

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

Türkiye Halk Bankası Anonim Şirketi

**Unconsolidated Financial Statements
As of and For the Year Ended 31 December 2017
With Auditors' Report Thereon**
*(Convenience Translation of Unconsolidated
Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish)*

14 February 2018

*This report contains "Auditors' Report" comprising
7 pages and; "Unconsolidated Financial Statements
and Related Disclosures and Footnotes" comprising
127 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 Financial Statements

1) Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Bank 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

We draw attention to the following:

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 financial statements of the current period. These matters were addressed in the context of our audit of the 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><i>Classification and impairment of loans and receivables</i></p> <p>Impairment of loans and receivables to customer is a key area of judgement for the management. The Bank has the total loans and receivables amounting to TRY 208.243.749 thousands, which comprise 68% of the Bank's total assets in its unconsolidated financial statements and the total provision for impairment amounting to TRY 4.779.272 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">• We assessed and tested the design, implementation and operating effectiveness of key controls applied by the Bank with respect to classification of loans and receivables and determination and calculation of impairments.• 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.• 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.

	<ul style="list-style-type: none"> • We have mathematically tested the appropriateness of specific provision calculations made for non-performing loans in line with the relevant legislation. • 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. • Based on our discussions with the Bank management, we evaluated whether the key assumptions and other judgements underlying the estimation of impairment were reasonable.
<p>Key Audit Matter</p>	<p>How the matter was addressed in the audit</p>
<p><i>Valuation of Pension Fund Obligations</i></p> <p>Defined benefit pension plan that the Bank provides to its employees is managed by Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı ile 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>As disclosed in the Section III note XVI to the unconsolidated 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>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</p>	<p>Our audit work included the following procedures:</p> <ul style="list-style-type: none"> • 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. • It has been tested whether the plan assets meet plan obligations in accordance with the methods and assumptions used. • In addition, reconciliations and tests were carried out through sampling of the accuracy of the data provided to the Bank’s actuary. • 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.

<p>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>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>Key Audit Matter</p>	<p>How the matter was addressed in the audit</p>
<p><i>Information Technologies Audit</i></p> <p>The Bank 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 Bank 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 Bank 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>Procedures within the context of our information technology audit work:</p> <ul style="list-style-type: none"> • We identified and tested the Banks' controls over information systems as part of our audit procedures. • 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"> • Manage security • Manage changes • Manage operations • 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. • We tested the accesses and logging controls underlying all applications that have direct or indirect impacts on financial data generation. • Automated controls and integration controls are tested to underly and detect changes and accesses in the process of financial data generation.

	<ul style="list-style-type: none"> • 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. • Finally, we understood and tested the controls over database, network, application and operating system layers of applications.
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5) Other Matters

The unconsolidated financial statements of the Bank 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank’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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

7) Auditor’s Responsibilities for the Audit of the Financial Statements

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Hasan Kılıç
Partner

İstanbul, 14 February 2018

TÜRKİYE HALK BANKASI AŞ
THE UNCONSOLIDATED FINANCIAL REPORT
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 and E-mail Address:
Website: www.halkbank.com.tr
E-mail Address: halkbank.ir@halkbank.com.tr

The unconsolidated 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 BANK
- **Section Two** : UNCONSOLIDATED FINANCIAL STATEMENTS
- **Section Three** : EXPLANATIONS ON ACCOUNTING POLICIES
- **Section Four** : INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- **Section Five** : EXPLANATIONS AND NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- **Section Six** : OTHER EXPLANATIONS
- **Section Seven** : AUDITORS' REPORT

Unless otherwise indicated, these unconsolidated 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 independently 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 Tıltak	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>Financial Accounting Department Head</i>

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

Name/Title : Arman Acar / Director
Tel/ Fax No : 0216 503 57 59/0212 340 09 90

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TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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

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

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

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

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

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

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

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

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

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

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

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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 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 BANK, IF ANY ⁽¹⁾

Name	Title
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors, Independent Member of the Board of Director, Chairman of the Audit Committee
Osman ARSLAN	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Yahya BAYRAKTAR	Independent Member of the Board of Directors, Member of the Audit Committee
Mehmet Nihat ÖMEROĞLU	Independent Member of the Board of Directors
Maksut SERİM	Member of the Board of Directors
Meltem TAYLAN AYDIN	Member of the Board of Directors
Faruk ÖZÇELİK	Member of the Audit Committee
Yılmaz ÇOLAK	Member of the Audit Committee
Selahattin SÜLEYMANOĞLU	Executive Vice President, Human Resources and Support Management
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Sebahattin BULUT	Executive Vice President, Loan Policies, Risk Monitoring, and Legal
Levend TORUSDAĞ	Executive Vice President, SME and Artisans Banking
Ergin KAYA	Executive Vice President, Banking Operations and Information Technology
Hakan ERYILMAZ	Executive Vice President, Treasury Management and International Banking
Mustafa ÇÖDEK	Executive Vice President, Retail Banking
Yusuf Duran OCAK	Executive Vice President, Financial Management and Planning
Hasan TUNCAY	Executive Vice President, Corporate and Commercial Marketing
Metin KÖSTEK	Executive Vice President, Corporate and Internal Systems

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

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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 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 BANK, IF ANY (continued)

- a) The professionals to the 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 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 BANK

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

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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)

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

a) General information about the 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 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 Bank received government bonds in settlement of the accumulated specific duty losses and the 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 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 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 Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 to cease the execution of the High Council of Privatization's decision numbered 2006/69 dated 11 August 2006. Thereupon, as per the decision of the Higher Council of Privatization numbered 2007/8 dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the 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 UNCONSOLIDATED 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)

V. EXPLANATIONS ON THE 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 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 Bank's service activities and operating areas: The 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 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 Bank has also 3 representative office that are 1 in England, 1 in Singapore and 1 in Iran.

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

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

Demir-Halkbank NV ("Demir Halk Bank"), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Turk P and I Sigorta A.Ş which are qualified as investments in associates, are included in the financial statements based on equity method of accounting.

There is no investment in shares of banks and financial institutions, with shareholding of 10% or more than 10% as deducted from capital.

Since all banks has the same equal shareholding, Kredi Kayıt Bürosu AŞ and Bankalararası Kart Merkezi AŞ are not consolidated in the financial statements and thus, the Bank has no control over these entities.

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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)

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

Immediate transfer of the equity between the Bank and its subsidiaries is not in question. Dividend distribution from equity is made according to the related regulations.

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

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

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

SECTION II: UNCONSOLIDATED FINANCIAL STATEMENTS

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

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

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

ASSETS	Note	Audited			Audited		
		Current period			Prior period		
		TRY	FC	Total	TRY	FC	Total
		31 December 2017			31 December 2016		
I. CASH AND BALANCES WITH THE CENTRAL BANK	(1)	12.917.312	23.455.727	36.373.039	3.534.232	26.464.928	29.999.160
II. FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)	(2)	10.085.889	362.017	10.447.906	70.105	359.993	430.098
2.1 Trading financial assets		10.085.889	362.017	10.447.906	70.105	359.993	430.098
2.1.1 Public sector debt securities		10.075.407	-	10.075.407	62.177	-	62.177
2.1.2 Share certificates		-	-	-	-	-	-
2.1.3 Financial assets held for trading		118	361.803	361.921	4	359.807	359.811
2.1.4 Other marketable securities		10.364	214	10.578	7.924	186	8.110
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. BANKS	(3)	580.518	5.513.422	6.093.940	196.308	1.464.722	1.661.030
IV. MONEY MARKET PLACEMENTS		1.258.647	-	1.258.647	-	-	-
4.1 Interbank money market placements		1.258.647	-	1.258.647	-	-	-
4.2 Istanbul Stock Exchange Money Market placements		-	-	-	-	-	-
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	11.474.374	5.615.175	17.089.549	10.770.662	4.219.265	14.989.927
5.1 Share certificates		71.715	52.091	123.806	66.434	34.160	100.594
5.2 Public sector debt securities		11.402.659	5.563.084	16.965.743	10.704.228	4.185.105	14.889.333
5.3 Other marketable securities		-	-	-	-	-	-
VI. LOANS AND RECEIVABLES	(5)	139.676.930	63.787.547	203.464.477	103.502.394	54.851.939	158.354.333
6.1 Loans and receivables		138.349.605	63.787.547	202.137.152	102.326.357	54.851.939	157.178.296
6.1.1 Loans extended to risk group of the Bank		50.196	916.965	967.161	250.131	828.283	1.078.414
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		138.299.409	62.870.582	201.169.991	102.076.226	54.023.656	156.099.882
6.2 Loans under follow-up		6.106.597	-	6.106.597	5.140.082	-	5.140.082
6.3 Specific provisions (-)		4.779.272	-	4.779.272	3.964.045	-	3.964.045
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. HELD TO MATURITY INVESTMENTS (Net)	(6)	19.214.233	2.512.936	21.727.169	15.823.514	2.332.668	18.156.182
8.1 Public sector debt securities		19.214.233	2.512.936	21.727.169	15.823.514	2.332.668	18.156.182
8.2 Other marketable securities		-	-	-	-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	19.083	313.709	332.792	19.083	249.574	268.657
9.1 Accounted under equity method		-	-	-	-	-	-
9.2 Unconsolidated associates		19.083	313.709	332.792	19.083	249.574	268.657
9.2.1 Financial investments		12.763	313.709	326.472	12.763	249.574	262.337
9.2.2 Non-financial investments		6.320	-	6.320	6.320	-	6.320
X. INVESTMENTS IN SUBSIDIARIES (Net)	(8)	3.089.737	536.971	3.626.708	2.514.639	363.185	2.877.824
10.1 Unconsolidated financial subsidiaries		3.037.559	536.971	3.574.530	2.473.396	363.185	2.836.581
10.2 Unconsolidated non-financial subsidiaries		52.178	-	52.178	41.243	-	41.243
XI. JOINT VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Accounted under equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. FINANCE LEASE RECEIVABLES (Net)	(10)	-	-	-	-	-	-
12.1 Finance lease receivables		-	-	-	-	-	-
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		-	-	-	-	-	-
XIII. DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT	(11)	-	-	-	-	-	-
13.1 Fair value risk hedging		-	-	-	-	-	-
13.2 Cash flow risk hedging		-	-	-	-	-	-
13.3 Net foreign investment risk hedging		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	2.535.687	92	2.535.779	2.313.905	102	2.314.007
XV. INTANGIBLE ASSETS (Net)	(13)	113.685	-	113.685	88.593	-	88.593
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		113.685	-	113.685	88.593	-	88.593
XVI. INVESTMENT PROPERTIES (Net)	(14)	358.574	-	358.574	363.321	-	363.321
XVII. TAX ASSET	(15)	-	-	-	-	-	-
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		-	-	-	-	-	-
XVIII. ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(16)	-	-	-	740	-	740
18.1 Held for sale purpose		-	-	-	740	-	740
18.2 Held from discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(17)	1.698.762	229.621	1.928.383	1.517.081	419.865	1.936.946
TOTAL ASSETS		203.023.431	102.327.217	305.350.648	140.714.577	90.726.241	231.440.818

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

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

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

II. STATEMENT OF OFF-BALANCE SHEET ITEMS

		Audited			Audited		
		Current period			Prior period		
		31 December 2017			31 December 2016		
OFF BALANCE SHEET	Note	TRY	FC	Total	TRY	FC	Total
A.	COMMITMENTS AND CONTINGENCIES (I+II+III)	55.925.500	57.445.133	113.370.633	45.771.117	50.441.206	96.212.323
I.	GUARANTEES AND SURETYSHIPS	28.221.975	30.312.673	58.534.648	21.073.620	26.687.208	47.760.828
1.1	Letters of guarantee	27.015.807	22.385.059	49.400.866	20.268.441	19.699.090	39.967.531
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	-	-	-	-	-	-
1.1.3	Other letters of guarantee	25.493.135	12.339.280	37.832.415	19.218.448	8.332.374	27.550.822
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	4.086.827	4.134.031	18.091	3.993.217	4.011.308
1.3.1	Documentary letters of credit	47.204	4.086.827	4.134.031	18.091	3.993.217	4.011.308
1.3.2	Other letters of credit	-	-	-	-	-	-
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	164.109	1.306.244	774.212	182.311	956.523
1.9	Other surety ships	-	-	-	-	-	-
II.	COMMITMENTS	22.879.077	1.116.617	23.995.694	22.842.226	674.455	23.516.681
2.1	Irrevocable commitments	22.879.077	1.116.617	23.995.694	22.842.226	674.455	23.516.681
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	454.650	4.646.052	3.182.164	369.740	3.551.904
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	-	11.562.109	10.794.813	-	10.794.813
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	-	3.536.993	2.874.314	-	2.874.314
2.2	Revocable commitments	-	-	-	-	-	-
2.2.1	Revocable loan granting commitments	-	-	-	-	-	-
2.2.2	Other revocable commitments	-	-	-	-	-	-
III.	DERIVATIVE FINANCIAL INSTRUMENTS	4.824.448	26.015.843	30.840.291	1.855.271	23.079.543	24.934.814
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	4.824.448	26.015.843	30.840.291	1.855.271	23.079.543	24.934.814
3.2.1	Forward foreign currency buy/sell transactions	2.711.564	6.375.770	9.087.334	1.162.609	5.842.371	7.004.980
3.2.1.1	Forward foreign currency transactions-buy	1.360.216	4.499.292	5.859.508	564.492	3.958.120	4.522.612
3.2.1.2	Forward foreign currency transactions-sell	1.351.348	1.876.478	3.227.826	598.117	1.884.251	2.482.368
3.2.2	Currency and interest rate swaps	1.322.806	15.819.312	17.142.118	433.093	14.634.799	15.067.892
3.2.2.1	Currency swap-buy	387.590	2.821.721	3.209.311	-	2.707.908	2.707.908
3.2.2.2	Currency swap-sell	935.216	2.110.829	3.046.045	433.093	2.182.361	2.615.454
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.	CUSTODY AND PLEDGED ASSETS (IV+V+VI)	832.644.477	205.106.195	1.037.750.672	660.197.757	154.850.365	815.048.122
IV.	CUSTODIES	392.094.904	29.257.887	421.352.791	342.844.925	23.694.435	366.539.360
4.1	Assets under management	-	-	-	-	-	-
4.2	Custody marketable securities	175.762.416	518.467	176.280.883	166.136.992	728.810	166.865.802
4.3	Cheques in collection process	14.977.312	22.698.848	37.676.160	12.428.736	17.253.652	29.682.388
4.4	Commercial notes in collection process	193.731.159	490.671	194.221.830	137.515.100	517.259	138.032.359
4.5	Other assets in collection process	-	-	-	-	-	-
4.6	Underwritten securities	-	-	-	-	-	-
4.7	Other custodies	4.135.360	127.221	4.262.581	3.485.883	98.721	3.584.604
4.8	Custodians	3.488.657	5.422.680	8.911.337	23.278.214	5.095.993	28.374.207
V.	PLEDGED ASSETS	440.549.573	175.848.308	616.397.881	317.352.832	131.155.930	448.508.762
5.1	Marketable securities	4.362.027	526.294	4.888.321	4.037.694	473.880	4.511.574
5.2	Collateral notes	7.255.638	812.632	8.068.270	7.292.482	820.012	8.112.494
5.3	Commodity	25.813	-	25.813	25.813	-	25.813
5.4	Warranty	-	-	-	-	-	-
5.5	Land and buildings	324.019.382	148.254.846	472.274.228	259.321.832	116.459.706	375.781.538
5.6	Other pledged assets	67.073.372	23.900.616	90.973.988	42.614.826	12.035.647	54.650.473
5.7	Pledges	37.813.341	2.353.920	40.167.261	4.060.185	1.366.685	5.426.870
VI.	ACCEPTED BILL GUARANTEES AND SURETIES	-	-	-	-	-	-
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		888.569.977	262.551.328	1.151.121.305	705.968.874	205.291.571	911.260.445

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

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

III. STATEMENT OF INCOME

			Audited	Audited
			Current period	Prior period
			1 January- 31 December 2017	1 January- 31 December 2016
INCOME AND EXPENSES		Note		
I.	INTEREST INCOME	(1)	23.093.994	16.953.999
1.1	Interest on loans		18.959.501	14.256.133
1.2	Interest received from reserve deposits		131.500	56.437
1.3	Interest received from banks		227.093	92.630
1.4	Interest received from money market placements		56.316	404
1.5	Interest income on marketable securities		3.702.972	2.538.510
1.5.1	Financial assets held for trading		1.114	5.230
1.5.2	Financial assets at fair value through profit and loss		-	-
1.5.3	Financial assets available-for-sale		1.541.940	1.055.987
1.5.4	Investments held-to-maturity		2.159.918	1.477.293
1.6	Finance lease income		-	-
1.7	Other interest income		16.612	9.885
II.	INTEREST EXPENSE	(2)	15.293.393	9.997.281
2.1	Interest on deposits		11.339.797	8.180.926
2.2	Interest on borrowings		380.803	369.852
2.3	Interest on money market borrowings		2.667.803	776.209
2.4	Interest on bonds issued		789.909	582.467
2.5	Other interest expense		115.081	87.827
III.	NET INTEREST INCOME [I – II]		7.800.601	6.956.718
IV.	NET FEES AND COMMISSIONS INCOME		2.027.308	1.375.348
4.1	Fees and commissions income		2.484.914	1.762.862
4.1.1	Non-cash loans		401.146	295.898
4.1.2	Other		2.083.768	1.466.964
4.2	Fees and commissions expenses		457.606	387.514
4.2.1	Non-cash loans		44	40
4.2.2	Other		457.562	387.474
V.	DIVIDEND INCOME	(3)	267.214	267.273
VI.	NET TRADING PROFIT (NET)	(4)	35.869	149.746
6.1	Profit/loss from capital market operations		33.120	19.237
6.2	Profit/loss from financial derivative transactions		(198.722)	16.624
6.3	Foreign exchange gains/losses		201.471	113.885
VII.	OTHER OPERATING INCOME	(5)	600.635	573.117
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		10.731.627	9.322.202
IX.	LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)	(6)	1.469.327	2.106.323
X.	OTHER OPERATING EXPENSES(-)	(7)	4.552.718	3.864.329
XI.	NET OPERATING INCOME/(LOSS) (VIII-IX-X)		4.709.582	3.351.550
XII.	AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER		-	-
XIII.	PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES		-	-
XIV.	GAIN / (LOSS) ON NET MONETARY POSITION		-	-
XV.	INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)	(8)	4.709.582	3.351.550
XVI.	TAX INCOME PROVISION (±)	(9)	(984.120)	(793.285)
16.1	Current tax provision		(749.669)	(553.481)
16.2	Deferred tax provision		(234.451)	(239.804)
XVII.	NET OPERATING INCOME AFTER TAX (XV±XVI)	(10)	3.725.462	2.558.265
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1	Property and equipment income held for sale		-	-
18.2	Sale profits from associates, subsidiaries and joint ventures (business partners)		-	-
18.3	Other income from terminated operations		-	-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1	Property and equipment expense held for sale		-	-
19.2	Sale losses from associates, subsidiaries and joint ventures (business partners)		-	-
19.3	Other expenses from discontinued operations		-	-
XX.	INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI.	PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)		-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII.	NET PROFIT/(LOSS) (XVII+XXII)	(11)	3.725.462	2.558.265
	Earnings/losses per share (Full TRY)		2,98037	2,04661

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

TÜRKİYE HALK BANKASI AŞ
UNCONSOLIDATED 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. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY

	Audited	Audited
	Current period	Prior period
STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	1 January-31 December 2017	1 January-31 December 2016
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS	520.512	(64.497)
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	62.666	164.303
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	67.886	(123.432)
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)	-	-
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)	-	-
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS	(11.621)	21.620
IX. DEFERRED TAX OF VALUATION DIFFERENCES	(49.285)	22.396
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	590.158	20.390
XI. PROFIT/LOSS	3.725.462	2.558.265
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	33.120	21.097
11.2 Reclassification and transfer of derivatives accounted for cash flow hedge purposes to income statement	-	-
11.3 Transfer of hedge of net investments in foreign operations to income statement	-	-
11.4 Other	3.692.342	2.537.168
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	4.315.620	2.578.655

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

TÜRKİYE HALK BANKASI AŞ
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2017
(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Audited	Note	Paid in capital	Effect of inflation adjustments on paid in capital	Share premium	Share certificate cancellation profit	Legal reserves	Statutory reserves	Extra-ordinary reserves	Other reserves	Current period net income/(loss)	Prior period net income/(loss)	Valuation changes in marketable sec.	Revaluation changes in prop. and equip. and int. assets	Bonus shares from shareholders	Hedging funds	Value change in pro. and equip. held for sale purp./term. op.	Total shareholders' equity
1 January 2016 – 31 December 2016																	
I. Balance at end of prior period		1.250.000	1.220.451	-	-	1.335.865	-	11.166.841	31.892	2.315.313	-	966.835	1.128.435	8.711	-	-	19.424.343
Changes within the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Increase/decrease generated by merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Valuation changes in marketable securities		-	-	-	-	-	-	-	-	-	-	(484.082)	-	-	-	-	(484.082)
IV. Hedging funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Cash-flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedges for investment made in foreign countries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Revaluation changes of property and equipment		-	-	-	-	-	-	-	-	-	-	-	156.087	-	-	-	156.087
VI. Revaluation changes of intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences		-	-	-	-	-	-	-	(123.432)	-	-	-	-	-	-	-	(123.432)
IX. Changes after disposal of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes after reclassification of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of changes in shareholders equity of investments and associates to bank's shareholders equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Increase in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 From internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Issuance of share certificates at end of period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	17.296	-	-	-	-	-	-	-	17.296
XVII. Net profit or losses		-	-	-	-	-	-	-	-	2.558.265	-	-	-	-	-	-	2.558.265
XVIII. Profit distribution		-	-	-	-	146.493	-	1.937.289	-	(2.315.313)	-	-	-	-	-	-	(231.531)
18.1 Dividends distributed		-	-	-	-	-	-	-	-	-	(231.531)	-	-	-	-	-	(231.531)
18.2 Transfers to legal reserves		-	-	-	-	146.493	-	1.937.289	-	-	(2.083.782)	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	(2.315.313)	2.315.313	-	-	-	-	-	-
Closing balance		1.250.000	1.220.451	-	-	1.482.358	-	13.104.130	(74.244)	2.558.265	-	482.753	1.284.522	8.711	-	-	21.316.946
1 January 2017 – 31 December 2017																	
I. Balance at end of prior period		1.250.000	1.220.451	-	-	1.482.358	-	13.104.130	(74.244)	2.558.265	-	482.753	1.284.522	8.711	-	-	21.316.946
Changes within the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Increase or decrease generated by merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Valuation changes in marketable securities		-	-	-	-	-	-	-	-	-	-	542.776	-	-	-	-	542.776
IV. Hedging Funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedges for investments made in foreign countries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Revaluation changes of property and equipment		-	-	-	-	-	-	-	-	-	-	-	(11.207)	-	-	-	(11.207)
VI. Revaluation changes of intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences		-	-	-	-	-	-	-	67.886	-	-	-	-	-	-	-	67.886
IX. Changes after disposal of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes after reclassification of securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of changes in shareholders equity of investments and associates to bank's shareholders equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Increase in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 From internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Issuance of share certificates at end of period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	(9.297)	-	-	-	-	-	-	-	(9.297)
XVII. Net profit or losses		-	-	-	-	-	-	-	-	3.725.462	-	-	-	-	-	-	3.725.462
XVIII. Profit distribution		-	-	-	-	163.291	-	2.139.147	-	(2.558.265)	-	-	-	-	-	-	(255.827)
18.1 Dividends distributed		-	-	-	-	-	-	-	-	-	(255.827)	-	-	-	-	-	(255.827)
18.2 Transfers to legal reserves		-	-	-	-	163.291	-	2.139.147	-	-	(2.302.438)	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	(2.558.265)	2.558.265	-	-	-	-	-	-
Closing balance		1.250.000	1.220.451	-	-	1.645.649	-	15.243.277	(15.655)	3.725.462	-	1.025.529	1.273.315	8.711	-	-	25.376.739

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

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED STATEMENT OF
CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

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

VI. STATEMENT OF CASH FLOWS

		Audited	Audited
		Current period	Prior period
	Note	1 January- 31 December 2017	1 January- 31 December 2016
A.	CASH FLOWS FROM BANKING OPERATIONS		
1.1	Operating profit before changes in operating assets and liabilities	5.020.676	1.481.155
1.1.1	Interest received	23.076.334	15.744.507
1.1.2	Interest paid	(14.287.590)	(9.478.192)
1.1.3	Dividend received	34.804	95.713
1.1.4	Fees and commissions received	2.490.248	1.762.862
1.1.5	Other income	294.785	377.033
1.1.6	Collections from previously written off loans	699.867	459.106
1.1.7	Cash payments to personnel and service suppliers	(2.022.875)	(1.812.412)
1.1.8	Taxes paid	(373.626)	(411.428)
1.1.9	Other	(1) (4.891.271)	(5.256.034)
1.2	Assets and Liabilities Subject to Banking Operations	13.084.768	5.523.547
1.2.1	Net decrease in financial assets held for sale	(15.210)	(48.369)
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	12.245	(16.332)
1.2.4	Net (increase) decrease in loans	(45.125.763)	(31.101.645)
1.2.5	Net (increase) decrease in other assets	580.813	(530.016)
1.2.6	Net increase (decrease) in bank deposits	(3.637.720)	8.161.539
1.2.7	Net increase (decrease) in other deposits	45.584.908	19.788.248
1.2.8	Net increase (decrease) in loans borrowed	(1.947.164)	(1.293.247)
1.2.9	Net increase (decrease) in matured payables	-	-
1.2.10	Net increase (decrease) in other liabilities	(1) 17.632.659	10.563.369
I.	Net cash provided from banking operations	18.105.444	7.004.702
B.	CASH FLOWS FROM INVESTMENT ACTIVITIES		
II.	Net cash provided from/(used in) investing activities	(5.993.692)	(5.893.147)
2.1	Cash paid for purchase of joint ventures, associates and subsidiaries	(14.994)	-
2.2	Cash obtained from sale of entities joint ventures, associates and subsidiaries	-	-
2.3	Fixed assets purchases	(434.998)	(229.977)
2.4	Fixed assets sales	201.562	51.362
2.5	Cash paid for purchase of financial assets available for sale	(8.881.650)	(6.168.135)
2.6	Cash obtained from sale of financial assets available for sale	7.477.165	1.775.796
2.7	Cash paid for purchase of investment securities	(4.655.675)	(2.617.381)
2.8	Cash obtained from sale of investment securities	346.978	1.309.290
2.9	Other	(32.080)	(14.102)
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
III.	Net cash used in financing activities	(286.955)	2.998.996
3.1	Cash obtained from loans borrowed and securities issued	8.174.710	10.281.519
3.2	Cash used for repayment of loans borrowed and securities issued	(8.205.739)	(7.050.000)
3.3	Bonds issued	-	-
3.4	Dividends paid	(255.827)	(231.531)
3.5	Payments for finance leases	(99)	(87)
3.6	Other	-	(905)
IV.	Effect of change in foreign exchange rate on cash and cash equivalents	(1) 908.274	1.403.627
V.	Net increase / (decrease) in cash and cash equivalents	12.733.071	5.514.178
VI.	Cash and cash equivalents at beginning of the period	(4) 14.388.793	8.874.615
VII.	Cash and cash equivalents at end of the period	(5) 27.121.864	14.388.793

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

TÜRKİYE HALK BANKASI AŞ
EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED STATEMENT OF
PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2017

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

VII. STATEMENT OF PROFIT DISTRIBUTION

	Audited	Audited
	Current Period	Prior Period
	31 December 2017⁽¹⁾	31 December 2016
I. DISTRIBUTION OF CURRENT YEAR PROFIT		
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)
A. Net Profit For The Period (1.1-1.2)	3.725.462	2.558.265
1.3. Accumulated Losses (-)	-	-
1.4. First Legal Reserves (-)	-	127.913
1.5. Other Statutory Reserves (-)	-	-
B. Net Profit Available for Distribution [(A)-(1.3+1.4+1.5)]	-	2.430.352
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	-	-
II. Distribution of Reserves		
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 ⁽²⁾
2.5. Dividends to Board of Directors (-)	-	-
III. Earnings per Share		
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 (%)	-	-
IV. Dividend per Share		
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 (%)	-	-

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

⁽²⁾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 unconsolidated financial statements

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

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

SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES

I. EXPLANATIONS ON BASIS OF PRESENTATION

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

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

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

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

I. EXPLANATIONS ON BASIS OF PRESENTATION (continued)

Disclosures of IFRS 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-c 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.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

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

a) The Bank's strategy on financial instruments:

Due to its historical mission, the 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 Bank can raise funds from money markets and borrowings abroad.

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

b) The Bank's explanations on foreign currency transactions:

In the statutory records of the Bank, 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 settlements of foreign currency transactions are reflected to the income statement.

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

Assets and liabilities of the foreign branches of the Bank are converted into TRY by using the prevailing exchange rates at the balance sheet date. Income and expenses are converted by at exchange rates at the dates of the transactions.

The Bank started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank A.D. Beograd (subsidiary), Halk Banka A.D., Skopje (subsidiary), Demir-Halkbank NV (associate), foreign investments that are recognized under fair value accounting as hedged item, in compliance with "TAS 39 Financial Instruments: Recognition and Measurement". Accordingly, the effective portion of the foreign exchange differences is recorded under income statement in the current period.

III. EXPLANATIONS ON FUTURES AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

Derivative transactions of the Bank consist of foreign currency and interest rate swaps, options and forwards. The bank 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 recorded in off-balance sheet accounts with their agreement amounts. Derivative transactions are valued at their fair values and the changes in their fair values are recorded on balance sheet under "derivative financial assets held for trading" or "derivative financial liabilities held for trading", respectively depending on the fair values being positive or negative. Fair value changes for trading derivatives are recorded under income statement. Fair values of derivatives are calculated using discounted cash flow model or market value.

Explanations related to credit derivatives and its risk exposures:

The bank has credit termly derivative transactions as part of its trading transactions. These transactions include credit default swaps which based on treasury of Turkish Republic's credit risk. As of 31 December 2017, the bank has credit default swap transaction amounting to USD 200 million with 5 year maturity. In this transactions the Bank sells protection.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

IV. 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.

V. 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.

Fee and commission expenses on borrowings that are paid to other institutions and incorporations for financial liabilities comprise operational costs. These fee 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.

VI. 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 Bank, if the Bank is a legal party of these financial assets.

Financial assets mainly constitute the majority of the commercial activities and operations of the Bank. 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.

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

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

1. Cash and banks

Cash and bank balances in foreign currencies are valued by using the Bank’s current period end exchange rates. The presented values of cash in TRY, foreign currency cash and banks at balance sheet are the estimated fair values of these assets.

2. Financial assets at fair value through profit and loss

2.1. Financial assets held for trading

Financial assets held for trading are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are financial assets included in a portfolio with a pattern of short-term profit taking.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VI. EXPLANATIONS ON FINANCIAL ASSETS(continued)

2.1. Financial assets held for trading(continued)

Financial Assets Held for Trading are presented in the balance sheet with their fair values and are measured at fair values after the initial recognition. All gains and losses arising from valuations of trading financial assets are reflected in the income statement. In accordance with descriptions of the uniform chart of accounts, favorable difference between acquisition cost of financial asset and its discounted value are recognized in “Interest Income”, in the case of fair value of asset is above its discounted value, favorable difference between them are recognized in “Capital Market Transactions Profits” account, in the case of fair value is below discounted value, unfavorable difference between them are recognized in “Capital Market Transactions Losses” account and the dividends presented under dividend income. In the case of financial asset is sold off before its maturity, consisted gains or losses are accounted within the same principals.

2.2. Financial assets at fair value through profit and loss

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

The Bank has no 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 amortized 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 Bank 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.

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.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VI. EXPLANATIONS ON FINANCIAL ASSETS (continued)

5. Loans and receivables (continued)

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 subsequent to 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.

6. Associates and subsidiaries:

As of 1 January 2012, the Bank changed its accounting policy of Turkish Lira denominated subsidiaries, and as of 18 June 2015 the Bank changed its accounting policy of foreign currency denominated subsidiaries and associates, and started to measure related subsidiaries and associates with their fair values. Foreign currency denominated associates and subsidiaries are converted into TRY by using the exchange rates at the date of which the fair value is determined. Fair values of the subsidiaries, whose shares are unquoted on an active market (stock exchange) are determined with the valuation reports that are prepared by an independent valuation company and fair values of the subsidiaries, whose shares are quoted on an active market (stock exchange) are determined by taking into account values at stock exchange, and valuation differences are added to the subsidiaries values and correspondingly recorded in the “Marketable securities revaluation fund” under the shareholders’ equity.

VII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Bank 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 Bank 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.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS (continued)

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 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 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.

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”.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

VIII. 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.

IX. 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 Bank’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.

X. 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.

XI. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, there is no goodwill recorded in the unconsolidated balance sheet of the Bank.

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.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XII. 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 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.

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

	Estimated useful lives (Year)	Depreciation rate
Buildings	50	2%
Safes	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.

XIII. EXPLANATIONS ON INVESTMENT PROPERTIES

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

Investment properties in the attached unconsolidated 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.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XIV. 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.

The Bank does not participate in the financial leasing transactions as a “lessor”.

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

XV. 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 Bank’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 Bank to settle the liability, the related liability is considered as “contingent” and disclosed in the notes to the financial statements.

XVI. 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 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 Bank provides provision by estimating the present value of the future retirement pay liability.

The retirement pay provision of the 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 Bank. Provisional article 23 of the Banking Act No: 5411 requires the Bank’s pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution (SII) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers’ decision dated 30 November 2006 and numbered 2006/11345 and accordingly, both pension funds would have been transferred to SSI. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XVI. 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 present value of the actuarial liabilities will be calculated with the technical interest rate of 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.

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

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XVII. 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. Deferred tax assets and liabilities are also offset.

Tax practices in the countries that foreign branches operate:

Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are subject to 10% of corporate tax and this taxed amount is subject to 15% of income tax. The tax bases for corporate are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in June, and corporate tax payment is made in two installments, in May and in October. On the other hand, withholding tax is paid in TRNC over interest income and similar gains of corporations. The relevant withholding tax payments are deducted from the corporate tax-payable. In the case the amount of the withholding tax collections is higher than the corporate tax payable, the difference is deducted from income tax payable.

Bahrain

Banks in Bahrain are not subject to tax according to the regulations of the country.

XVIII. ADDITIONAL EXPLANATIONS ON BORROWINGS

The Bank 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.

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SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

XIX. EXPLANATIONS ON SHARES ISSUE

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

The 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 Bank shares were registered with the Capital Markets 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.

XX. 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.

XXI. EXPLANATIONS ON GOVERNMENT INCENTIVES

There are no government incentives utilized by the Bank.

XXII. EXPLANATIONS ON SEGMENT REPORTING

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

The information of the Bank's business segments is explained in section four, disclosure numbered VIII.

XXIII. EXPLANATIONS ON OTHER MATTERS

None.

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

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 Bank's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 14,18% (31 December 2016: 13,08%), the equity is calculated as TRY 28.481.912 in accordance with the principles of "Regulation on Equities of Banks" (31 December 2016: TRY 23.013.281).

(1) Information on Components of Capital:

Current Period	Amount	Amounts related to treatment before 1/1/2014(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	-	
Reserves	16.883.534	
Other Comprehensive Income according to TAS	2.288.581	
Profit	3.725.462	
Current Period Profit	3.725.462	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	8.711	
Common Equity Tier 1 Capital Before Deductions	25.376.739	
Deductions from Common Equity Tier 1 Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital		
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	-	
Leasehold Improvements on Operational Leases (-)	55.786	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	90.948	113.685
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 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 (-)	-	
Mortgage Servicing Rights not deducted (-)	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	
Other items to be Defined by the BRSA (-)	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals(-)	-	
Total Deductions from Common Equity Tier 1 Capital	146.734	
Total Common Equity Tier I Capital	25.230.005	

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I. EXPLANATIONS ON CAPITAL (continued)

ADDITIONAL TIER I CAPITAL	
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-
Other items to be defined by the BRSA	-
Items to be Deducted from Tier I Capital during the Transition Period	22.737
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	22.737
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions From Additional Tier I Capital	-
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	25.207.268
TIER II CAPITAL	
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)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2.288.701
Tier II Capital Before Deductions	3.288.701
Deductions From Tier II Capital	
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	3.288.701
Total Equity (Total Tier I and Tier II Capital)	28.495.969
Deductions from Total Capital	
Total Deductions from Total Capital	28.481.912
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovable 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

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I. EXPLANATIONS ON CAPITAL (continued)

Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Sum of net long positions of investments in the common stock of banking, financial and insurance The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
TOTAL CAPITAL	
Total Capital	28.481.912
Total Risk Weighted Assets	200.865.817
CAPITAL ADEQUACY RATIOS	
CET1 Capital Ratio (%)	12,56
Tier I Capital Ratio (%)	12,55
Capital Adequacy Ratio (%)	14,18
BUFFERS	
Bank-specific total CET1 Capital Ratio	6,262
Capital Conservation Buffer Ratio (%)	1,25
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,012
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	6,180
Amounts Lower Than Excesses as per Deduction Rules	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	57.414
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	326.472
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	230.261
Limits for Provisions Used in Tier II Capital Calculation	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.288.701
General Loan Provisions for Exposures in Standard Approach Limited by 1,25% of Risk Weighted Assets	2.288.701
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0,6% Risk Weighted Assets	-
Debt Instruments Covered by Temporary Article 4 (effective between 1 January 2018 - 1 January 2022)	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-

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

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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I. EXPLANATIONS ON CAPITAL (continued)

Prior Period	Amount	Amounts related to treatment before 1/1/2014(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451	
Share Premium	-	
Reserves	14.513.209	
Other Comprehensive Income according to TAS	1.766.310	
Profit	2.558.265	
Current Period Profit	2.558.265	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	8.711	
Common Equity Tier 1 Capital Before Deductions	21.316.946	
Deductions from Common Equity Tier 1 Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital		
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	-	
Leasehold Improvements on Operational Leases	66.671	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	53.156	88.593
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 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	-	
Mortgage Servicing Rights not deducted	-	
Excess Amount arising from Deferred Tax Assets from Temporary Differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions from Common Equity Tier I Capital	119.827	
Total Common Equity Tier I Capital	21.197.119	

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I. EXPLANATIONS ON CAPITAL (continued)

ADDITIONAL TIER I CAPITAL	
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-
Other items to be defined by the BRSA	-
Items to be Deducted from Tier I Capital during the Transition Period	35.437
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 (-)	35.437
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions from Additional Tier I Capital	-
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	21.161.682
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2.027.964
Total Deductions from Tier II Capital	2.027.964
Deductions from Tier II Capital	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	2.027.964
Total Capital (Total Tier I and Tier II Capital)	23.189.646
Total Tier I Capital and Tier II Capital (Total Equity)	23.013.281
Loans Granted against the Articles 50 and 51 of the Banking Law	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	157.617
Other items to be Defined by the BRSA	18.738

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I. EXPLANATIONS ON CAPITAL (continued)

Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
CAPITAL	
Total Capital (Total of Tier I Capital and Tier II Capital)	23.013.281
Total Risk Weighted Assets	175.986.593
CAPITAL ADEQUACY RATIOS	
CET1 Capital Ratio (%)	12,04
Tier I Capital Ratio (%)	12,02
Capital Adequacy Ratio (%)	13,08
BUFFERS	
Bank-specific total CET1 Capital Ratio	5,133
Capital Conservation Buffer Ratio (%)	0,625
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,258
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	5,077
Amounts Lower Than Excesses as per Deduction Rules	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	47.469
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	262.338
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	184.112
Limits for Provisions Used in Tier II Capital Calculation	
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	2.027.964
General Loan Provisions for Exposures in Standard Approach Limited by 1,25% of Risk Weighted Assets	2.027.964
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0,6% Risk Weighted Assets	-
Debt Instruments Covered by Temporary Article 4 (effective between 1 January 2018-1 January 2022)	
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-

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

- (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.

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

I. EXPLANATIONS ON CAPITAL (continued)

(3) Details on Subordinated Liabilities:

Details on Subordinated Liabilities:	
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
Regulatory treatment	
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	-
Coupons / dividends	
Fixed or floating dividend/coupon	Floating Coupon
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	-
Convertible or non-convertible	
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	-
Write-down feature	
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.

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

II. EXPLANATIONS ON 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 Bank, the limits are specified in respect of the main and sub-sectors. Those limits are monitored periodically.

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

The Bank's largest 100 and 200 cash loan customers compose 24,64% and 29,89% of the total cash loan portfolio, respectively.

The Bank's largest 100 and 200 non-cash loan customers compose 44,59% and 54,82% of the total non-cash loan portfolio, respectively.

The Bank's largest 100 ve 200 cash and non-cash loan customers represent 24,65% and 31,07% of the total "on and off balance sheet" assets, respectively.

General loan loss provision related to the credit risk incurred by the 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 2.288.701 (31 December 2016: TRY 2.027.964).

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MANAGEMENT OF THE BANK (continued)

II. EXPLANATIONS ON CREDIT RISK (continued)

Exposure Categories:	Current Period Credit Risk Amount⁽¹⁾	Average Risk Amount	Prior Period Risk Amount⁽¹⁾	Average Risk Amount
Conditional and unconditional exposures to central governments or central banks	86.128.537	74.553.425	67.933.081	52.866.902
Conditional and unconditional exposures to regional governments or local authorities	3.067.537	2.472.655	1.913.131	1.385.766
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	1.660.743	1.314.454	740.264	709.610
Conditional and unconditional exposures to multilateral development banks	-	-	-	-
Conditional and unconditional exposures to international organisations	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	13.295.959	9.110.769	4.883.011	5.004.910
Conditional and unconditional exposures to corporates	94.973.265	88.195.684	80.747.981	73.757.772
Conditional and unconditional retail exposures	59.439.102	56.509.792	52.895.456	52.150.462
Conditional and unconditional exposures secured by real estate property	56.677.261	51.374.430	44.811.431	35.039.188
Past due items	1.358.160	1.372.749	1.180.302	1.061.419
Items in regulatory high-risk categories	57.408	123.794	50.578	1.242.936
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	13.350.572	12.865.666	11.164.941	10.492.226

⁽¹⁾ Includes the risk amounts after credit conversions.

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

II. EXPLANATIONS ON CREDIT RISK (continued)

Profile of significant exposures in major regions:

	Risk Classifications ⁽¹⁾										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	
Current Period											
1. Domestic	86.128.536	3.067.537	1.660.717	11.713.806	93.119.804	59.328.390	56.346.989	1.331.207	57.408	13.350.572	326.104.966
2. European Union (EU) Countries ⁽²⁾	-	-	26	873.503	453.621	107.758	268.877	26.953	-	-	1.730.738
3. OECD Countries	-	-	-	77.510	-	263	315	-	-	-	78.088
4. Off-Shore Banking Regions	-	-	-	509	-	13	-	-	-	-	522
5. USA, Canada	-	-	-	280.681	301.431	84	360	-	-	-	582.556
6. Other Countries	1	-	-	349.950	1.098.409	2.594	60.720	-	-	-	1.511.674
7. Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-
8. Unallocated Assets/Liabilities ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-
Total	86.128.537	3.067.537	1.660.743	13.295.959	94.973.265	59.439.102	56.677.261	1.358.160	57.408	13.350.572	330.008.544
Prior Period											
1. Domestic	67.933.072	1.913.131	740.208	4.829.439	78.822.896	52.793.475	44.594.415	1.162.519	50.578	11.164.941	264.004.674
2. European Union (EU) Countries ⁽²⁾	-	-	56	20.095	407.887	100.032	213.895	17.783	-	-	759.748
3. OECD Countries	-	-	-	8.897	-	128	171	-	-	-	9.196
4. Off-Shore Banking Regions	-	-	-	-	-	23	-	-	-	-	23
5. USA, Canada	-	-	-	2.850	215.163	93	346	-	-	-	218.452
6. Other Countries	9	-	-	21.730	1.302.035	1.705	2.604	-	-	-	1.328.083
7. Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-
8. Unallocated Assets/Liabilities ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-
Total	67.933.081	1.913.131	740.264	4.883.011	80.747.981	52.895.456	44.811.431	1.180.302	50.578	11.164.941	266.320.176

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

⁽²⁾ OECD Countries other than the EU Countries, USA and Canada.

⁽³⁾ Assets and liabilities that are not consistently allocated.

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

II. EXPLANATIONS ON CREDIT RISK (continued)

Current Period	Risk Classifications ⁽¹⁾											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	1	5	15	-	299.709	602.961	128.357	22.249	-	-	845.792	207.505	1.053.297	
<i>Farming and Stockbreeding</i>	1	3	15	-	193.381	568.785	117.087	20.722	-	-	802.395	97.599	899.994	
<i>Forestry</i>	-	2	-	-	1.495	3.631	382	9	-	-	5.519	-	5.519	
<i>Fishery</i>	-	-	-	-	104.833	30.545	10.888	1.518	-	-	37.878	109.906	147.784	
Manufacturing	764.116	64.451	1.268.425	-	39.437.582	12.467.925	15.999.010	864.565	-	-	36.517.012	34.349.062	70.866.074	
<i>Mining and Quarrying</i>	-	-	584.772	-	1.031.727	189.255	181.561	14.881	-	-	481.153	1.521.043	2.002.196	
<i>Production</i>	764.116	64.424	664.185	-	29.534.439	12.223.161	14.491.175	849.684	-	-	33.247.484	25.343.700	58.591.184	
<i>Electricity, Gas and Water</i>	-	27	19.468	-	8.871.416	55.509	1.326.274	-	-	-	2.788.375	7.484.319	10.272.694	
Construction	38	2	129	-	12.524.230	2.281.229	1.704.562	102.108	-	-	9.632.280	6.980.018	16.612.298	
Services	73.982	22.888	225.375	13.283.282	32.325.360	29.756.353	16.096.831	369.238	-	3.975.305	55.932.374	40.196.240	96.128.614	
<i>Wholesale and Retail Trade</i>	176	9.272	29.098	-	12.229.783	19.553.936	7.612.784	178.115	-	-	34.278.185	5.334.979	39.613.164	
<i>Accommodation and Dining</i>	3	128	1.667	-	5.919.529	966.905	4.383.485	66.611	-	-	2.221.762	9.116.566	11.338.328	
<i>Transportation and Telecom.</i>	-	13.300	140.168	-	5.950.765	7.606.182	788.214	19.810	-	-	8.555.325	5.963.114	14.518.439	
<i>Financial Institutions</i>	-	-	3.766	13.283.282	2.636.399	49.404	716.879	-	-	3.975.305	6.841.632	13.823.403	20.665.035	
<i>Real Estate and Rental Services</i>	5	-	-	-	3.069.247	431.195	1.567.184	77.616	-	-	1.314.830	3.830.417	5.145.247	
<i>Professional Services</i>	2	1	5	-	13	742.627	132.057	1.666	-	-	875.950	421	876.371	
<i>Educational Services</i>	194	176	23.692	-	1.109.839	166.992	289.869	3.132	-	-	880.827	713.067	1.593.894	
<i>Health and Social Services</i>	73.602	11	26.979	-	1.409.785	239.112	606.359	22.288	-	-	963.863	1.414.273	2.378.136	
Other	85.290.400	2.980.191	166.799	12.677	10.386.384	14.330.634	22.748.501	-	57.408	9.375.267	95.485.730	49.862.531	145.348.261	
Total	86.128.537	3.067.537	1.660.743	13.295.959	94.973.265	59.439.102	56.677.261	1.358.160	57.408	13.350.572	198.413.188	131.595.356	330.008.544	

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

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

II. EXPLANATIONS ON CREDIT RISK (continued)

Prior Period	Risk Classifications ⁽¹⁾											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	-	226.322	492.775	87.239	22.861	-	-	649.526	179.796	829.322	
<i>Farming and Stockbreeding</i>	11	14	70	-	158.192	462.215	79.513	21.648	-	-	609.751	111.912	721.663	
<i>Forestry</i>	-	-	5	-	3	4.896	131	8	-	-	5.043	-	5.043	
<i>Fishery</i>	-	-	25	-	68.127	25.664	7.595	1.205	-	-	34.732	67.884	102.616	
Manufacturing	48	55	361.455	-	33.722.108	8.252.361	12.851.077	706.423	-	-	25.034.071	30.859.456	55.893.527	
<i>Mining and Quarrying</i>	-	-	139.590	-	904.043	131.809	167.579	17.364	-	-	401.881	958.504	1.360.385	
<i>Production</i>	48	28	107.988	-	25.293.195	8.085.433	11.787.102	689.059	-	-	22.812.293	23.150.560	45.962.853	
<i>Electricity, Gas and Water</i>	-	27	113.877	-	7.524.870	35.119	896.396	-	-	-	1.819.897	6.750.392	8.570.289	
Construction	13	16	128	-	8.964.203	1.582.337	1.441.797	89.103	-	-	6.392.270	5.685.327	12.077.597	
Services	70.029	18.029	288.616	4.859.848	26.020.112	22.420.908	13.033.551	361.915	-	3.162.297	45.855.669	24.379.636	70.235.305	
<i>Wholesale and Retail Trade</i>	17	694	102.093	-	9.108.908	14.214.515	6.376.754	192.411	-	-	25.046.631	4.948.761	29.995.392	
<i>Accommodation and Dining</i>	-	47	13	-	3.813.020	664.916	3.654.415	49.179	-	-	1.580.599	6.600.991	8.181.590	
<i>Transportation and Telecom.</i>	-	17.250	172.320	-	6.866.000	6.280.731	621.188	17.046	-	-	6.973.900	7.000.635	13.974.535	
<i>Financial Institutions</i>	-	-	1.189	4.859.848	3.109.024	41.112	582.349	-	-	3.162.297	9.520.833	2.234.986	11.755.819	
<i>Real Estate and Rental Services</i>	5	-	-	-	1.926.101	307.168	889.365	73.446	-	-	858.436	2.337.649	3.196.085	
<i>Professional Services</i>	4	6	17	-	13	701.233	133.298	1.763	-	-	836.149	185	836.334	
<i>Educational Services</i>	25.513	-	238	-	661.703	81.572	244.921	2.372	-	-	437.721	578.598	1.016.319	
<i>Health and Social Services</i>	44.490	32	12.746	-	535.343	129.661	531.261	25.698	-	-	601.400	677.831	1.279.231	
Other	67.862.980	1.895.017	89.965	23.163	11.815.236	20.147.075	17.397.767	-	50.578	8.002.644	82.071.524	45.212.901	127.284.425	
Total	67.933.081	1.913.131	740.264	4.883.011	80.747.981	52.895.456	44.811.431	1.180.302	50.578	11.164.941	160.003.060	106.317.116	266.320.176	

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

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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II. EXPLANATIONS ON CREDIT RISK (continued)

Analysis of maturity-bearing exposures according to remaining maturities ^(*)^(**):

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	1.091.102	497.875	1.200.790	2.978.033	80.360.737
2. Conditional and unconditional exposures to regional governments or local authorities	49.076	17.414	74.007	165.432	2.761.608
3 Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	724.790	5.371	7.920	109.237	813.425
4. Conditional and unconditional exposures to banks and brokerage houses	13.170.404	40.541	23.680	55.776	5.558
Conditional and unconditional exposures to corporates	11.517.149	6.240.853	10.240.925	17.142.783	69.101.544
6 Conditional and unconditional retail exposures	4.852.353	2.037.050	3.767.932	10.710.005	75.536.442
7. Past due items	1.358.160	-	-	-	-
8. Other Items	-	-	-	-	13.350.572
Total	32.763.034	8.839.104	15.315.254	31.161.266	241.929.886

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

^(**) 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	144.199	25.973	362.850	793.113	66.606.946
2. Conditional and unconditional exposures to regional governments or local authorities	31.431	351	9.775	45.171	1.826.403
3 Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	380.050	164.820	8.018	181.319	6.057
4. Conditional and unconditional exposures to banks and brokerage houses	4.770.949	19.102	52.609	32.051	8.300
5. Conditional and unconditional exposures to corporates	11.917.965	4.935.918	8.529.750	14.079.641	57.424.087
6 Conditional and unconditional retail exposures	4.711.808	2.296.235	4.616.873	11.210.485	58.782.684
7. Past due items	1.180.302	-	-	-	-
8. Other Items	-	-	-	-	11.164.941
Total	23.136.704	7.442.399	13.579.875	26.341.780	195.819.418

^(*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

^(**) 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

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II. EXPLANATIONS ON 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):

- Receivables on multilateral development banks
- 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.

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

II. EXPLANATIONS ON 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):

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					
	AA-		AA-					
2	A+	20	A+	20%	50%	20%	50%	50%
	A		A					
	A-		A-					
3	BBB+	50	BBB+	50%	100%	20%	50%	100%
	BBB		BBB					
	BBB-		BBB-					
4	BB+	100	BB+	100%	100%	50%	100%	100%
	BB		BB					
	BB-		BB-					
5	B+	100	B+	100%	100%	50%	100%	150%
	B		B					
	B-		B-					
6	CCC+	150	CCC+	150%	150%	150%	150%	150%
	CCC		CCC					
	CC		CC					
	C		C					
	D		D					

Receivables from consolidated private sector :

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
TURKEY	166.052.909	52.943	166.105.852
VIRGIN ISLAND(US)	950.316	-	950.316
CYPRUS	398.271	186	398.457
IRAN	228.463	-	228.463
SWEDEN	94.723	-	94.723
MACEDONIA	66.413	-	66.413
OTHERS ^(*)	16.743	31.834	48.577

* Risk-Weighted Assets TRY 5 Million (Full TRY) are grouped under OTHER headings.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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II. EXPLANATIONS ON CREDIT RISK (continued)

Exposures by risk weights:

Current Period

Risk Weights											Deductions from Equity
	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	
1. Exposures before Credit Risk Mitigation	59.160.032	-	6.658.515	-	22.403.963	106.189.360	135.212.794	57.408	-	326.472	183.528
2. Exposures after Credit Risk Mitigation	78.862.370	19	7.780.790	34.321.095	47.898.809	57.378.496	103.383.085	57.408	-	326.472	183.528

Prior Period

Risk Weights											Deductions from Equity
	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	
1. Exposures before Credit Risk Mitigation	37.961.056	-	3.747.018	-	37.382.701	82.321.685	104.594.800	50.578	-	262.338	331.629
2. Exposures after Credit Risk Mitigation	42.337.365	832.839	4.097.104	25.585.260	56.314.661	51.380.287	85.459.744	50.578	-	262.338	331.629

Information by major sectors and type of counterparties:

Major Sectors /Counterparties	Credits			
	Impaired Credits ⁽¹⁾	Past Due Credits ⁽²⁾	Value Adjustments	Provisions
Agriculture	92.544	11.286	226	75.414
<i>Farming and Stockbreeding</i>	83.166	10.576	212	67.562
<i>Forestry</i>	8.904	-	-	7.387
<i>Fishery</i>	474	710	14	465
Manufacturing	2.667.533	767.383	15.348	1.964.567
<i>Mining and Quarrying</i>	130.187	11.944	239	115.307
<i>Production</i>	2.536.388	376.176	7.524	1.848.302
<i>Electricity, Gas and Water</i>	958	379.263	7.585	958
Construction	1.132.829	101.161	2.023	986.511
Services	2.166.082	1.147.079	22.942	1.720.493
<i>Wholesale and Retail Trade</i>	1.305.353	700.327	14.007	933.779
<i>Accommodation and Dining</i>	144.007	69.559	1.391	118.590
<i>Transportation and</i>				
<i>Telecommunication</i>	91.226	169.100	3.382	58.400
<i>Financial Institutions</i>	11.834	941	19	10.740
<i>Real Estate and Rental Services</i>	537.563	163.078	3.262	532.337
<i>Professional Services</i>	-	26.058	521	-
<i>Educational Services</i>	6.885	6.614	132	3.752
<i>Health and Social Services</i>	69.214	11.402	228	62.895
Other	47.609	301.044	6.021	32.287
Total	6.106.597	2.327.953	46.560	4.779.272

⁽¹⁾ 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.

⁽²⁾ 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.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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II. EXPLANATIONS ON CREDIT RISK (continued)

Prior Period Major Sectors /Counterparties	Credits		Value Adjustments	Provisions
	Impaired Credits ⁽¹⁾	Past Due Credits ⁽²⁾		
Agriculture	95.323	14.055	273	72.418
<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
Manufacturing	2.393.501	569.819	11.347	1.615.485
<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
Construction	456.166	118.552	2.355	360.921
Services	1.417.051	911.304	17.956	1.051.164
<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</i>				
<i>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
Other	958.471	213.800	6.242	955.400
Total	5.320.512	1.827.530	38.173	4.055.388

⁽¹⁾ 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.

⁽²⁾ 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	3.964.045	1.120.888	305.661	-	4.779.272
2. General Provisions	2.027.964	260.737	-	-	2.288.701

Prior Period	Provision				Closing Balance
	Opening Balance	for Period	Provision Reversals	Other Adjustments	
1. Specific Provisions	3.027.885	1.133.276	196.084	(1.032)	3.964.045
2. General Provisions	1.123.838	904.401	275	-	2.027.964

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

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II. EXPLANATIONS ON CREDIT RISK (continued)

Gross Maximum Exposure	Current Period	Prior Period
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	36.373.039	29.999.160
Due from banks	6.093.940	1.661.030
Money Market Receivables	1.258.647	-
Financial Assets at Fair Value through profit or loss ⁽¹⁾	447.477	430.098
Financial Assets Available for Sale	16.965.743	14.889.333
Held to maturity Investments	21.727.169	18.156.182
Loans	203.464.477	158.354.333
Total	286.330.492	223.490.136
Contingent Liabilities	58.534.648	47.760.828
Commitments	23.995.694	23.516.681
Total	82.530.342	71.277.509
Total Credit Risk Exposure	368.860.834	294.767.645

(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.

The net value and type of collaterals of the loans amounting TRY 5.029.505 followed under loans and other receivables under close monitoring section is below (31 December 2016: TRY 4.533.721)

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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II. EXPLANATIONS ON CREDIT RISK (continued)

Collateral Types^{(1),(2)}	Net Value of Collateral Current Period	Net Value of Collateral Prior Period
Real estate mortgage	3.067.736	3.257.898
Salary pledge, vehicle pledge and pledge of commercial undertaking	120.324	89.968
Financial collaterals (cash, securities pledge, etc.)	-	8
Cheque / bills	11.068	38.123
Surities	808.030	881.283
Other	1.022.347	266.441
Total	5.029.505	4.533.721

⁽¹⁾ 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.

⁽²⁾ Income accruals amounting to TRY 37.208 (31 December 2016: TRY 61.896) are not included in the table.

The net value and type of collaterals belongs to loans amounted TRY 6.106.597 followed under non-performing loans section is below (31 December 2016: TRY 5.140.082):

Collateral Types	Net Value of Collateral Current Period	Net Value of Collateral Prior Period
Cash	271	298
Mortgage	1.582.949	1.235.609
Pledge	222.408	211.957
Cheque / bills	1.954	5.519
Surities	1.662.084	1.500.317
Other ⁽¹⁾	2.636.931	2.186.382
Total	6.106.597	5.140.082

⁽¹⁾ Comprised of share certificates, blockage on receivables and salaries, uncollateralized, etc.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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III. EXPLANATIONS ON 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 Bank 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 Bank 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 Bank makes derivative transactions against the currency risk, in case of need.

Announced current foreign exchange buying rates of the Bank as at financial statement date and the previous 5 working days in full TRY are as follows:

	22.12.2017	25.12.2017	26.12.2017	27.12.2017	28.12.2017	29.12.2017
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 Bank for the thirty days before financial statement date are as follows:

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

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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II. EXPLANATIONS ON CURRENCY RISK (continued)

Information related to currency risk:

Current Period	EUR	USD	OTHER FC	TOTAL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	3.750.640	14.990.125	4.714.962	23.455.727
Banks	1.236.532	4.086.353	190.537	5.513.422
Financial assets at fair value through profit and loss ⁽³⁾	39.478	315.253	7.286	362.017
Money market placements	-	-	-	-
Financial assets available-for-sale ⁽⁵⁾	418.993	5.196.182	-	5.615.175
Loans ⁽²⁾	34.598.950	30.661.810	597.783	65.858.543
Subsidiaries, associates and entities under common control ⁽⁵⁾	313.709	-	536.971	850.680
Held-to-maturity investments	-	2.512.936	-	2.512.936
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	92	92
Intangible assets	-	-	-	-
Other assets ⁽³⁾	30.792	198.582	64	229.438
Total assets	40.389.094	57.961.241	6.047.695	104.398.030
Liabilities				
Bank deposits	5.926.654	4.900.740	1.065.704	11.893.098
Foreign currency deposits	28.075.516	31.653.792	2.406.823	62.136.131
Money market balances	-	5.387.762	-	5.387.762
Funds provided from other financial institutions	6.701.963	9.839.693	11.436	16.553.092
Bonds issued	-	8.640.905	-	8.640.905
Sundry creditors	55.135	58.540	148	113.823
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	310.680	263.411	56.455	630.546
Total liabilities	41.069.948	60.744.843	3.540.566	105.355.357
Net balance sheet position	(680.854)	(2.783.602)	2.507.129	(957.327)
Net off-balance sheet position				
Financial derivative assets ⁽⁴⁾	1.071.425	5.978.381	1.242.307	8.292.113
Financial derivative liabilities ⁽⁴⁾	822.402	3.432.296	3.244.237	7.498.935
Non-cash loans ⁽¹⁾	12.468.340	16.381.903	1.462.430	30.312.673
Prior period				
Total assets	33.044.264	54.756.874	4.795.083	92.596.221
Total liabilities	33.250.733	56.697.058	3.364.550	93.312.341
Net balance sheet position	(206.469)	(1.940.184)	1.430.533	(716.120)
Net off-balance sheet position				
Financial derivative assets	1.387.874	4.185.717	1.571.078	7.144.669
Financial derivative liabilities	(1.523.286)	(2.259.822)	(2.711.951)	(6.495.059)
Non-cash loans ⁽¹⁾	8.757.283	16.447.030	1.482.895	26.687.208

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

⁽²⁾ Includes TRY 2.070.996 of foreign currency indexed loans and their accruals.

⁽³⁾ In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", prepaid expenses (TRY 183) in assets; and shareholders' equity (TRY 59.345) in liabilities are not taken into consideration in the currency risk measurement.

⁽⁴⁾ Financial derivative assets include forward precious metal purchase transactions amounted to TRY 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.

⁽⁵⁾ Other foreign currency subsidiaries Halkbank A.D. Beograd (TRY 156.822) and Halk Banka A.D., Skopje (TRY (380.149), and EUR foreign currency associate Demir-Halk Bank NV (TRY 313.709) are included.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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IV. EXPLANATIONS ON INTEREST RATE RISK

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Bank. The Bank'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 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 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 Bank's funding costs of TRY and foreign exchange deposits, repurchase agreements are determined by the Treasury Vice Presidency as per the authority extended by the Board of Directors.

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

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IV. EXPLANATIONS ON INTEREST RATE RISK (continued)

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-interest bearing	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	26.154.546	-	-	-	-	10.218.493	36.373.039
Banks and financial institutions	5.050.173	-	4.000	-	-	1.039.767	6.093.940
Financial assets at fair value through profit and loss	70.107	1.503	13.667	253	27	10.362.349	10.447.906
Money market placements	1.255.978	-	-	-	-	2.669	1.258.647
Financial assets available-for-sale	220.218	3.279.889	1.744.195	4.311.486	7.409.955	123.806	17.089.549
Loans	91.735.652	22.798.262	46.177.314	30.756.615	7.754.680	2.914.629	202.137.152
Held-to-maturity investments	255.657	8.649.762	1.495.694	4.442.939	6.883.117	-	21.727.169
Other assets ⁽⁴⁾	4.376	3.314	10.234	34.334	4.657	10.166.331	10.223.246
Total assets	124.746.707	34.732.730	49.445.104	39.545.627	22.052.436	34.828.044	305.350.648
Liabilities							
Bank deposits	13.009.651	2.077.415	198.569	-	-	3.865.737	19.151.372
Other deposits	98.453.291	36.086.448	13.653.224	282.997	2.565	25.597.172	174.075.697
Money market balances	33.517.186	1.046.179	-	-	-	44.619	34.607.984
Sundry creditors	1.668.238	-	-	-	-	1.889.108	3.557.346
Bonds issued	674.164	1.940.081	99.514	8.510.538	-	130.367	11.354.664
Funds provided from other financial institutions ⁽³⁾	735.425	5.585.548	7.336.160	2.147.154	1.087.198	126.633	17.018.118
Other liabilities ^{(1),(2)}	1.325.846	2.398.788	10.000.429	-	-	31.860.404	45.585.467
Total liabilities	149.383.801	49.134.459	31.287.896	10.940.689	1.089.763	63.514.040	305.350.648
Balance sheet long position	-	-	18.157.208	28.604.938	20.962.673	-	67.724.819
Balance sheet short position	(24.637.094)	(14.401.729)	-	-	-	(28.685.996)	(67.724.819)
Off-balance sheet long position	379.000	568.500	2.919.781	819.361	1.902.329	8.888.422	15.477.393
Off-balance sheet short position	-	(568.500)	(2.532.191)	(1.424.801)	(1.902.329)	(8.935.077)	(15.362.898)
Total position	(24.258.094)	(14.401.729)	18.544.798	27.999.498	20.962.673	(28.732.651)	114.495

⁽¹⁾ TRY 570.408 of deferred tax liability is disclosed under the non-bearing interest column in other assets.

⁽²⁾ Shareholders' equity balance is disclosed under the non-bearing interest column in other liabilities line.

⁽³⁾ Funds provided from other financial institutions include borrowings.

⁽⁴⁾ TRY 1.327.325 of net non-performing loans is disclosed under the non-bearing interest column in other assets.

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IV. EXPLANATIONS ON INTEREST RATE RISK (continued)

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

Prior period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non-interest bearing	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	20.210.851	-	-	-	-	9.788.309	29.999.160
Banks and financial institutions	783.753	-	16.343	-	-	860.934	1.661.030
Financial assets at fair value through profit and loss	59.998	1.450	8.522	210	107	359.811	430.098
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	667.993	2.980.838	2.444.922	3.296.251	5.499.329	100.594	14.989.927
Loans	58.545.736	20.841.578	41.619.172	28.620.319	6.078.569	1.472.922	157.178.296
Held-to-maturity investments	377.666	7.562.529	1.871.686	2.505.389	5.838.912	-	18.156.182
Other assets ⁽⁴⁾	5.146.230	4.279	13.298	44.913	11.469	3.805.936	9.026.125
Total assets	85.792.227	31.390.674	45.973.943	34.467.082	17.428.386	16.388.506	231.440.818
Liabilities							
Bank deposits	12.210.406	2.377.790	380.301	-	-	7.862.967	22.831.464
Other deposits	72.619.489	24.588.520	8.930.408	281.954	2.822	21.008.182	127.431.375
Money market balances	16.652.570	303.429	891.064	-	-	-	17.847.063
Sundry creditors	1.201.703	81.016	345.373	839.184	29	233.371	2.700.676
Bonds issued	198.378	813.673	3.546.319	7.875.372	-	-	12.433.742
Funds provided from other financial institutions ⁽³⁾	3.288.720	4.838.730	8.097.168	1.777.589	965.360	537	18.968.104
Other liabilities ⁽¹⁾⁽²⁾	212.335	2.031.637	35.160	-	-	26.949.262	29.228.394
Total liabilities	106.383.601	35.034.795	22.225.793	10.774.099	968.211	56.054.319	231.440.818
Balance sheet long position	-	-	23.748.150	23.692.983	16.460.175	-	63.901.308
Balance sheet short position	(20.231.563)	(3.644.121)	-	-	-	(40.025.624)	(63.901.308)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
Total position	(19.880.563)	(3.468.621)	23.748.150	23.263.683	16.460.175	(40.025.624)	97.200

⁽¹⁾ TRY 286.672 of deferred tax liability is disclosed under the non-bearing interest column in other assets.

⁽²⁾ Shareholders' equity balance is disclosed under the non-bearing interest column in other liabilities line.

⁽³⁾ Funds provided from other financial institutions include borrowings.

⁽⁴⁾ TRY 1.176.037 of net non-performing loans is disclosed under the non-bearing interest column in other assets.

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

IV. EXPLANATIONS ON INTEREST RATE RISK (continued)

2. Average interest rates applied to financial instruments:

Current period	EUR	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT ⁽⁵⁾	-	1,25	-	4,00
Due from other banks and financial institutions ⁽¹⁾	0,08	1,41	-	13,25
Financial assets at fair value through profit and loss	1,10	1,86	-	9,17
Money market placements	-	-	-	12,75
Available-for-sale financial assets	4,65	5,46	-	15,15
Loans ⁽²⁾	4,79	6,42	0,84	13,12
Held-to-maturity investments	-	5,89	-	18,35
Liabilities				
Bank deposits	1,68	4,24	0,10	10,67
Other deposits ⁽⁴⁾	1,71	3,50	0,25	12,02
Money market borrowings	-	2,43	-	12,74
Sundry creditors ⁽³⁾	-	-	-	4,75
Bonds issued	-	4,46	-	12,95
Funds provided from other financial institutions	0,83	2,97	0,84	6,95
Prior Period				
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT	-	0,49	-	3,30
Due from other banks and financial institutions	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
Liabilities				
Bank deposits	0,44	3,17	-	7,82
Other deposits	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55

⁽¹⁾ Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

⁽²⁾ Interest rates for loans given as of balance sheet date are calculated using weighted average method for client's base.

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

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

⁽⁵⁾ As of balance sheet date, required reserve ratio of the CBRT.

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IV. EXPLANATIONS ON 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 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.

Current Period			
Currency	Applied Shock (+/- x basis point)	Gains/Losses	Gains/Shareholders' Equity –Losses/ Shareholders' Equities
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
Total (For negative shocks)			4.893.716
Total (For positive shocks)			(17,17%)
Total (For positive shocks)			(15,37%)
Prior Period			
Currency	Applied Shock (+/- x basis point)	Gains/Losses	Gains/Shareholders' Equity –Losses/ Shareholders' Equities
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
Total (For negative shocks)			3.101.456
Total (For positive shocks)			13,48%
Total (For positive shocks)			(2.872.053)
Total (For positive shocks)			(12,48%)

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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V. EXPLANATIONS ON POSITION RISK OF SHARES

Information about position risk of shares:

Equities	Comparison			Capital Requirements
	Carrying Value	Fair Value Change	Market Value	
Investment in Shares-Grade A	566.572	566.572	566.572	45.326
Quoted Securities ⁽¹⁾	566.572	566.572	566.572	45.326
Investment in Shares-Grade B	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares-Grade C	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares- Grade D ⁽²⁾	426.657	426.657	-	34.133
Other	2.982.075	2.966.271	-	273.873

⁽¹⁾ The Bank's subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa Istanbul AŞ.

⁽²⁾ 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 Istanbul AŞ Free Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

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 Supplementary Capital	Total	Included To total Core Capital	Included to Supplementary Capital
1. Private equity investments	-	-	-	-	-	-
2. Share certificates quoted on a stock exchange ^{(1) (2)}	-	263.266	263.266	-	-	-
3. Other share certificates	-	1.397.393	1.397.393	-	-	-
Total	-	1.660.659	1.660.659	-	-	-

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

⁽²⁾ The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa Istanbul AŞ.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK
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VI. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

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

To detect liquidity risk, Bank Liquidity Emergency Action Plan (LEAP) has been formed. Cash flow analysis methods include commission totals and tax totals, besides initial capital interest totals. The sections that are in the balance sheet are monitored by Risk Management Department Head and include the days until maturity which are canalized to the maturity bands that are predetermined; the liquidity availability are then detected and liquidity analysis performed. Thus, quantification of liquidity risk is established.

The 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 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 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 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 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 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 Bank or the market, under the condition that the potential stress tests are applied, the legal and internal changes on liquidity ratio and their effects of bank liquidity is quantified.

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

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

VI. EXPLANATIONS ON 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 Audit Committee and the Asset-Liability Committee regularly.

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

Liquidity Minimum-Maximum

Liquidity Coverage Ratio	FC		TRY+FC	
	Related Week	(%)	Related Week	(%)
Maximum	02.10.2017	239,56	23.10.2017	120,79
	08.10.2017		29.10.2017	
Minimum	18.12.2017	124,08	27.11.2017	87,14
	24.12.2017		03.12.2017	

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

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

Current Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TRY+FC	FC	TRY+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			42.608.988	26.685.146
Cash Outflows				
Retail and Small Business Customers, of which;	91.173.619	34.600.675	7.950.079	3.460.068
Stable Deposits	23.345.656	-	1.167.283	-
Less Stable Deposits	67.827.963	34.600.675	6.782.796	3.460.068
Unsecured wholesale funding , of which;	77.605.222	36.568.784	42.389.795	21.631.394
Operational Deposits	1.213.026	18.620	303.257	4.655
Non-operational Deposits	70.411.775	33.102.269	37.023.049	18.907.154
Other Unsecured Funding	5.980.421	3.447.895	5.063.489	2.719.585
Secured Funding			-	-
Other cash outflows, of which;	5.377.746	3.152.691	2.468.276	1.635.734
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	45.403	392.995	45.403	392.995
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	5.332.343	2.759.696	2.422.873	1.242.739
Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	76.855.216	28.709.981	5.963.044	2.296.340
Total Cash Outflows			58.771.194	29.023.536
Cash Inflows				
Secured Receivables	-	-	-	-
Unsecured Receivables	27.242.440	14.370.514	20.306.320	13.051.159
Other Cash Inflows	-	-	-	-
Total Cash Inflows	27.242.440	14.370.514	20.306.320	13.051.159
			Total Adjusted Value	
Total HQLA Stock			42.608.988	26.685.146
Total Net Cash Outflows			38.464.874	15.972.377
Liquidity Coverage Ratio (%)			111,13%	171,91%

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

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

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

Prior Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TRY+FC	FC	TRY+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			41.286.093	19.507.763
Cash Outflows				
Retail and Small Business Customers, of which;	70.029.880	26.128.895	5.867.361	2.612.889
Stable Deposits	22.712.529	-	1.135.626	-
Less Stable Deposits	47.317.351	26.128.895	4.731.735	2.612.889
Unsecured wholesale funding , of which;	85.855.129	32.355.737	49.088.217	21.263.600
Operational Deposits	167.119	-	41.779	-
Non-operational Deposits	78.878.637	31.061.117	45.302.644	20.063.830
Other Unsecured Funding	6.809.373	1.294.620	3.743.794	1.199.770
Secured Funding			-	-
Other cash outflows, of which;	4.449.607	3.317.011	2.055.719	2.044.791
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	73.331	1.007.035	73.331	1.007.035
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	4.376.276	2.309.976	1.982.388	1.037.756
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	64.048.521	24.649.794	4.748.321	1.938.944
Total Cash Outflows			61.759.618	27.860.224
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	17.973.709	9.549.697	11.966.727	7.922.449
Other Cash Inflows	-	-	-	-
Total Cash Inflows	17.973.709	9.549.697	11.966.727	7.922.449
			Total Adjusted Value	
Total HQLA Stock			41.286.093	19.507.763
Total Net Cash Outflows			49.792.891	19.937.775
Liquidity Coverage Ratio (%)			82,92%	98,92%

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

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

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

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

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
Assets								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the CBRT	2.119.865	34.253.174	-	-	-	-	-	36.373.039
Banks	1.240.393	4.849.449	-	4.098	-	-	-	6.093.940
Financial assets at fair value through profit and loss	-	200.773	104.565	10.142.288	253	27	-	10.447.906
Money market placements	-	1.258.647	-	-	-	-	-	1.258.647
Financial assets available-for-sale	-	220.218	89.624	1.744.195	5.199.004	9.712.702	123.806	17.089.549
Loans	458.375	12.118.327	13.550.347	59.932.943	89.741.276	26.335.884	-	202.137.152
Held-to-maturity investments	-	255.657	120.002	1.495.694	9.289.178	10.566.638	-	21.727.169
Other assets ⁽²⁾	1.330.425	2.482	3.314	10.234	34.334	4.657	8.837.800	10.223.246
Total assets	5.149.058	53.158.727	13.867.852	73.329.452	104.264.045	46.619.908	8.961.606	305.350.648
Liabilities								
Bank deposits	3.818.918	13.050.199	2.082.263	199.992	-	-	-	19.151.372
Other deposits	24.538.389	99.069.639	36.331.644	13.848.984	284.476	2.565	-	174.075.697
Funds provided from other financial institutions ⁽³⁾	53	747.763	2.578.025	7.048.484	4.119.899	2.523.894	-	17.018.118
Money market balances	-	33.558.357	1.049.627	-	-	-	-	34.607.984
Bonds issued	-	718.344	2.019.584	106.198	8.510.538	-	-	11.354.664
Sundry creditors	767	1.569.417	5.055	57.337	1.601.475	1.702	321.593	3.557.346
Other liabilities ⁽¹⁾	39.235	1.755.260	51.808	14.256.504	274.391	3.246.745	25.961.524	45.585.467
Total liabilities	28.397.362	150.468.979	44.118.006	35.517.499	14.790.779	5.774.906	26.283.117	305.350.648
Liquidity gap	(23.248.304)	(97.310.252)	(30.250.154)	37.811.953	89.473.266	40.845.002	(17.321.511)	-
Net off balance sheet position	-	(29.806)	(20.208)	11.949	152.560	-	-	114.495
Derivative financial assets	-	5.298.182	1.371.077	2.606.753	2.396.724	3.804.657	-	15.477.393
Derivative financial liabilities	-	(5.327.988)	(1.391.285)	(2.594.804)	(2.244.164)	(3.804.657)	-	(15.362.898)
Non-cash loans	19.842.448	2.091.386	4.521.027	18.586.996	12.401.691	1.091.100	-	58.534.648
Prior Period								
Total Assets	8.210.383	38.588.639	12.121.312	51.233.289	76.542.170	36.874.451	7.870.574	231.440.818
Total Liabilities	29.446.001	105.522.009	30.196.626	24.761.668	13.247.949	3.898.076	24.368.489	231.440.818
Liquidity Gap	(21.235.618)	(66.933.370)	(18.075.314)	26.471.621	63.294.221	32.976.375	(16.497.915)	-
Net off balance sheet position	-	(5.187)	(24.071)	991	98.699	-	-	70.432
Derivative financial assets	-	3.004.975	2.850.328	1.016.106	2.183.006	3.448.208	-	12.502.623
Derivative financial liabilities	-	(3.010.162)	(2.874.399)	(1.015.115)	(2.084.307)	(3.448.208)	-	(12.432.191)
Non-cash loans	17.683.351	2.026.427	4.604.681	13.248.606	8.367.717	1.830.046	-	47.760.828

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

⁽²⁾ 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 receivables from NPL are disclosed in other assets under the undistributed column.

⁽³⁾ Funds provided from other financial institutions include borrowings.

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

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

Current Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	138.702.472	40.785.201	14.501.959	393.024	2.583	(1.158.170)	193.227.069
Funds provided from other financial intuitions	766.065	2.601.592	7.225.376	4.385.424	2.734.008	(694.347)	17.018.118
Money market borrowings	33.572.546	1.054.913	-	-	-	(19.475)	34.607.984
Securities issued	725.875	2.079.645	342.467	9.247.008	-	(1.040.331)	11.354.664
Funds	92.303	13.766	127.641	274.391	2.246.745	(30.212)	2.724.634
Total	173.859.261	46.535.117	22.197.443	14.299.847	4.983.336	(2.942.535)	258.932.469

Prior Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	113.838.641	27.148.101	9.487.222	324.834	3.514	(539.473)	150.262.839
Funds provided from other financial intuitions	904.600	2.085.531	10.242.069	4.054.005	2.233.040	(551.141)	18.968.104
Money market borrowings	16.660.819	304.073	911.132	-	-	(28.961)	17.847.063
Securities issued	208.042	844.189	3.854.492	8.920.337	-	(1.393.318)	12.433.742
Funds	193.660	13.548	103.576	334.913	1.719.621	(25.510)	2.339.808
Total	131.805.762	30.395.442	24.598.491	13.634.089	3.956.175	(2.538.403)	201.851.556

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:⁽¹⁾	Up to 1 month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	3.341.667	1.451.710	1.521.700	-	-	6.315.077
Forward Contracts – Sell	1.501.366	663.002	1.518.340	-	-	3.682.708
Swaps – Buy	2.063.721	-	387.590	758.000	-	3.209.311
Swaps – Sell	2.061.605	-	379.000	605.440	-	3.046.045
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
Total	11.369.644	2.929.342	5.201.554	4.640.888	7.609.314	31.750.742

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

Prior Period:⁽¹⁾	Up to 1 month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	1.118.665	2.504.618	875.467	232.448	-	4.731.198
Forward Contracts – Sell	1.118.014	467.553	874.715	230.950	-	2.691.232
Swaps – Buy	1.775.843	264.926	140.639	526.500	-	2.707.908
Swaps – Sell	1.781.941	263.813	140.400	429.300	-	2.615.454
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
Total	6.409.621	5.747.694	2.031.221	1.419.198	9.744.530	25.352.264

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

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VII. EXPLANATIONS ON 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 ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	299.192.752	226.075.095
Assets that are deducted from core capital	(157.786)	(155.000)
Total on balance sheet exposures	299.034.966	225.920.095
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	445.528	425.626
The potential amount of credit risk with derivative financial instruments and credit derivatives	228.995	166.032
The total amount of risk on derivative financial instruments and credit derivatives	674.523	591.658
Investment securities or commodity collateral financing transactions		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	1.100.207	564.131
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	1.100.207	564.131
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	85.128.086	71.287.525
Adjustments for conversion to credit equivalent amounts	-	-
The total risk of off-balance sheet items	85.128.086	71.287.525
Capital and Total Exposures		
Tier 1 Capital	24.481.121	21.147.130
Total Exposures	385.937.782	298.363.409
Leverage Ratio		
Leverage Ratio	6,34 %	7,09%

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

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VIII. EXPLANATIONS ON BUSINESS SEGMENTATION

The Bank's operations are grouped under the corporate, commercial, integrated banking 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 Bank is rendering services to a wide range of companies in all sectors, especially to Small and Medium Size Enterprises (SMEs) as well as individual consumers. In this context, the Bank has no restrictions on the area in which it operates.

The 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 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 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 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 Bank's subsidiaries,
- Acting as a custodian in order to keep client's assets related to individual portfolio management of portfolio management companies,
- Acting as a portfolio management agency.

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VIII. EXPLANATIONS ON 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.

Current Period	Corporate	Commercial	Integrated	Treasury / Investment	Total
OPERATING INCOME / EXPENSES					
Interest income	2.189.358	3.272.456	13.414.498	4.217.682	23.093.994
<i>Interest on loans</i>	2.187.601	3.271.343	13.148.169	352.388	18.959.501
<i>Interest income on marketable securities</i>	-	-	254.258	3.448.714	3.702.972
<i>Interest received from banks</i>	-	-	1	227.092	227.093
<i>Other interest income</i>	1.757	1.113	12.070	189.488	204.428
Interest expense	1.728.261	726.547	8.274.963	4.563.622	15.293.393
<i>Interest on deposits</i>	1.727.462	695.437	8.085.971	830.927	11.339.797
<i>Interest on borrowings</i>	661	6.907	27.289	345.946	380.803
<i>Interest on money market borrowings</i>	-	-	77.608	2.590.195	2.667.803
<i>Interest on marketable bonds issued</i>	-	-	-	789.909	789.909
<i>Other interest expense</i>	138	24.203	84.095	6.645	115.081
Net interest income	461.097	2.545.909	5.139.535	(345.940)	7.800.601
Net fees and commissions income	245.201	431.532	1.089.806	260.769	2.027.308
Net trading profit / (loss)	710	5.172	244.722	(214.735)	35.869
Dividend income	-	-	-	267.214	267.214
Other income	42.811	74.615	358.812	124.397	600.635
Impairment losses on loans and other receivables	17.973	443.525	581.533	426.296	1.469.327
Other expenses	30.307	69.703	1.822.805	2.629.903	4.552.718
Income before taxes	701.539	2.544.000	4.428.537	(2.964.494)	4.709.582
Income tax provision	-	-	-	(984.120)	(984.120)
Net profit for the period	701.539	2.544.000	4.428.537	(3.948.614)	3.725.462
SEGMENT ASSETS					
Marketable securities	-	-	5.489.437	43.413.266	48.902.703
Derivative financial assets held for trading	-	-	79.852	282.069	361.921
Banks and money market receivables	-	-	289	7.352.298	7.352.587
Associates and subsidiaries (net)	-	-	-	3.959.500	3.959.500
Loans	30.705.417	41.267.495	127.277.838	4.213.727	203.464.477
Other assets	90.690	264.257	1.885.260	39.069.253	41.309.460
TOTAL ASSETS	30.796.107	41.531.752	134.732.676	98.290.113	305.350.648
SEGMENT LIABILITIES					
Deposits	30.068.341	16.011.238	136.068.623	11.078.867	193.227.069
Derivative financial liabilities held for trading	-	-	46.160	104.362	150.522
Money market balances	-	-	4.140.748	30.467.236	34.607.984
Borrowing funding loans	9.973	233.252	954.275	15.820.618	17.018.118
Bonds issued	-	-	-	11.354.664	11.354.664
Other liabilities	286.437	379.543	6.336.644	11.964.753	18.967.377
Provisions and tax payable	57.741	88.335	252.213	4.249.886	4.648.175
Shareholders' equity	767.670	2.565.774	4.065.401	17.977.894	25.376.739
TOTAL LIABILITIES	31.190.162	19.278.142	151.864.064	103.018.280	305.350.648
OFF BALANCE SHEET ITEMS					
Guarantees and sureties	15.680.596	13.990.756	17.241.640	11.621.656	58.534.648
Commitments	63.996	878.037	10.134.667	12.918.994	23.995.694
Derivative financial instruments	-	-	6.914.990	23.925.301	30.840.291

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VIII. EXPLANATIONS ON BUSINESS SEGMENTATION (continued)

Prior Period	Corporate	Commercial	Integrated	Treasury / Investment	Total
OPERATING INCOME / EXPENSES					
Interest income	1.536.062	2.138.386	10.406.769	2.872.782	16.953.999
<i>Interest on loans</i>	<i>1.536.022</i>	<i>2.137.979</i>	<i>10.263.159</i>	<i>318.973</i>	<i>14.256.133</i>
<i>Interest income on marketable securities</i>	-	-	<i>129.951</i>	<i>2.408.559</i>	<i>2.538.510</i>
<i>Interest received from banks</i>	-	-	<i>4.158</i>	<i>88.472</i>	<i>92.630</i>
<i>Other interest income</i>	<i>40</i>	<i>407</i>	<i>9.501</i>	<i>56.778</i>	<i>66.726</i>
Interest expense	1.028.816	420.987	6.007.434	2.540.044	9.997.281
<i>Interest on deposits</i>	<i>1.015.517</i>	<i>405.981</i>	<i>5.889.288</i>	<i>870.140</i>	<i>8.180.926</i>
<i>Interest on borrowings</i>	<i>833</i>	<i>6.909</i>	<i>24.491</i>	<i>337.619</i>	<i>369.852</i>
<i>Interest on money market borrowings</i>	-	-	<i>26.815</i>	<i>749.394</i>	<i>776.209</i>
<i>Interest on marketable bonds issued</i>	-	-	-	<i>582.467</i>	<i>582.467</i>
<i>Other interest expense</i>	<i>12.466</i>	<i>8.097</i>	<i>66.840</i>	<i>424</i>	<i>87.827</i>
Net interest income	507.246	1.717.399	4.399.335	332.738	6.956.718
Net fees and commissions income	194.413	221.663	754.129	205.143	1.375.348
Net trading profit / (loss)	735	6.200	312.171	(169.360)	149.746
Dividend income	-	-	-	267.273	267.273
Other income	8.744	26.552	254.916	282.905	573.117
Loans and other receivables' impairment loss	182.336	209.248	603.701	1.111.038	2.106.323
Other expenses	17.159	64.826	1.696.112	2.086.232	3.864.329
Income before taxes	511.643	1.697.740	3.420.738	(2.278.571)	3.351.550
Income tax provision	-	-	(1.980)	(791.305)	(793.285)
Net profit for the period	511.643	1.697.740	3.418.758	(3.069.876)	2.558.265
SEGMENT ASSETS					
Marketable securities	-	-	2.524.561	30.691.835	33.216.396
Derivative financial assets held for trading	-	-	75.054	284.757	359.811
Banks and money market receivables	-	-	244.328	1.416.702	1.661.030
Associates and subsidiaries (net)	-	-	-	3.146.481	3.146.481
Loans	25.359.824	32.125.832	97.373.010	3.495.667	158.354.333
Other assets	81.246	441.908	1.805.746	32.373.867	34.702.767
TOTAL ASSETS	25.441.070	32.567.740	102.022.699	71.409.309	231.440.818
SEGMENT LIABILITIES					
Deposits	25.575.129	8.253.723	100.730.184	15.703.803	150.262.839
Derivative financial liabilities held for trading	-	-	42.426	169.422	211.848
Money market balances	-	-	1.373.871	16.473.192	17.847.063
Borrowing funding loans	1.445	187.747	830.155	17.948.757	18.968.104
Bonds issued	-	-	-	12.433.742	12.433.742
Other liabilities	254.825	278.741	5.100.181	1.098.696	6.732.443
Provisions and tax payable	66.549	57.621	191.543	3.352.120	3.667.833
Shareholders' equity	543.102	1.701.171	3.102.242	15.970.431	21.316.946
TOTAL LIABILITIES	26.441.050	10.479.003	111.370.602	83.150.163	231.440.818
OFF BALANCE SHEET ITEMS					
Guarantees and surety ships	13.825.351	10.831.393	12.513.027	10.591.057	47.760.828
Commitments	58.048	855.008	11.050.295	11.553.330	23.516.681
Derivative financial instruments	-	-	6.427.378	18.507.436	24.934.814

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

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
Financial Assets	285.030.023	222.398.875	295.794.773	212.607.360
Cash and Balances with the Central Bank of Turkey	36.373.039	29.999.160	36.373.039	29.999.160
Financial assets at fair value through P&L ^{(3) (4)}	366.332	362.957	366.332	362.957
Banks	6.093.940	1.661.030	6.093.887	1.661.189
Money market placements	1.258.647	-	1.258.746	-
Available for sale financial assets ⁽¹⁾	17.073.744	14.974.109	17.073.744	14.974.109
Held to maturity investments	21.727.169	18.156.182	21.138.237	18.114.526
Loans ⁽²⁾	202.137.152	157.178.296	213.490.788	147.495.419
Financial Liabilities	259.915.703	202.424.371	258.778.754	206.314.425
Deposits	193.227.069	150.262.839	193.098.837	150.402.872
Derivative financial liabilities held for trading	150.522	211.848	150.522	211.848
Funds provided from other financial institutions	17.018.118	18.968.104	17.169.308	23.305.465
Money market borrowings	34.607.984	17.847.063	34.611.352	17.831.425
Securities issued	11.354.664	12.433.742	10.191.389	11.870.313
Miscellaneous payables	3.557.346	2.700.676	3.557.346	2.692.403
Leasing payables	-	99	-	99

⁽¹⁾ As of 31 December 2017, TRY 15.805 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 15.818).

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

⁽³⁾ As of 31 December 2017, marketable securities amounting to TRY 81.145 that are valued by internal rate of return, are not included in financial assets held for trading purpose.(31 December 2016: TRY 67.141)

⁽⁴⁾ 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 Bank. 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;

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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:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose ⁽²⁾ :	74.978	361.921	-	436.899
<i>Debt securities</i> ⁽⁴⁾	74.978	-	-	74.978
<i>Derivative financial assets held for trading purpose</i>	-	361.921	-	361.921
Available-for-sale financial assets ⁽¹⁾	17.073.744	-	-	17.073.744
<i>Debt securities</i>	17.073.744	-	-	17.073.744
Subsidiaries	566.571	426.657	2.633.480	3.626.708
Association ⁽³⁾	-	-	313.709	313.709
Total Financial Assets	17.715.293	788.578	2.947.189	21.451.060
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	150.522	-	150.522
Total Financial Liabilities	-	150.522	-	150.522

⁽¹⁾As of 31 December 2017, share certificates amounting to TRY 15.805 of “securities not quoted on the stock exchange” in available for sale financial assets are not included in the above table.

⁽²⁾ As of 31 December 2017, marketable securities amounting to TRY 81.145 that are not valued at fair value, are not included in financial assets held for trading purpose.

⁽³⁾ Bank’s associates which are shown with their cost values in the accompanying financial statements as no fair values are available, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ. (TRY 11.518), Bankalararası Kart Merkezi AŞ. (TRY 3.804), Kredi Kayıt Bürosu AŞ. (TRY 2.516) and Türk P&I Sigorta AŞ. (TRY 1.245) are not included in the table.

⁽⁴⁾ As of 31 December 2017, TRY 10.000.429 of securities lending transaction is not included in Trading Financial Assets at Fair Value through profit or loss.

Prior Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose ⁽²⁾ :	62.177	300.780	-	362.957
<i>Debt securities</i> ⁽⁴⁾	62.177	-	-	62.177
<i>Derivative financial assets held for trading purpose</i>	-	359.811	-	359.811
Available-for-sale financial assets ⁽¹⁾	14.974.109	-	-	14.974.109
<i>Debt securities</i>	14.974.109	-	-	14.974.109
Subsidiaries	517.421	368.089	1.992.314	2.877.824
Association ⁽³⁾	-	-	249.574	249.574
Total Financial Assets	15.553.707	727.900	2.241.888	18.523.495
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	211.848	-	211.848
Total Financial Liabilities	-	211.848	-	211.848

⁽¹⁾As of 31 December 2017, share certificates amounting to TRY 15.805 of “securities not quoted on the stock exchange” in available for sale financial assets are not included in the above table.

⁽²⁾ As of 31 December 2017, marketable securities amounting to TRY 81.146 that are not valued at fair value, are not included in financial assets held for trading purpose.

⁽³⁾ Bank’s associates which are shown with their cost values in the accompanying financial statements as no fair values are available, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ. (TRY 11.518), Bankalararası Kart Merkezi AŞ. (TRY 3.804), Kredi Kayıt Bürosu AŞ. (TRY 2.516) and Türk P ve I Sigorta AŞ. (TRY 1.245) are not included in the table.

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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:

	Current Period	Prior Period
Balance at the beginning of the period	2.241.888	1.996.387
Purchases during the year	-	-
Non-paid up shares	156.887	106.525
Valuation Difference	418.156	138.976
Transfers	130.258	-
Period End Balance	2.947.189	2.241.888

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.

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

XI. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS

The Bank's Risk Management Approach and Risk Weighted Amounts

The Bank's business model creates a comprehensive risk profile that includes all units of the Bank. Credit risk is a key component of the risk profile. The 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 Bank's strategic objectives, are limited by legal rates therefore the Bank associated with them.

The organization structure of the internal systems of the Bank is composed of the Board of Inspection, Internal Control Department, Risk Management Department and Compliance Department under the Internal Systems Deputy General Manager. Internal Systems Deputy General Manager is operating under the Board of Directors through the Audit Committee pursuant to the Regulation on the Internal Systems of Banks and the Internal Capital Adequacy Assessment Process published in the Official Gazette dated 11 July 2014 and numbered 29057. The structure of the internal systems determines the level of risk by identifying the risks that the 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 Bank is exposed in relation to its duties.

The 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 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 Bank is exposed to more effectively, to support the decision making processes related to them, to create new strategies and policies.

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

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

Overview of Risk Weighted Amounts^(*):

		Risk Weighted Amounts		Minimum Capital Requirements
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk) (CCR)	182.074.573	161.707.382	14.565.966
2	Standardized approach (SA)	182.074.573	161.707.382	14.565.966
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1.946.444	378.320	155.716
5	Standardized approach for counterparty credit risk (SA-CCR)	1.946.444	378.320	155.716
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity position in the banking account	-	-	-
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	3.230.950	1.947.575	258.476
17	Standardized approach (SA)	3.230.950	1.947.575	258.476
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk	12.797.670	11.297.473	1.023.814
20	Basic Indicator Approach	12.797.670	11.297.473	1.023.814
21	Standard Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity (subject to a 250% risk weight)	816.180	655.843	65.294
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	200.865.817	175.986.593	16.069.266

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

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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 in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards			Not subject to capital requirements or subject to deduction from capital
		Credit Risk	Counterparty credit risk	Securitization positions	
Cash and Balances with the Central Bank	36.373.039	36.373.039	-	-	-
Available-for-Sale Financial Assets	10.447.906	-	361.921	-	447.477
Financial assets at fair value through profit and loss	-	-	-	-	-
Banks	6.093.940	6.093.940	-	-	-
Receivables from Money markets	1.258.647	1.258.647	-	-	-
Financial assets available for sale (net)	17.089.549	8.612.390	-	-	8.477.157
Loans and receivables	203.464.477	203.450.422	-	-	-
Receivables from factoring	-	-	-	-	-
Investments held to maturity (net)	21.727.169	21.727.169	-	-	-
Subsidiaries (net)	332.792	332.792	-	-	-
Associates (net)	3.626.708	3.626.708	-	-	-
Jointly controlled entities (joint ventures) (net)	-	-	-	-	-
Finance lease receivables	-	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-
Tangible Assets (net)	2.535.779	2.479.993	-	-	55.786
Intangible Assets (net)	113.685	-	-	-	113.685
Real estate for investment purpose (net)	358.574	358.574	-	-	-
Tax asset	-	-	-	-	-
Assets Held For Sale and Discontinued Operations (net)	-	-	-	-	-
Other assets	1.928.383	1.927.409	-	-	974
Total Assets	305.350.648	286.241.083	361.921	-	8.925.608
Liabilities					
Deposits	193.227.069	-	-	-	193.227.069
Derivative financial liabilities held for trading	150.522	-	-	-	150.522
Loans	17.018.118	-	-	-	17.018.118
Money market borrowings	34.607.984	-	4.330.157	-	1.044.853
Securities issued	11.354.664	-	-	-	11.354.664
Funds	2.724.634	-	-	-	2.724.634
Miscellaneous payables	3.557.346	-	-	-	3.557.346
Other liabilities	11.681.012	-	-	-	202
Factoring payables	-	-	-	-	-
Finance lease payables	-	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-
Provisions	3.448.960	-	-	-	3.448.960
Tax Liability	1.199.215	-	-	-	1.199.215
Liabilities regarding assets held for sale and discontinued operations (net)	-	-	-	-	-
Subordinated Loans	1.004.385	-	-	-	1.004.385
Shareholders' equity	25.376.739	-	-	-	25.376.739
Total liabilities	305.350.648	-	4.330.157	-	1.195.577
					299.824.914

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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
1 Asset carrying value amount under scope of regulatory consolidation	305.350.648	286.241.083	-	361.921	8.925.608
2 Liabilities carrying value amount under regulatory scope of consolidation	305.350.648	-	-	4.330.157	1.195.577
3 Total net amount under regulatory scope of consolidation	-	286.241.083	-	4.692.078	10.121.185
4 Off-balance Sheet Amounts	83.182.005	37.839.071	-	192.592	31.750.742
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7 Differences due to consideration of provisions	-	-	-	-	-
8 Differences due to prudential filters	-	-	-	-	-
9 Differences due to risk reduction	-	324.080.154	-	4.884.670	41.871.927

*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.

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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)	361.921	192.592		1,4	649.923	466.889
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)					1.304.873	242.151
Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	1.479.555
Total					6.217.065	1.946.444

*Expected effective positive risk amount

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	649.923	466.889
Total subject to the CVA capital obligation	649.923	466.889

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

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

Risk weight / Risk Classifications	0%	10%	20%	50%	75%	100%	150%	Other	Total Credit Risk
Claims on sovereigns and Central Banks	13.903	-	-	-	-	-	-	-	13.903
Claims on regional governments or local authorities	7.438	-	-	230	-	-	-	-	7.668
Claims on administrative bodies and other non-commercial undertakings	27.535	-	-	-	-	846	-	-	28.381
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	841.692	-	3.907.975	226.947	-	780.662	-	-	5.757.276
Claims on corporates	36.307	-	-	-	-	262.229	-	-	298.536
Claims included in the regulatory retail portfolios	101.253	19	-	-	10.029	-	-	-	111.301
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	-	-	-	-	-	-	-	-	-
Total	1.028.128	19	3.907.975	227.177	10.029	1.043.737	-	-	6.217.065

Collaterals for Counterparty Credit Risk

	Collateral for derivative transactions				Collateral for other transactions	
	Received Collaterals		Given Collaterals		Received Collaterals	Given Collaterals
	Segregated	Nonsegregated	Segregated	Nonsegregated		
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	-	-	-	-	-	-
Total	-	66.656	-	55.115	896	49.497

Counterparty Credit Risk-Credit Derivatives:

None.

Exposures to Central Counterparties (CCP)

None.

Explanations on Securitisations:

None.

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

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 and 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 determined 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 units are regularly reporting 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.

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, concerning the off-balance sheet operations based on the customers and banks.

Credit Quality of Assets

		Gross carrying value as per TAS		Allowances/amortisation and impairments **	Net values
		Defaulted *	Non-defaulted		
1	Loans	6.106.597	202.137.152	4.779.272	203.464.477
2	Debt Securities***	-	39.299.588	397.314	38.902.274
3	Off-balance sheet exposures	-	82.530.342	-	82.530.342
4	Total	6.106.597	323.967.082	5.176.586	324.897.093

* Shows the receivables which identified non performing receivables in accordance with the regulation on "M 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 the provisions booked as per "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside"

*** 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	5.140.082
2	Loans and debt securities defaulted since the last reporting period	1.666.382
3	Receivables back to performing status	(93.949)
4	Amounts written off	-
5	Other changes	(605.918)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	6.106.597

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

Additional Disclosure Related To The Credit Quality Of Assets:

Breakdown According to 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	458.375	12.118.327	13.550.347	59.932.943	89.741.276	26.335.884	202.137.152

Exposures Provisioned Against By Major Regions

31 December 2017	Non-Performing Loans	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	94.682	67.839
Total	6.106.597	4.779.272

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	1.560.086
60-90 days overdue	767.867
Total	2.327.953

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	1.272.038

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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 creditworthinesses of guarantors 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 are 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 volatility in the real estate market is closely monitored by the Bank and fluctuations that may occur depending on the market movements related to the mentioned risk class, are taken into account according to the principles stated in the related regulation.

In the portfolios where the comprehensive financial guarantee method is used, the risk mitigating effects of collateral are determined through standard volatility adjustments.

Concentration checks are conducted on guarantors and collateral providers.

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 guarantee s	Financial guarantees , of which secured amount	Exposures secured by credit derivative s	Exposures secured by credit derivatives, of which secured amount
1	Loans	128.882.283	74.582.194	56.831.177	394.212	394.212	-	-
2	Debt Instruments ⁽¹⁾	38.902.274	-	-	-	-	-	-
3	Total	167.784.557	74.582.194	56.831.177	394.212	394.212	-	-
4	Of which defaulted	175.153	1.152.172	852.419	8.691	8.691	-	-

(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.

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

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

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.

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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	67.712.909	1.701.954	84.391.115	1.737.422	8.776.021	10,19%
Claims on regional governments or local authorities	2.986.493	161.052	2.986.411	81.126	1.522.659	49,64%
Claims on administrative bodies and other non-commercial undertakings	701.879	1.943.990	689.979	970.764	1.612.334	97,09%
Claims on multilateral development banks	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-
Claims on banks and intermediary institutions	11.537.142	2.952.704	11.542.219	1.753.740	5.118.346	38,50%
Claims on corporates	75.390.483	45.952.261	68.100.812	26.872.453	92.252.468	97,14%
Claims included in the regulatory retail portfolios	64.076.740	26.148.281	54.695.336	4.743.766	42.671.374	71,79%
Claims secured by residential property	34.135.664	1.259.551	34.135.438	689.643	12.364.419	35,50%
Claims secured by commercial property	20.481.337	1.869.900	20.481.337	1.370.843	10.926.090	50,00%
Overdue loans	1.324.952	66.006	1.324.952	33.208	1.219.116	89,76%
Higher risk categories decided by the Board	4.414	92.978	4.414	52.994	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	9.375.267	-	9.375.267	-	3.823.246	40,78%
Equity share investments	3.975.305	-	3.975.305	-	4.465.013	112,32%
Total	291.702.585	82.148.677	291.702.585	38.305.959	184.837.197	56,01%

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	68.576.496	-	-	-	17.552.041	-	-	-	-	-	86.128.537
Claims on regional governments or local authorities	22.220	-	-	-	3.045.317	-	-	-	-	-	3.067.537
Claims on administrative bodies and other non-commercial undertakings	48.285	-	154	-	-	-	1.612.304	-	-	-	1.660.743
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	841.692	-	6.252.926	-	4.667.160	-	1.534.181	-	-	-	13.295.959
Claims on corporates	1.801.853	-	881.626	-	427.287	-	91.862.499	-	-	-	94.973.265
Claims included in the regulatory retail portfolios	2.373.432	19	232.486	-	-	56.833.165	-	-	-	-	59.439.102
Claims secured by residential property	28.734	-	8.007	34.321.095	-	467.244	1	-	-	-	34.825.081
Claims secured by commercial property	-	-	-	-	21.852.180	-	-	-	-	-	21.852.180
Overdue loans	23.031	-	-	-	232.025	-	1.103.104	-	-	-	1.358.160
Higher risk categories decided by the Board	-	-	-	-	-	-	-	57.408	-	-	57.408
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	-	-	-	-	-	-	3.648.833	-	-	326.472	3.975.305
Other receivables	5.146.627	-	405.591	-	122.799	78.087	3.622.163	-	-	-	9.375.267
Total	78.862.370	19	7.780.790	34.321.095	47.898.809	57.378.496	103.383.085	57.408	-	326.472	330.008.544

*Secured with real estate mortgage.

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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 market risk value calculated by using the internal model except standard method is supported by using scenario analysis and stress tests, historical simulation and risk exposure figures calculated by using parametric method are reported daily to the top management.

Market Risk: Standardised approach

	RWA
Outright products	
Interest rate risk (general and specific)	2.100.638
Equity risk (general and specific)	216.000
Foreign exchange risk	887.487
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	26.825
Scenario approach	-
Securitization	-
Total	3.230.950

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.

	2 PP Amount	1 PP Amount	CP Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	5.887.155	6.359.029	8.230.088	6.825.424	15	1.023.814
Amount at Operational Risk (Total * 12.5)						12.797.670

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

XII. EXPLANATIONS ON REMUNERATION POLICIES

Qualitative Disclosures on Remuneration Policies

1. Disclosures related with Remuneration Committee

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

2. Information on the design and structure of remuneration process

The 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 Bank's Board of Directors, senior management and other staff are in line with the 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 Bank.

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

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

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MANAGEMENT OF THE BANK (continued)

XII. EXPLANATIONS ON REMUNERATION POLICIES (continued)

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

The 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 Bank,

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

There are no variable remunerations (performance premium, gesture, etc.) to be deferred due to long-term performance for the critical key personnel.

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

Cash and non-cash instruments are not used for the payment, wherefore no variable remunerations (performance premium, gesture, etc.) to be deferred due to long-term performance for the critical key personnel.

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATION AND NOTES RELATED TO THE ASSETS

(1) Cash and Central Bank of the Republic of Turkey:

a) Information on cash and balances with the CBRT:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	1.154.853	964.263	914.121	562.677
CBRT	11.762.459	22.491.457	2.620.111	25.902.219
Other	-	7	-	32
Total	12.917.312	23.455.727	3.534.232	26.464.928

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount ⁽¹⁾	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
Other ⁽²⁾	114.965	16.480.938	56.496	17.197.657
Total	11.762.459	22.491.457	2.620.111	25.902.219

⁽¹⁾ Reserve deposits kept in CBRT.

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

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

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

With the change dated 23 January 2015, it has been decided to apply a charge on daily account balances and two days notice account denominated in EUR, 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 TRNC, reserve requirement ratio is between 5% and 8% for TRY and foreign currency liabilities

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

I. EXPLANATION AND NOTES RELATED TO THE 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 securities	10.000.429	-	-	-
Total	10.000.429	-	-	-

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

None.

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	43.495	-	120.227
Swap transactions	-	318.246	-	239.460
Futures transactions	-	-	-	-
Options	118	62	4	120
Other	-	-	-	-
Total	118	361.803	4	359.807

(3) Information on banks and other financial institutions:

a) Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	504.964	4.126.213	26.539	21.122
Foreign banks	75.554	1.387.209	169.769	1.443.600
Branches and offices abroad	-	-	-	-
Total	580.518	5.513.422	196.308	1.464.722

b) Information on foreign banks:

	Unrestricted Balance		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	657.810	1.006.455	-	-
USA and Canada	279.816	141.780	-	-
OECD Countries ⁽¹⁾	67.379	84.510	-	-
Offshore Banking Regions	111	-	-	-
Other	457.647	380.624	-	-
Total	1.462.763	1.613.369	-	-

⁽¹⁾ OECD Countries other than EU countries, USA and Canada.

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

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

(4) Information on financial assets available-for-sale (continued):

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 securities	10.936.493	1.045.607	-	354.898
Total	10.936.493	1.045.607	-	354.898

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 securities	154.578	4.308.531	4.789.610	728.138
Total	154.578	4.308.531	4.789.610	728.138

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

	Current period	Prior period
Debt securities	17.335.998	15.418.926
<i>Quoted on a stock exchange</i>	17.335.998	15.418.926
<i>Not quoted</i>	-	-
Share certificates	150.865	132.077
<i>Quoted on a stock exchange</i>	117.779	97.377
<i>Not quoted</i>	33.086	34.700
Impairment provision(-)	397.314	561.076
Total	17.089.549	14.989.927

(5) Information on loans:

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

	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	252.835	-	204.282	-
Total	252.835	-	204.282	-

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

(5) Information on financial assets available-for-sale (continued):

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			Loans and other receivables under close monitoring ⁽³⁾		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
Cash loans						
Non-specialized loans	161.042.083	3.540.177	-	4.752.884	2.541.455	-
<i>Corporation loans</i>	110.869.120	3.171.316	-	4.313.294	2.424.078	-
<i>Export loans</i>	3.459.289	-	-	970	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	2.344.523	-	-	-	-	-
<i>Consumer loans⁽¹⁾</i>	37.676.724	347.547	-	279.796	28.070	-
<i>Credit cards⁽²⁾</i>	4.132.052	21.314	-	122.035	89.307	-
<i>Other</i>	2.560.375	-	-	36.789	-	-
Specialized lending	33.149.012	6.417	-	276.621	84	-
Other receivables	-	-	-	-	-	-
Accruals	2.842.921	51.921	-	73.631	37.208	-
Total	197.034.016	3.598.515	-	5.103.136	2.578.747	-

⁽¹⁾ Includes TRY 190.437 of personnel loans.

⁽²⁾ Includes TRY 62.398 of personnel credit cards.

⁽³⁾ 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.

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

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

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

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Extended period of time		
0-6 Months	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

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

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

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

(5) Information on loans: (continued)

c) Maturity analysis of cash loans

Current Period	Performing Loans and Other Receivables		Loans under Follow-Up and Other Receivables	
	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms
Short-term Loans	38.421.163	571.058	521.117	276.045
Loans	37.515.972	562.819	513.490	272.062
Specialization Loans	350.807	-	107	-
Other Receivables	-	-	-	-
Discounts	554.384	8.239	7.520	3.983
Medium and Long-term Loans	158.612.853	3.027.457	4.582.019	2.302.702
Loans	123.526.111	2.977.358	4.239.394	2.269.393
Specialization Loans	32.798.205	6.417	276.514	84
Other Receivables	-	-	-	-
Discounts	2.288.537	43.682	66.111	33.225
Prior Period				
	Performing Loans and Other Receivables		Loans under Follow-Up and Other Receivables	
	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms
Short-term Loans	32.101.320	207.303	672.620	225.676
Loans	31.367.418	201.323	663.390	221.000
Specialization Loans	301.548	-	171	-
Other Receivables	-	-	-	-
Discounts	432.354	5.980	9.059	4.676
Medium and Long-term Loans	120.481.359	1.969.657	3.922.997	2.390.081
Loans	91.447.151	1.930.052	3.604.544	2.356.626
Specialization Loans	27.411.514	6.895	265.616	116
Other Receivables	-	-	-	-
Discounts	1.622.694	32.710	52.837	33.339

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

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

(5) Information on loans: (continued)

d) Information on consumer loans, individual credit cards, personnel loans and credit cards: (*)

	Short-term	Medium and long-term	Total
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	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Consumer loans- FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
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	291	-	291
<i>Installment</i>	-	-	-
<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	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Personnel loans-FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
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	32	-	32
<i>Installment</i>	-	-	-
<i>Non-installment</i>	32	-	32
Overdraft accounts-TRY (Retail customer)	953.999	-	953.999
Overdraft accounts-FC (Retail customer)	-	-	-
Total	4.366.178	36.586.306	40.952.484

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

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

(5) Information on loans: (continued)

e) 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	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Commercial installment loans - FC	14.226	9.695.831	9.710.057
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	14.226	9.695.831	9.710.057
<i>Other</i>	-	-	-
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	-	25
<i>Installment</i>	-	-	-
<i>Non-installment</i>	25	-	25
Overdraft accounts-TRY (Commercial customer)	1.239.335	-	1.239.335
Overdraft accounts-FC (Commercial customer)	-	-	-
Total	3.347.471	36.624.148	39.971.619

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

f) Loans by customers:

	Current Period	Prior Period
Public	5.326.304	5.371.347
Private	196.810.848	151.806.949
Total	202.137.152	157.178.296

g) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	200.506.312	155.749.275
Foreign loans	1.630.840	1.429.021
Total	202.137.152	157.178.296

h) Loans granted to subsidiaries and associates:

	Current period	Prior period
Direct loans granted to subsidiaries and associates	967.161	1.078.414
Indirect loans granted to subsidiaries and associates	-	-
Total	967.161	1.078.414

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

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

(5) Information on loans: (continued)

i) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	342.250	518.902
Loans and receivables with doubtful collectability	471.850	305.386
Uncollectible loans and receivables	3.965.172	3.139.757
Total	4.779.272	3.964.045

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

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

	III. Group Loans and receivables with limited collectability	IV. Group Loans and receivables with doubtful collectability	V. Group Uncollectible loans and receivables
Current period	38.728	44.727	1.188.583
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	38.728	44.727	1.188.583
Prior period	34.480	3.858	1.173.596
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	34.480	3.858	1.173.596

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

	III. Group Loans and receivables with limited collectability	IV. Group Loans and receivables with doubtful collectability	V. Group Uncollectible loans and receivables
Prior period end balance	914.463	437.175	3.788.444
Additions (+)	1.532.239	30.083	104.060
Transfers from other categories of loans under follow-up (+)	-	1.584.365	1.227.102
Transfers to other categories of loans under follow-up (-)	1.624.891	1.186.576	-
Collections (-)	208.995	131.814	359.058
Write-offs (-)	-	-	-
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	-
Current period end balance	612.816	733.233	4.760.548
Specific provision (-)	342.250	471.850	3.965.172
Net balance on balance sheet	270.566	261.383	795.376

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

j) Information on non-performing loans (Net) :(continued)

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

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
Balance at the end of the period	121.484	174.975	1.784.567
Specific provisions(-)	82.490	139.302	1.148.778
Net balance in the balance sheet	38.994	35.673	635.789
Prior period			
Balance at the end of the period	204.204	51.653	1.522.852
Specific provisions(-)	137.119	30.083	1.078.913
Net balance in the balance sheet	67.085	21.570	443.939

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

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period (Net)			
Loans to granted real persons and legal entities (Gross)	611.987	732.308	4.690.496
Specific provisions (-)	341.421	470.925	3.895.120
Loans to granted real persons and legal entities (Net)	270.566	261.383	795.376
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	829	925	70.052
Specific provisions (-)	829	925	70.052
Other loans and receivables (Net)	-	-	-
Prior period (Net)			
Loans to granted real persons and legal entities (Gross)	913.462	436.534	3.718.059
Specific provisions (-)	517.901	304.745	3.069.372
Loans to granted real persons and legal entities (Net)	395.561	131.789	648.687
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
Other loans and receivables (Net)	-	-	-

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

The 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 principle receivables from loans.

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

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

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

1) 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	19.108.745	1.333.136	4.419.663	1.048.201
Total	19.108.745	1.333.136	4.419.663	1.048.201

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

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	34.794	1.169.918	5.079.533	933.840
Total	34.794	1.169.918	5.079.533	933.840

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

	Current period	Prior period
Government bonds	21.727.169	18.156.182
Treasury bills	-	-
Other public sector debt securities	-	-
Total	21.727.169	18.156.182

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	21.727.169	18.156.182
<i>Quoted on a stock exchange</i>	<i>21.727.169</i>	<i>18.156.182</i>
<i>Not quoted</i>	-	-
Impairment provision (-)	-	-
Total	21.727.169	18.156.182

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

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

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

	Current period	Prior period
Beginning balance	18.156.182	16.676.797
Foreign currency differences on monetary assets	182.819	399.176
Purchases during the year ⁽¹⁾	3.735.146	2.389.499
Disposals through sales and redemptions	(346.978)	(1.309.290)
Impairment provision (-) / provision reversal (+)	-	-
Balance at the end of the period	21.727.169	18.156.182

⁽¹⁾ Interest income accrual difference between 31 December 2017 amounting to TRY 2.894.918 and 31 December 2016 amounting to TRY 1.907.723 has been included in purchases row.

e) Information on held-to-maturity investments:

The breakdown of the held to maturity securities of the Bank is as follows:

	Current Period				Prior Period			
	Historical cost		Amortised cost		Historical cost		Amortised cost	
	TRY	FC	TRY	FC	TRY	FC	TRY	FC
Obtained from Undersecretariat of Tr of Republic of Turkey	13.415.827	1.729.969	15.536.068	1.763.017	10.863.420	1.606.363	12.237.460	1.636.997
Obtained with the transfer	-	-	-	-	-	-	-	-
Reclassified from other securities portfolios	2.947.845	738.610	3.678.165	749.919	3.093.277	685.399	3.586.054	695.671
Other	-	-	-	-	-	-	-	-
Total	16.363.672	2.468.579	19.214.233	2.512.936	13.956.697	2.291.762	15.823.514	2.332.668

(7) Information on associates (Net):

a) Information on associates:

Description	Address (City/ Country)	Bank's share percentage, if different- voting percentage (%)	Bank's risk group share percentage (%)
1. Demir-Halkbank NV ⁽²⁾	Holland	30,00	30,00
2. Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ ⁽²⁾	Ankara	31,47	33,12
3. Kredi Kayıt Bürosu AŞ ⁽³⁾	İstanbul	18,18	18,18
4. Bankalararası Kart Merkezi AŞ ⁽⁴⁾	İstanbul	18,95	18,95
5. Türk P ve I Sigorta AŞ ⁽²⁾	İstanbul	16,67	16,67

b) Information related to the associates as sorted in (a):

	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value ⁽¹⁾	
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.	263.938	159.793	151.214	6.654	-	37.880	31.051	-
4.	92.016	51.255	47.325	1.557	-	11.164	10.403	-
5.	24.113	6.225	536	442	-	1.684	1.379	-

(1) 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.

(2) The financial data is obtained from 31 December 2017 audited consolidated purpose financial statements.

(3) The financial data is obtained from 31 December 2017 audited financial statements.

(4) The financial data is obtained from 31 December 2017 not audited financial statements.

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FINANCIAL STATEMENTS (continued)

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

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

c) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	268.657	227.320
Movements during the period	64.135	41.337
<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>	64.135	41.337
<i>Impairment Provisions (-) / Reversals</i>	-	-
Balance at the end of the period	332.792	268.657
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

d) Sectoral information and related carrying amounts of associates:

	Current period	Prior period
Banks	313.709	249.574
Insurance companies	1.245	1.245
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	11.518	11.518
Other non- financial investments	6.320	6.320

e) Associates quoted to a stock exchange:

None.

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED
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I. EXPLANATION AND NOTES RELATED TO THE ASSETS (continued)

(8) Information on subsidiaries (Net):

a) Information on subsidiaries ⁽¹⁾:

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetim i AŞ	Halk Bank A.D., Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd	Halk Varlık Kiralama AŞ
CORE CAPITAL										
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	-
Profit / Loss	29.035	(87.680)	241.430	40.638	88.647	10.223	34.363	32.041	6.244	9
<i>Net Profit</i>	<i>29.035</i>	<i>66.061</i>	<i>224.197</i>	<i>40.638</i>	<i>55.443</i>	<i>9.738</i>	<i>34.363</i>	<i>32.041</i>	<i>6.244</i>	<i>9</i>
<i>Prior Period Profit/Loss</i>	<i>-</i>	<i>(153.741)</i>	<i>17.233</i>	<i>-</i>	<i>33.204</i>	<i>485</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
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	-
Total Core Capital	127.406	116.165	706.112	977.140	369.048	29.441	358.659	105.332	216.910	109
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	25.218	-	3.238	-
CAPITAL	127.406	116.165	706.112	977.140	369.048	29.441	383.877	105.332	220.148	109
NET AVAILABLE CAPITAL	127.406	116.165	706.112	977.140	369.048	29.441	383.877	105.332	220.148	109

⁽¹⁾ The information is presented from companies' consolidated financial statements as of 31 December 2017.

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

Paid in capital has been indicated as Turkish Lira 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.

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

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

(8) Information on subsidiaries (continued)

b) Information on 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	İstanbul	99,96	99,96
2. Halk Sigorta AŞ	İstanbul	89,18	94,33
3. Halk Hayat ve Emeklilik AŞ	İstanbul	100,00	100,00
4. Halk Gayrimenkul Yatırım Ortaklığı AŞ ^{(2) (3)}	İstanbul	79,33	79,36
5. Halk Finansal Kiralama AŞ	İstanbul	100,00	100,00
6. Halk Portföy Yönetimi AŞ	İstanbul	75,00	99,99
7. Halk Banka AD, Skopje	Macedonia	99,03	99,03
8. Halk Faktoring AŞ	İstanbul	97,50	100,00
9. Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	İstanbul	100,00	100,00
10. Halkbank A.D. Beograd	Sırbia	99,89	99,89
11. Halk Varlık Kiralama AŞ	İstanbul	100,00	100,00

c) Information related to the subsidiaries as sorted in (b): ⁽¹⁾

	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	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	48.176	32.300	6.212	1.242	1.791	7.287	4.650	52.178
10	1.519.558	220.148	33.433	56.306	6.736	6.244	3.544	156.822
11	100.910	109	-	-	-	9	-	100

⁽¹⁾ The financial data is obtained from 31 December 2017 financial statements used in consolidation.

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

⁽³⁾ Halk Gayrimenkul Yatırım Ortaklığı AŞ was privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

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

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

(8) Information on subsidiaries (Net): (continued)

d) Movement of the subsidiaries:

	Current period	Prior period
Balance at the beginning of the period	2.877.824	2.685.934
Movements during the period	748.884	191.890
<i>Purchase⁽¹⁾</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/Decrease</i>	476.127	(16.043)
<i>Impairment Provisions (-)/ Reversals</i>	27.562	(51.165)
<i>Currency differences on valuation of foreign subsidiaries</i>	-	49.380
Balance at the end of the period	3.626.708	2.877.824
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾ As of 31 December 2017, The 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%. established Halk Varlık Kiralama AŞ for TRY 100 as a subsidiary.

e) 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	474.506	415.786
Financing companies	-	-
Other financial subsidiaries	799.871	673.470
Other non-financial subsidiaries	52.178	41.243

f) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock ^{(1). (2)}	993.228	885.510
Quoted foreign stock exchange	-	-

⁽¹⁾ In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Free Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company since Halk Sigorta AŞ does not have transaction depth on the Borsa İstanbul AŞ.

⁽²⁾ The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

(9) Information on jointly controlled entities:

None.

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

None.

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

None.

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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.

Current Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfer, Net	Balance at the end of the period
Cost:						
Immovable	1.532.563	10.629	105.518	54.016	-	1.594.694
Tangible assets purchased through financial lease	26.796	4	-	219	-	26.581
Office machines	433.790	148.297	-	26.032	-	556.055
Fixed assets obtained due to non-performing loans	647.011	239.184	-	142.591	-	743.604
Lease hold improvements costs	135.462	19.439	-	26.132	-	128.769
Other	282.806	17.445	-	8.240	-	292.011
Total Cost	3.058.428	434.998	105.518	257.230	-	3.341.714
Accumulated depreciation (-)						
Immovable	130.293	6.499	6.392	11.406	-	131.778
Tangible assets purchased through financial lease	25.896	87	-	90	-	25.893
Office machines	255.783	55.922	-	3.587	-	308.118
Fixed assets obtained due to non-performing loans	17.155	6.180	-	7.111	-	16.224
Lease hold improvements costs	68.791	25.838	-	21.646	-	72.983
Other	229.661	14.879	-	7.466	-	237.074
Total accumulated depreciation	727.579	109.405	6.392	51.306	-	792.070
Provision for impairment (-)						
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
Total provision for impairment (-)	16.842	1.385	-	4.362	-	13.865
Net Book Value	2.314.007	324.208	99.126	201.562	-	2.535.779

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

(12) Information on tangible assets (continued):

Prior Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfers, Net	Balance at the end of the period
Cost:						
Immovable	1.376.586	5.716	152.240	2.531	(552)	1.532.563
Tangible assets purchased through financial lease	27.741	-	-	945	-	26.796
Office machines	414.575	37.046	-	17.831	-	433.790
Fixed assets obtained due to non-performing loans	570.289	173.235	-	96.513	-	647.011
Lease hold improvements costs	135.012	450	-	-	-	135.462
Other	272.403	13.530	-	3.127	-	282.806
Total Cost	2.796.606	229.977	152.240	120.947	(552)	3.058.428
Accumulated depreciation (-) :						
Immovable	143.151	6.476	-	19.334	-	130.293
Tangible assets purchased through financial lease	26.412	266	-	782	-	25.896
Office machines	219.938	53.627	-	17.782	-	255.783
Fixed assets obtained due to non-performing loans	13.249	6.278	-	2.372	-	17.155
Lease hold improvements costs	67.763	27.444	-	26.416	-	68.791
Other	218.199	14.322	-	2.860	-	229.661
Total accumulated depreciation	688.712	108.413	-	69.546	-	727.579
Provision for impairment (-)						
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
Total provision for impairment (-)	8.447	8.986	-	591	-	16.842
Net Book Value	2.099.447	112.578	152.240	50.810	(552)	2.314.007

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

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

(13) Information on other intangible assets:

Current Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
Cost:					
Other intangible assets	151.465	73.012	7.102	-	217.375
Total Cost	151.465	73.012	7.102	-	217.375
Accumulated Depreciation (-)					
Other intangible assets	62.872	40.932	113	-	103.690
Total Accumulated Depreciation	62.872	40.932	113	-	103.690
Net Book Value	88.593	32.080	6.989	-	113.685

Prior Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
Cost:					
Other intangible assets	109.601	44.325	2.461	-	151.465
Total Cost	109.601	44.325	2.461	-	151.465
Accumulated Depreciation (-) :					
Other intangible assets	32.650	30.223	1	-	62.872
Total Accumulated Depreciation	32.650	30.223	1	-	62.872
Net Book Value	76.951	14.102	2.460	-	88.593

(14) Information on investment property:

	Current Period	Prior Period
Cost		
Opening Balance	430.059	428.525
Acquisitions	786	1.534
Transfers	-	-
Disposals	-	-
Impairment Charge/Cancellation(-)	-	-
Ending Balance	430.845	430.059
Accumulated Depreciation (-)		
Opening Balance	66.738	63.525
Amortization Charge	5.533	3.213
Transfers	-	-
Disposals	-	-
Impairment Provisions	-	-
Total Accumulated Depreciation (-)	72.271	66.738
Net Book Value	358.574	363.321

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED
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I. EXPLANATION AND NOTES RELATED TO THE ASSETS (continued)

(15) Information on tax assets:

a) Information on the current tax asset:

As of 31 December 2017, the Bank has no current tax assets (31 December 2016: None).

b) Information on deferred tax asset:

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

(16) Information on non-current assets held for sale:

None.

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 1.928.383 and does not exceed 10% of the balance sheet total (31 December 2016: TRY 1.936.946).

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

II. EXPLANATION AND NOTES RELATED TO THE LIABILITIES

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.767.489	-	758.785	39.992.067	1.734.753	459.667	537.645	104.662	50.355.068
Foreign currency deposits	8.008.356	-	3.696.152	37.428.468	3.423.792	3.242.831	4.403.028	10.866	60.213.493
<i>Residents in Turkey</i>	6.931.110	-	3.492.102	34.841.449	3.232.691	2.913.211	2.590.680	10.511	54.011.754
<i>Residents abroad</i>	1.077.246	-	204.050	2.587.019	191.101	329.620	1.812.348	355	6.201.739
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	5.269.756	-	5.949.835	22.323.639	1.874.852	2.288.182	267.237	-	37.973.501
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	3.818.918	-	3.815.807	11.190.949	74.936	9.579	241.183	-	19.151.372
<i>CBRT</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	41.051	-	1.531.378	6.900.085	6.559	9.579	-	-	8.488.652
<i>Foreign banks</i>	3.769.119	-	1.926.952	3.928.843	68.377	-	164.290	-	9.857.581
<i>Participation banks</i>	8.748	-	357.477	362.021	-	-	76.893	-	805.139
Total	28.357.307	-	17.896.475	122.146.432	8.214.761	10.964.144	5.532.422	115.528	193.227.069

a.2. Prior period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.158.073	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.679
Foreign currency deposits	6.364.730	-	3.100.794	28.538.858	4.734.504	1.158.191	3.696.641	11.016	47.604.734
<i>Residents in Turkey</i>	4.976.498	-	3.031.495	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.943.508
<i>Residents abroad</i>	1.388.232	-	69.299	554.651	149.995	133.475	1.365.167	407	3.661.226
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	4.322.048	-	4.290.924	14.625.325	1.876.533	562.730	39.505	-	25.717.065
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	7.862.967	-	3.167.195	10.804.303	238.375	29.404	729.220	-	22.831.464
<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>	7.095.120	-	1.905.217	6.895.980	238.375	21.177	725.053	-	16.880.922
<i>Participation banks</i>	728.762	-	170.080	-	-	-	-	-	898.842
Total	28.871.092	-	14.377.641	88.385.133	8.239.654	5.178.129	5.095.369	115.821	150.262.839

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

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

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

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

b.1. Amounts exceeding insurance limit:

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

Saving deposits	Under the guarantee insurance		Exceeding the insurance limit	
	Current period	Prior period	Current period	Prior period
Saving deposits	25.612.387	23.535.650	24.595.796	16.938.565
Foreign currency saving deposits	8.155.310	6.787.330	19.353.149	14.574.636
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:

	Current period	Prior period
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	2.517	2.603
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26.9.2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

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II. EXPLANATION AND NOTES RELATED TO THE 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	-	88.826	-	137.422
Swap transactions	-	61.405	-	74.112
Future transactions	-	-	-	-
Options	146	145	59	255
Other	-	-	-	-
Total	146	150.376	59	211.789

(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from CBRT	-	-	-	-
Domestic banks and institutions	310.374	1.907.998	254.679	1.875.919
Foreign banks, institutions and funds	154.652	14.645.094	186.276	16.651.230
Total	465.026	16.553.092	440.955	18.527.149

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	309.378	4.561.408	261.008	4.077.162
Medium and long-term	155.648	11.991.684	179.947	14.449.987
Total	465.026	16.553.092	440.955	18.527.149

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

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

Main liability of the Bank is deposits, which is composed of 26,06% of saving deposits and 31,16% of foreign currency deposits. In order to fulfill the short term liquidity requirements, the Bank borrows loans from interbank money markets. The 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 Bank's 62,10% of bank deposits and 35,69% of other deposits consist of foreign currency deposits.

Funds provided through repurchase transactions:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Domestic Transactions	188.679	-	9.463.439	-
<i>Financial Institutions and Organisations</i>	35.000	-	9.395.444	-
<i>Other Institutions and Organisations</i>	119.913	-	29.220	-
<i>Individuals</i>	33.766	-	38.775	-
Foreign Transactions	520	4.127.464	460	1.365.201
<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
TOTAL	189.409	4.140.748	9.469.886	1.373.871

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

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

(4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	2.713.759	-	1.749.034	-
Bonds	-	8.640.905	-	10.684.708
Total	2.713.759	8.640.905	1.749.034	10.684.708

(5) Explanations to the funds:

Funds are granted as loans in conformity with the protocols between the 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.

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 11.681.012 and does not exceed 10% of the balance sheet total. (31 December 2016: TRY 1.691.860).

(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.

c) Explanation on finance lease payables:

None.

c) Explanations regarding operational leases:

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

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

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

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

None.

(9) Explanations on provisions:

a) Information on general provisions:

	Current period	Prior period
General provision	2.288.701	2.027.964
Provisions for first group loans and receivables	2.057.879	1.817.380
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for second group loans and receivables	100.590	90.675
<i>Additional provisions for the loans with extended payment plan</i>	-	-
Provisions for non-cash loans	130.232	119.909
Other	-	-

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

As of 31 December 2017 the 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 Bank's specific provision for unindemnified non-cash loans balance is TRY 122.876 (31 December 2016: TRY 139.279).

d) Information on other provisions:

Total other provision balance amounting to TRY 324.167 (31 December 2016: TRY 309.826) consists of TRY 122.876 (31 December 2016: TRY 139.279) for specific provisions for unindemnified non cash loans, TRY 107.231 (31 December 2016: TRY 90.793) for legal cases filed against the Bank and TRY 94.060 (31 December 2016: TRY 79.754) of other provisions.

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;

	Current Period	Prior Period
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:

	Current Period	Prior Period
As of January 1	399.423	390.587
Charge for the year	38.718	37.372
Interest Expense	44.030	40.720
Actuarial gain/loss	11.330	(21.492)
Prior period service cost composed current period	52	459
Payment/The limitation of benefits/ Loss (Gain) therefore discharge	8.229	1.546
Benefits paid within the period (-)	(39.873)	(49.769)
Total	461.909	399.423

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

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

(9) Explanations on provisions (continued):

f) Liabilities for employee benefits:

As of 31 December 2017, unused vacation accruals are TRY 157.035, personnel dividend provision is TRY 199.665, severance indemnity provision for Bank personnel is TRY 461.909 and severance indemnity provision for outsourcing firms is TRY 17.483 (31 December 2016: TRY 139.894 for unused vacation accruals; TRY 399.423 for severance indemnity provision for Bank personnel; TRY 13.964 for severance indemnity provision for outsources; TRY 160.451 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.

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

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

(9) Explanations on provisions (continued):

g) Liabilities for employee benefits: (continued)

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.

Assumptions	Current Period	Prior Period
Discount Rate	9,8%	9,8%
Mortality Rate	CSO 1980 women/men	CSO 1980 women/men

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 numbered 506. As of 31 December 2017, the number of personnel who benefit from the Fund is 34.631 (31 December 2016: 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.

	Current Period	Prior Period
Transferable Pension and Medical Benefits:		
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
Net Present Value of Total Liabilities Other Than Health	229.617	180.109
Net Present Value of Health Liabilities	(435.970)	(392.002)
Net Present Value of Health Premiums	1.354.206	1.113.143
Net Present Value of Health Liabilities	918.236	721.141
Pension Fund Assests	1.911.745	1.525.471
General Administration Expenses (1%)	(23.741)	(19.937)
Amount of Actuarial and Technical Deficit	3.035.857	2.406.784

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

g) Liabilities arising from retirement benefits:

Plan assets are comprised as follows:

Total Assets	Current Period	Prior Period
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
Total	1.911.745	1.525.471

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 (%)

Assumptions	Pension Benefits	Death Benefits	Medical Benefits	Total
Discount rate+1%	(0,1%)	(19,6%)	(19,0%)	(19,0%)
Discount rate -1%	0,1%	27,0%	26,1%	26,0%
Inflation rate +1%	0,1%	27,1%	32,4%	32,30%
Inflation rate -1%	(0,1%)	(19,9%)	(22,6%)	(22,50%)

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

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 December 2017, the Bank's corporate tax payable is amounting to TRY 145.941 and accounted for under corporate tax provision at the related date.

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	145.941	41.636
Income on securities tax	328.111	157.120
Property income tax	1.570	1.402
Banking and insurance transactions tax (BITT)	97.579	84.974
Foreign exchange transactions tax	21	48
Value added tax payable	-	-
Other	31.405	24.391
Total	604.627	309.571

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	18	18
Social insurance premiums-employer	21	21
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	-	-
Unemployment insurance-employer	-	-
Other	2.120	1.956
Total	24.180	20.068

b) Deferred tax liability:

	Current period	Prior period
Deferred Tax (Asset) /Liability		
Provisions ⁽¹⁾	224.505	183.840
Revaluation of Financial Assets	(601.224)	(376.569)
Other	(193.689)	(93.943)
Deferred Tax Liability:	(570.408)	(286.672)
Deferred tax accounted in shareholders' equity	(49.739)	(454)
Fair value differences for available for sale financial assets	89.175	66.911
Actuarial gains and losses	2.566	241
Subsidiaries Valuation	-	-
Property Revaluation	(141.480)	(67.606)

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

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

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

None.

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

Subordinated debts	Current Period		Prior Period	
	TRY	FC	TRY	FC
Domestic Banks	-	-	-	-
Domestic Other Institutions	1.004.385	-	-	-
Foreign Banks	-	-	-	-
Foreign Other Institutions	-	-	-	-
Total	1.004.385	-	-	-

(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 is 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 Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators: The Bank has sustainable profitability structure and equity structure. There are no uncertainties that would impact the current position.

g) Information on preferred shares:

None.

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

(13) Information on shareholders' equity: (continued)

h) Information on marketable securities revaluation fund:

	Current period		Prior period	
	TRY	FC	TRY	FC
From subsidiaries, associates and jointly controlled entities (joint ventures)	1.349.055	311.604	1.004.257	203.841
Valuation differences	1.349.055	311.604	1.004.257	203.841
Exchange rate difference	-	-	-	-
Financial assets available for sale	(382.871)	(252.259)	(297.328)	(428.017)
Valuation differences	(382.871)	(252.259)	(297.328)	(428.017)
Exchange rate difference	-	-	-	-
Total	966.184	59.345	706.929	(224.176)

i) Legal Reserves

	Current Period	Prior Period
I. Legal Reserve	1.085.930	958.017
II. Legal Reserve	553.144	518.693
Special Reserves	6.575	5.648
Total	1.645.649	1.482.358

j) Extraordinary Reserves:

	Current Period	Prior Period
Legal reserves that was allocated to be in compliance with the decisions made on the Annual General Assembly	15.243.277	-
Retained Earnings	-	-
Accumulated Losses	-	-
Exchange Rate Difference on Foreign Currency Capital	-	-
Total	15.243.277	13.104.130

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

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

Types of irrevocable commitments	Current period	Prior period
Commitments for credit card expenditure limits	11.562.109	10.794.813
Payment commitments for cheques	3.269.281	5.805.008
Loan granting commitments	4.646.052	3.551.904
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	3.536.993	2.874.314
Total	23.995.694	23.516.681

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

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

	Current period	Prior period
Bank acceptance loans	4.134.031	4.011.308
Letters of credit	3.693.507	2.825.466
Other guarantees	1.306.244	956.523
Total	9.133.782	7.793.297

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

	Current period	Prior period
Letters of certain guarantees	14.770.283	14.917.475
Letters of advance guarantees	4.269.905	3.430.728
Letters of tentative guarantees	738.388	512.981
Letters of guarantee given to customs offices	1.327.250	887.159
Other letters of guarantee	28.295.040	20.219.188
Total	49.400.866	39.967.531

c) Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	2.855.170	1.920.169
<i>Within one year or less original maturity</i>	562.688	287.627
<i>Within more than one year maturity</i>	2.292.482	1.632.542
Other non-cash loans	55.679.478	45.840.659
Total	58.534.648	47.760.828

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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			
	TRY	(%)	FC	(%)	TRY	(%)	FC	(%)
Agriculture	37.475	0,13	56.930	0,19	40.378	0,19	24.305	0,09
<i>Farming and Stockbreeding</i>	30.793	0,11	10.470	0,04	36.311	0,17	21.895	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	25,46	13.971.045	46,09	5.006.181	23,76	13.979.682	52,38
<i>Mining and Quarrying</i>	113.424	0,40	39.814	0,13	140.712	0,67	65.239	0,24
<i>Production</i>	4.043.858	14,33	13.611.441	44,91	3.113.471	14,78	11.876.525	44,50
<i>Electricity, Gas and Water</i>	3.027.075	10,73	319.790	1,05	1.751.998	8,31	2.037.918	7,64
Construction	8.039.874	28,49	8.595.348	28,36	6.112.235	29,00	6.933.713	25,98
Services	12.641.942	44,79	7.539.584	24,87	9.750.786	46,27	5.454.428	20,44
<i>Wholesale and Retail Trade</i>	6.465.350	22,90	2.798.868	9,23	4.837.193	22,95	2.258.453	8,46
<i>Accommodation and Dining</i>	82.979	0,29	813.784	2,68	83.860	0,40	176.383	0,66
<i>Transportation and Telecom.</i>	306.795	1,09	1.693.266	5,59	186.011	0,88	475.790	1,78
<i>Financial Institutions</i>	3.340.475	11,84	356.521	1,18	3.288.213	15,61	640.160	2,40
<i>Real Estate and Rental Services</i>	2.155.546	7,64	1.789.761	5,90	1.187.469	5,63	1.834.359	6,88
<i>Professional Services</i>	20.133	0,07	839	-	17.781	0,08	370	-
<i>Educational Services</i>	89.042	0,32	48.158	0,16	26.483	0,13	44.557	0,17
<i>Health and Social Services</i>	181.622	0,64	38.387	0,13	123.776	0,59	24.356	0,09
Other	318.327	1,13	149.766	0,49	164.040	0,78	295.080	1,11
Total	28.221.975	100,00	30.312.673	100,00	21.073.620	100,00	26.687.208	100,00

d.2. Non-cash loans classified under I. and II. Group

	Group I		Group II	
	TRY	FC	TRY	FC
Non-Cash Loans	28.078.372	30.275.942	143.603	36.731
Letters of Guarantee	26.872.204	22.348.328	143.603	36.731
Bills of Exchange and Bank Acceptances	16.829	3.676.678	-	-
Letters of Credit	47.204	4.086.827	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Surities	1.142.135	164.109	-	-

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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				
Foreign Currency related Derivative Transactions (I):	17.223.111	13.008.595	-	-
Currency Forwards-Purchases/Sales	9.087.334	7.004.980	-	-
Currency Swaps-Purchases/Sales	6.255.356	5.323.362	-	-
Currency Futures-Purchases/Sales	-	-	-	-
Currency Options-Purchases/Sales	1.880.421	680.253	-	-
Interest Rate related Derivative Transactions (II)	10.886.762	9.744.530	-	-
Interest Rate Contracts	-	-	-	-
Interest Rate Swaps-Purchases/Sales	10.886.762	9.744.530	-	-
Interest Rate Options-Purchases/Sales	-	-	-	-
Interest Rate Futures-Purchases/Sales	-	-	-	-
Other Trading Derivatives (III) ⁽¹⁾	2.730.418	2.181.689	-	-
A. Total Trading Derivatives (I+II+III)	30.840.291	24.934.814	-	-
Derivative Financial Instruments held for Risk Management	-	-	-	-
Fair Value Hedges	-	-	-	-
Cash Flow Hedges	-	-	-	-
FC investment in associates risk hedge	-	-	-	-
B. Total Derivative Financial Instruments held for Risk Management	-	-	-	-
Total Derivative Transactions (A+B)	30.840.291	24.934.814	-	-

⁽¹⁾ Other trading derivatives consist of forward buying and selling precious contracts amounting to TRY 24.982 and TRY 2.705.436, respectively.

f) 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).

g) Services provided on behalf of others:

None.

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

IV. EXPLANATION AND NOTES RELATED TO THE INCOME STATEMENT

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on loans⁽¹⁾				
Short term loans	4.464.719	195.196	3.769.433	175.855
Medium and long term loans	11.058.972	3.107.562	8.020.712	2.220.344
Interest on non-performing loans	133.052	-	69.789	-
Premiums from resource utilization support fund	-	-	-	-
Total	15.656.743	3.302.758	11.859.934	2.396.199

⁽¹⁾ 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	10.423	12.557	710	1.329
Overseas banks	8.409	12.801	4.071	3.420
Head office and branches	-	-	-	-
Total	118.472	108.621	74.692	17.938

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial assets held for trading	1.085	29	4.583	647
Financial assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	1.258.256	283.684	828.538	227.449
Held-to-maturity investments	2.024.544	135.374	1.363.360	113.933
Total	3.283.885	419.087	2.196.481	342.029

d) Interest income from subsidiaries and associates:

	Current period	Prior period
Interest income from subsidiaries and associates	48.427	61.477

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

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Banks	31.533	334.911	38.597	316.195
<i>Central Bank of Turkey</i>	-	279	-	-
<i>Domestic Banks</i>	18.905	25.475	19.375	21.234
<i>Foreing Banks</i>	12.628	309.157	19.222	294.961
<i>Foreing Head Offices and Branches</i>	-	-	-	-
Other Institutions	12	14.347	13	15.047
Total	31.545	349.258	38.610	331.242

b) Interest expenses to subsidiaries and associates:

	Current period	Prior period
Interest expenses to subsidiaries and associates	283.664	151.883

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	323.500	466.409	162.840	419.627
Total	323.500	466.409	162.840	419.627

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		
TRY								
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	421.898	2.110.101	289.797	254.904	15.738	-	3.092.463
Other deposits	-	62.220	371.336	78.037	52.286	8.526	-	572.405
7 days call accounts	-	-	-	-	-	-	-	-
Total	396	1.073.994	7.086.923	586.541	745.683	74.340	8.751	9.576.628
Foreign currency								
Deposits	35	76.364	1.168.847	212.135	51.765	64.247	-	1.573.393
Bank deposits	-	189.623	-	-	-	-	-	189.623
7 days call accounts	-	-	-	-	-	-	-	-
Precious metal	153	-	-	-	-	-	-	153
Total	188	265.987	1.168.847	212.135	51.765	64.247	-	1.763.169
Grand total	584	1.339.981	8.255.770	798.676	797.448	138.587	8.751	11.339.797

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

(3) Information on dividend income:

	Current Period	Prior Period
Financial Assets Held for Trading	-	-
Financial Assets Valued at Fair Value through Profit or Loss	-	-
Financial Assets Available-for-Sale	3.823	30.448
Other	263.391	236.825
Total	267.214	267.273

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

	Current period	Prior period
Profit	44.119.579	14.574.983
Profit from the capital market operations	46.601	20.381
Profit on derivative financial instruments	1.809.805	1.695.430
Foreign exchange gains	42.263.173	12.859.172
Loss (-)	44.083.710	14.425.237
Loss from the capital market operations	13.481	1.144
Loss on derivative financial instruments	2.008.527	1.678.806
Foreign exchange losses	42.061.702	12.745.287

b) Information on derivative financial instruments:

	Current period	Prior period
Profit on derivative financial instruments	1.809.805	1.695.430
Effect of the change in foreign exchange on profit	1.753.710	1.645.017
Effect of the change in interest rate on profit	56.095	50.413
Loss on derivative financial instruments (-)	2.008.527	1.678.806
Effect of the change in foreign exchange on loss	1.959.558	1.629.541
Effect of the change in interest rate on loss	48.969	49.265
Profit/loss on derivative financial instruments	(198.722)	16.624

(5) Information on other operating income:

	Current period	Prior period
Adjustments for prior period expenses	416.559	374.069
Receivable from the asset sale on credit terms	104.526	130.104
Rent income	34.678	33.203
Other income	44.872	35.741
Total	600.635	573.117

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

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	1.120.888	1.133.276
<i>Group - III loans and receivables</i>	367.422	521.149
<i>Group - IV loans and receivables</i>	528.320	310.043
<i>Group - V loans and receivables</i>	225.146	302.084
General loan provision expenses	260.737	904.401
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	87.702	68.646
Total	1.469.327	2.106.323

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	1.982.248	1.762.643
Reserve for employee termination benefits	95.011	82.341
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	410	4.713
Depreciation expenses of fixed assets	101.501	98.502
Intangible assets impairment expense	-	-
Goodwill impairment expense	-	-
Amortization expenses of intangible assets	40.932	30.223
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	-	-
Other operating expenses	2.183.963	1.246.068
<i>Operational leasing expenses</i>	236.894	208.118
<i>Maintenance expenses</i>	40.534	25.883
<i>Advertisement expenses</i>	219.991	160.145
<i>Other expenses</i>	1.686.544	851.922
Loss on sales of assets	363	1.330
Other	134.853	620.818
Total	4.552.718	3.864.329

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

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

(8) Information on profit/loss from continuing and discontinued operations before taxes:

The Bank's income before tax is due from continuing activities. The amount of profit before tax consists TRY 7.800.601 of net interest income and TRY 2.027.308 of net fees and commissions. The net operating profit before tax of the Bank is amounting to TRY 4.709.582.

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

As of 31 December 2017, the Bank's tax provision amounting to TRY 984.120 consists of TRY 749.669 of current tax charge and TRY 234.451 of deferred tax charge.

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

As of 31 December 2017, the Bank's net operating income after tax is amounting to TRY 3.725.462.

(11) Information on net profit/loss from continuing and discontinued operations:

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.

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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 17.632.659 increase for the year 2017 (31 December 2016: TRY 10.563.369).

"Other" item in operating profit is composed of other operating expenses excluding fees and commissions expense, foreign exchange gain, other operating income and personnel expenses and decrease by TRY 4.891.271 for the year 2017 (31 December 2016: TRY 5.256.034 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: 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:

	Current period	Prior period
Cash	29.999.160	23.324.971
<i>Cash in TRY and foreign currency</i>	1.476.798	1.210.055
<i>Central Bank and others⁽¹⁾</i>	28.522.362	22.114.916
Cash equivalents	1.644.687	2.513.285
<i>Demand and Time Deposits Up to 3 Months</i>	1.644.687	2.513.285
<i>Money Market Placements</i>	-	-
Cash and Banks	31.643.847	25.838.256
Reserve deposits in Central Bank of Turkey	(17.217.278)	(16.942.148)
Accruals on reserve deposits in Central Bank of Turkey	(36.875)	(21.203)
Accruals on banks	(901)	(290)
Rediscount from the money market	-	-
Total Cash and Cash Equivalents	14.388.793	8.874.615

⁽¹⁾Others items include cheques received.

- (5) Cash and cash equivalents balance at the end of the period:

	Current Period	Prior Period
Cash	36.373.039	29.999.160
<i>Cash in TRY and foreign currency</i>	2.119.116	1.476.798
<i>Central Bank and others⁽¹⁾</i>	34.253.923	28.522.362
Cash Equivalents	7.348.489	1.644.687
<i>Demand and Time Deposits Up to 3 Months</i>	6.089.842	1.644.687
<i>Money Market Placements</i>	1.258.647	-
Cash and Banks	43.721.528	31.643.847
Reserve deposits in Central Bank of Turkey	(16.506.119)	(17.217.278)
Accruals on reserve deposits in Central Bank of Turkey	(89.784)	(36.875)
Accruals on banks	(1.092)	(901)
Rediscount from the money market	(2.669)	-
Total Cash and Cash Equivalents	27.121.864	14.388.793

⁽¹⁾Others items include cheques received.

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

VII. EXPLANATIONS RELATED TO THE RISK GROUP OF THE BANK

- (1) Volume of the 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	1.078.414	219.823	-	-	-	-
Closing balance	967.161	234.553	-	-	-	-
Interest and commissions income	48.427	631	-	-	-	-

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	1.040.418	198.346	-	-	-	-
Closing balance	1.078.414	219.823	-	-	-	-
Interest and commissions income	61.477	765	-	-	-	-

- b) Deposits held by the Bank's risk group:

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	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Deposits						
Beginning balance	1.733.533	1.019.114	-	-	-	-
Closing Balance	2.857.226	1.733.533	-	-	-	-
Interest expense on deposits	280.677	149.272	-	-	-	-

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

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	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Financial Assets At FV Through Profit And Loss						
Beginning balance	-	20.615	-	-	-	-
Closing Balance	11.936	-	-	-	-	-
Total Profit/Loss	107	-	-	-	-	-

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED
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VII. EXPLANATIONS RELATED TO THE RISK GROUP OF THE BANK (continued)

(2) Disclosures for risk group:

a) The relations of the Bank with the entities controlled by the Bank and its related parties, regardless of whether there are any transactions or not:

In the normal course of its banking activities, the Bank conducted various business transactions with related parties at commercial terms and at rates which approximate market rates. In addition, the Bank is an intermediary for brokerage services of Halk Yatırım Menkul Değerler A.Ş. within scope of "Brokerage Order Contract". Bank intermediates in sales of funds, are established and managed by Halk Portföy Yönetimi AŞ.

b) Besides the structure of relationship, nature of the transaction, amount and ratio to the total volume of transactions, amount of major items and ratio to all items, pricing policies and other factors:

	Amount	% Compared to the amounts in the financial statements
Cash loans	967.161	0,48
Non-cash loans	234.553	0,40
Deposits	2.857.226	1,48
Forward and option contracts	11.936	0,04

Pricing of these transactions are in accordance with the general pricing policies of the 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:

None.

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel are TRY 8.894 as of 31 December 2017 (31 December 2016: TRY 8.790).

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SECTION V: EXPLANATION AND NOTES RELATED TO THE UNCONSOLIDATED 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
Domestic Branches	963	17.788			
Abroad Agencies	3	4	Teheran/IRAN London/ENGLAND		
Overseas Branches	5	28	Singapore/SINGAPORE Nicosia/TRNC Gazimagosa/TRNC Kyrenia/ TRNC Paşakoy/ TRNC Gonyeli/ TRNC	634.479 113.735 102.402 145 294.476	- - - - -
Off-shore Branches	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.

IX. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS

None.

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SECTION VI: OTHER EXPLANATIONS

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 plaintiff 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.

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SECTION VII: AUDITORS' REPORT

I. EXPLANATIONS ON THE AUDITORS' REPORT

The unconsolidated 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.