEMBER 2017**

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

**SECTION VII: AUDITORS' REPORT**

**I. EXPLANATIONS ON THE AUDITORS' REPORT**

The consolidated financial statements as of and for the year ended 31 December 2017 were audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of Deloitte Touche Tohmatsu Limited) and Auditors' Report dated 14 February 2018 is presented in the introduction of this report.

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

None.