

H1 2016 Earnings Presentation

DISTINGUIS H ED
PROFIT A BLE
RESI L IENT
RIS K CONSCIOUS
RELIA B LE
SUST A INABLE
NATIO N WIDE
MAR K ETMAKER

Macro Outlook

- > FED left interest rates unchanged in Jul-16 meeting, emphasizing that near-term risks to the economic outlook have diminished and labor market is expected to be further strengthened going forward.
- > The dot plot of June meeting still suggests two rate hikes until year end, though the number of committee members expecting only one rate hike has increased.
- > UST 10Y yield has trended down below 1.5% in late Jun-16 on increasing concerns post-Brexit.
- > Britain voted in favor of leaving European Union and thus triggered global sell-offs on expectations that Brexit will have negative repercussions on global economic growth.
- > The BOE surprisingly decided to hold interest rates at 0.5% amid rate cut expectations for the first time in the last seven years.
- > The BOJ still discusses to implement helicopter money policy on top of the negative interest rate policy launched in early 2016.
- > Brent oil price has exceeded USD 50 per barrel in late Jun-16 then declined to USD 45 because of a slowdown expectation on global growth.
- > Turkish economy grew 4.8% in Q1-16 exceeding consensus, analyst's estimate on strong domestic spendings.
- > CBRT has cut the upper end of the corridor by another 25 bps down to 8.75%, extending total rate cut to 200 bps in 2016. The policy rate remained unchanged at 7.5%.
- > Monthly CPI posted an increase of 0.47% in Jun-16, food & beverages took the biggest toll by increasing 1.2% from the previous month. Headline CPI stands at 7.6% whereas core indexes H and I at 8.6% and 8.7% respectively.
- > Monthly inflation figure in Jul-16 is expected to be higher because of the price hike in the tobacco products.
- > Trade deficit in Jun-16 increased to USD 6.6 bn from USD 6.25 bn in Jun-15, widening for the first time since Jul-15 on increasing imports.
- > Cumulative CAD further down to USD 27.2 bn as of May-16, attributable to improving trade deficit.
- > Budget posted TRY 7.9 bn deficit in Jun-16, bringing 6-month cumulative surplus down to TRY 1.1 bn.
- > Unemployment rate improved to 9.3% in Apr-16.
- > The coup attempt by a small fraction within the military has failed on July 15 and the Turkish government introduced state of emergency for 3 months. Although some volatility in the market occurred in the short term, economic expectations for medium to long term are preserved to a greater extent.

Banking Sector Overview

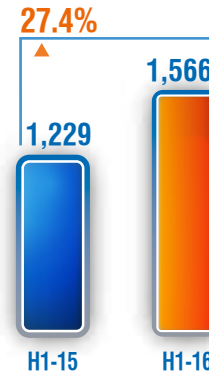
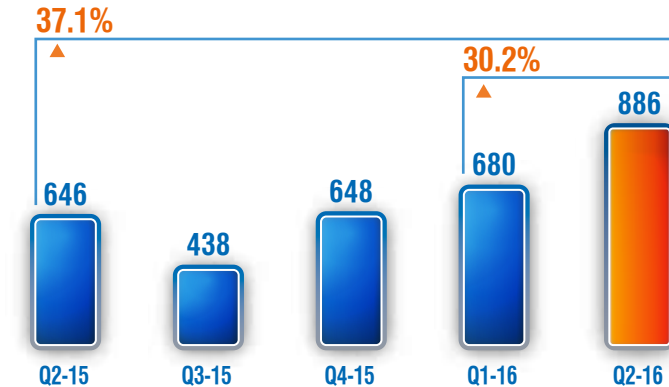
- > Total loans grew 3.8% QoQ and reached TRY 1,569 bn. TRY loans recorded 3.8% increase, growing faster than FX loans.
- > Credit card loans and housing loans grew 3.8% and 3.4% QoQ respectively, supporting 2.7% increase in the retail loan book.
- > Total deposits showed a moderate increase QoQ, up by 2.1%. Increase in TRY deposits was 4.6% whereas FX deposits shrank by 3.7%.
- > Blended L/D remained at elevated levels in May-16, 118.7%. TRY L/D at 139.5% and FX L/D at 90.4%.
- > NPL ratio remained flat at 3.3%, also supported by sell-offs, coverage ratio at 75.5%.
- > May-16 sectoral RoAE improved to 12.5%, supported by margin improvement and one-off gains.
- > Core spread and sectoral NIM positively affected by decreasing trend of deposit costs.
- > Trading income line was driven into the negative territory due to swap costs.
- > OpEx growth continued to cut pace, 8.3% YoY as of May-16.
- > C/I ratio improved to 43.6 %, OpEx/Avg. Assets at 2.1%.
- > Both CAR and Tier-1 remained solid, 15.5% and 13.2% respectively as of May-16.
- > CBRT increased short term repo volume to TRY 105 bn whereas effective funding cost decreased to 8.0%.
- > CBRT took measures to support liquidity in the banking system following failed coup attempt.
- > The Banks started to implement additional capital buffers for SIFIs depending on their significance for the overall banking system.
- > Capital Market Board lifted limitations on share buyback.

H1 2016 Highlights

- > Total net income reached **TRY 1,566 mn**, up by **27.4% YoY**. Record high quarterly net income of **TRY 886 mn** booked in the second quarter.
- > Profitability metrics picked up; RoE at **15.6%** and RoA at **1.6%**.
- > NIM flat at **3.9%**, missing CPI linkers' support but compensated with improving core spread.
- > Loan book up **4.7% QoQ**, driven by commercial segment loans.
- > NPL ratio flat at **3.0%**, no write-offs, no sell-offs.
- > CoR at **58 bps** better than yearly guidance. NPL coverage increased to **76.0%**.
- > Deposit base up **3.7% QoQ**, supported with demand deposit growth of **10.4% QoQ**.
- > CBRT repo effectively used, volume at **TRY 11.4 bn**.
- > L/D ratio at **106.5%**, reflecting comfortable liquidity position.
- > Record high quarterly net fees & commission income of **TRY 324 mn**, erasing the contraction in the Q1, bringing cumulative growth rate to **0.2% YoY**.
- > Lack of swap transactions resulted in positive trading line, **TRY 37 mn** in H1-16.
- > Cost control pays off, yearly OPEX growth cut pace to **12.0%**.
- > C/I ratio trended down to **45.6%** and OpEx/Avg. Assets remained flat at **2.0%**.
- > CAR and Tier-1 at **13.5%** and **12.8%** respectively, sustaining solid and efficient levels.
- > **USD 500 mn** eurobond successfully issued with a coupon rate of **5.0%**. First CEEMEA bond issuance post Brexit referendum with c. 225 investors participating and more than 4x over-subscription.
- > Syndicated loan rolled over in Jun-16, **EUR 477 mn & USD 175 mn** secured with a consortium of 33 banks from 16 countries.

Increasing profit boosting RoE 17.2% quarterly, 15.6% YtD

Net Income (TRY million)

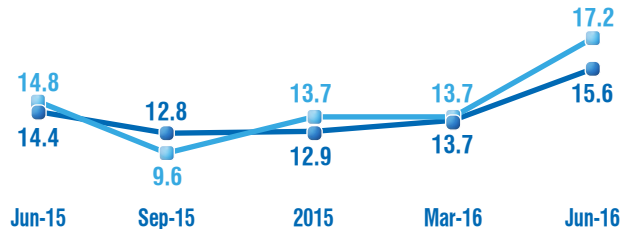


YoY Change (%)

- > 10.5% Net Interest Income
- > 0.2% Net Fees & Commissions
- > 1.4% Total Operating Income
- > 27.4% Net Income

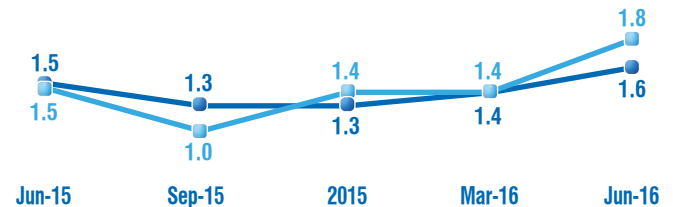
RoE (%)

—●— YtD —■— Quarterly



RoA (%)

—●— YtD —■— Quarterly

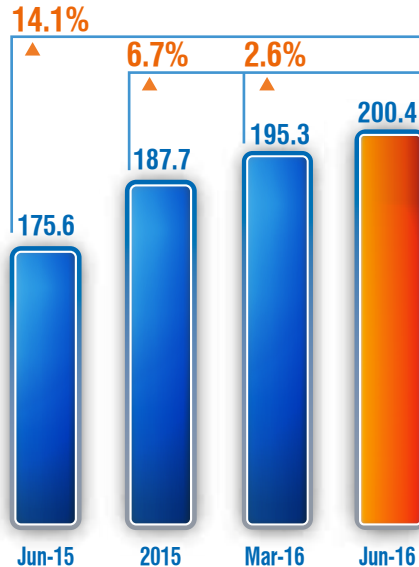


Loan driven asset growth 6.7% YtD

Asset Growth

YoY **14.1%** QoQ **2.6%**

Total Asset Growth (TRY billion)

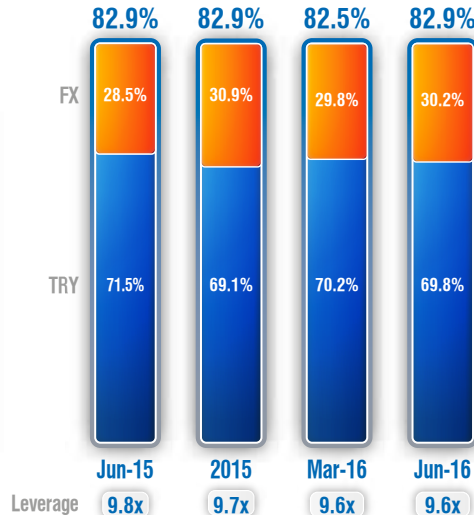


(a) Including interest accruals and excluding fund loans

IEA

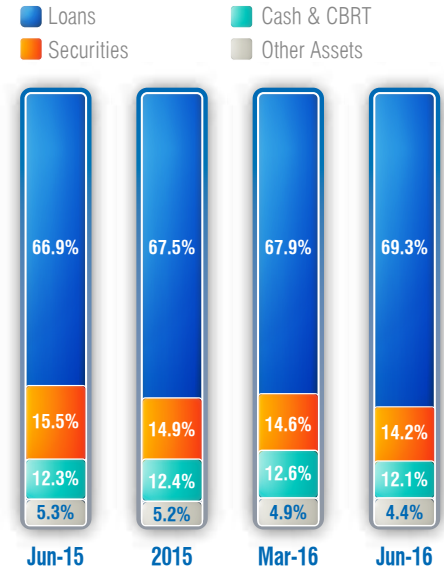
82.9%

Composition of IEAs^(a)



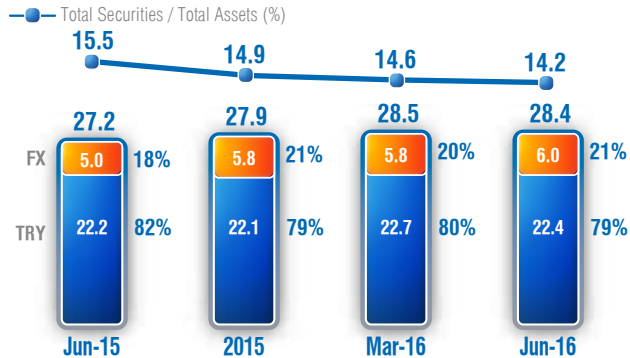
Securities Portion **14.2%**

Asset Mix (%)

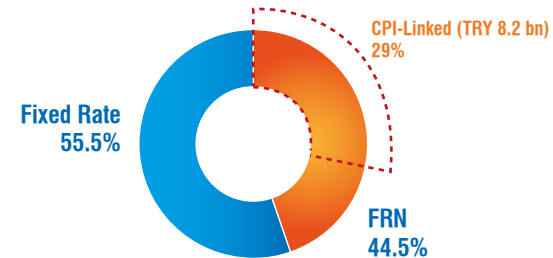


Securities portfolio well balanced and quite stable

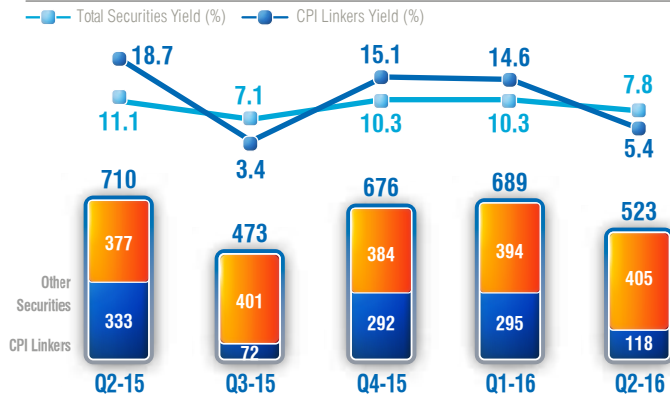
Total Securities Portfolio (TRY billion)



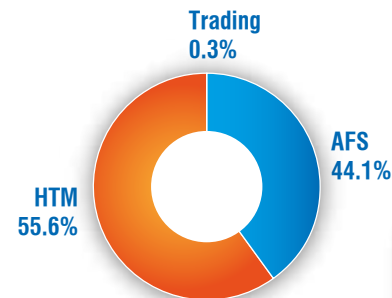
Interest Structure (%)



Interest Income on Securities (TRY million)



Securities Composition (%)



AFS MtM cumulative gain under SHE
TRY 94 mn

Solid loan growth, market share up to 8.7%

(TRY billion)^(a)

Total Loans

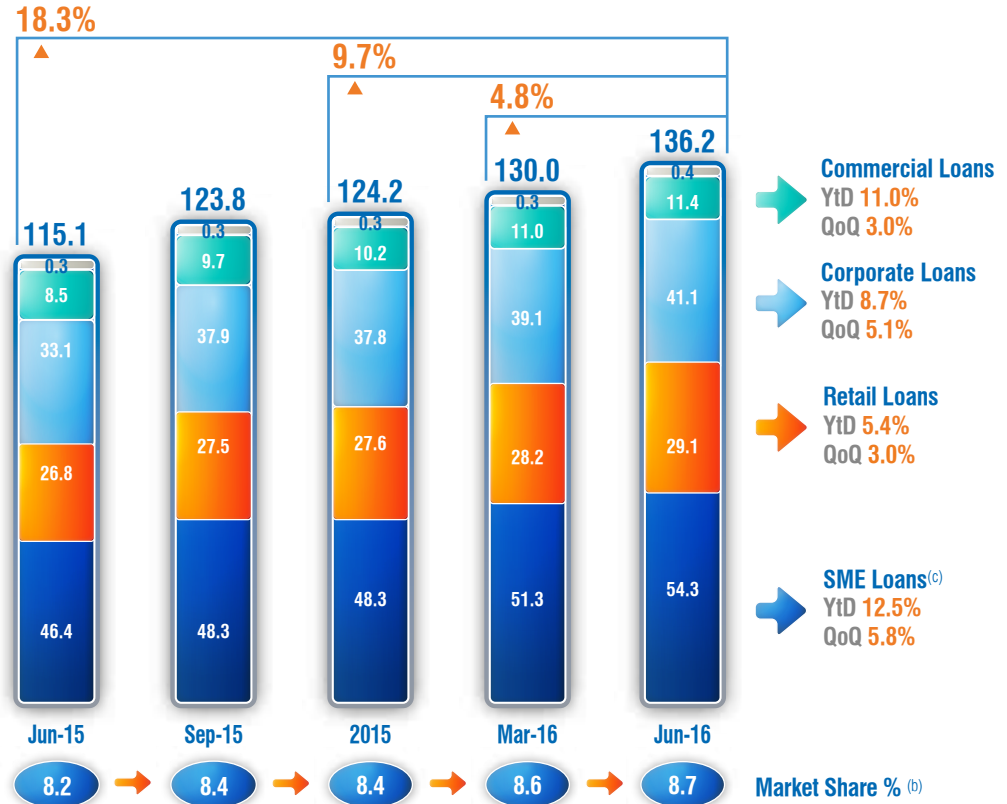
HALKBANK	B. Sector ^(b)
YtD 9.7%	YtD 5.7%
QoQ 4.8%	QoQ 3.8%

TRY Loans

HALKBANK	B. Sector ^(b)
YtD 9.6%	YtD 6.2%
QoQ 3.4%	QoQ 3.8%

FX Loans

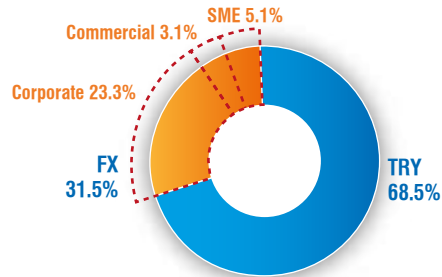
HALKBANK	B. Sector ^(b)
YtD 9.7%	YtD 4.6%
QoQ 7.9%	QoQ 3.7%
in USD terms	
YtD 10.6%	YtD 5.5%
QoQ 5.1%	QoQ 1.0%



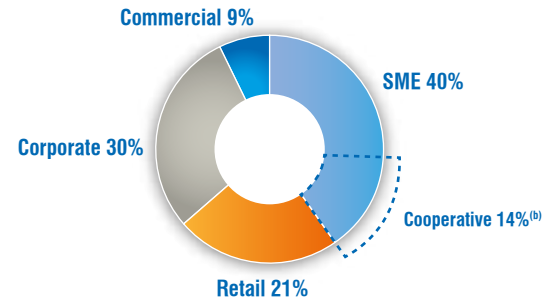
(a) Excluding interest accruals (b) BRSA daily data as of 30.06.2016 (c) According to the BRSA definition

TRY dominated loan book

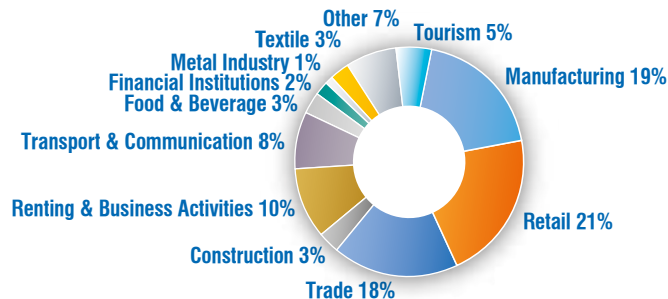
Loans by Currency (%)^(a)



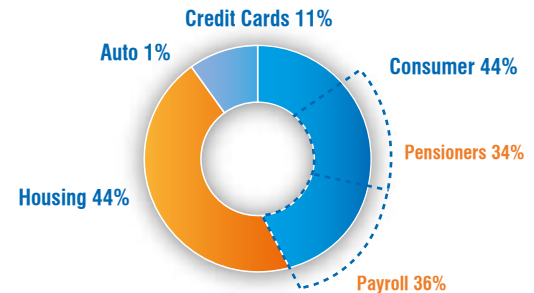
Loans by Customer Segmentation (%)^(a)



Sectoral Breakdown of Loans (%)^(a)



Retail Loans by Types (%)^(a)



(a) Excluding interest accruals (b) Micro SMEs

Steady market share in retail loans

(TRY billion)^(a)

HALKBANK

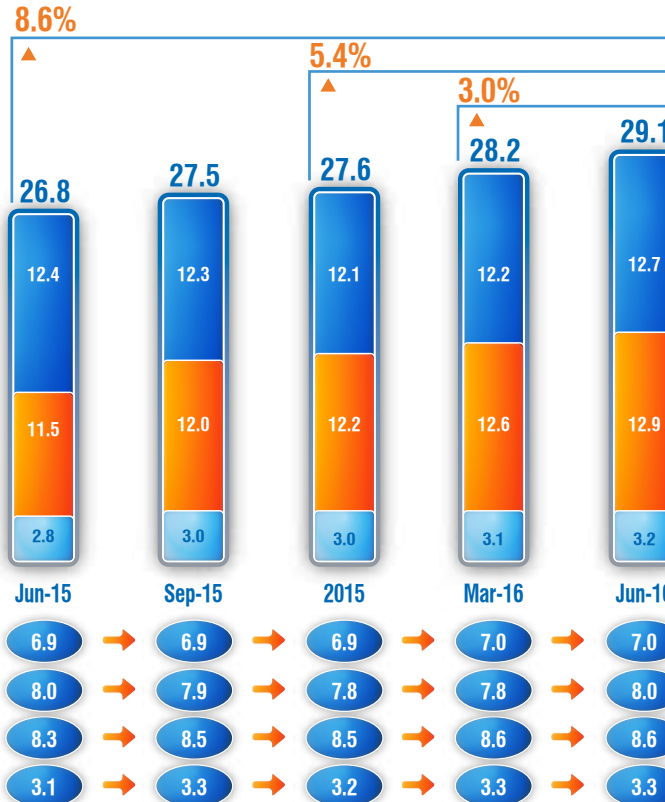
YtD
5.4%

QoQ
3.0%

B. Sector^(b)

YtD
2.9%

QoQ
1.9%



➔ **Consumer Loans**
YtD **4.8%**
QoQ **3.7%**
Share in total 43.6%

➔ **Housing Loans**
YtD **5.8%**
QoQ **2.4%**
Share in total 44.5%

➔ **Credit Cards**
YtD **5.4%**
QoQ **2.1%**
Share in total 11.1%

Retail Loans Market Share %

Consumer Loans Market Share %

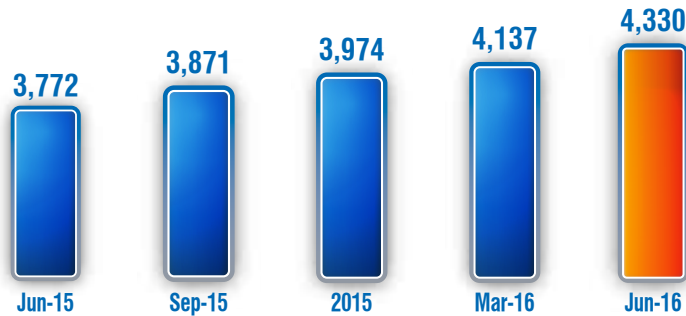
Housing Loans Market Share %

Credit Card Loans Market Share %

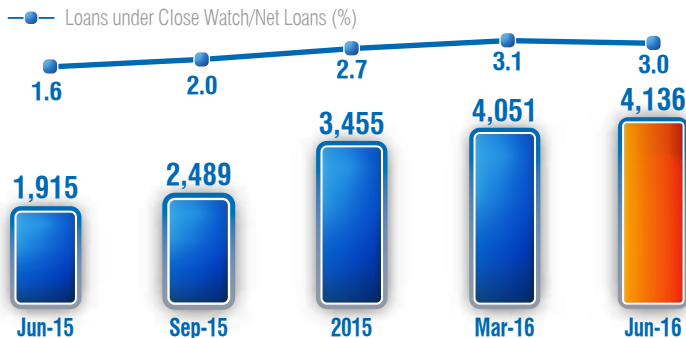
(a) Excluding interest accruals
(b) BRSA weekly data as of 24.06.2016

NPL stable at 3.0% and below sector average

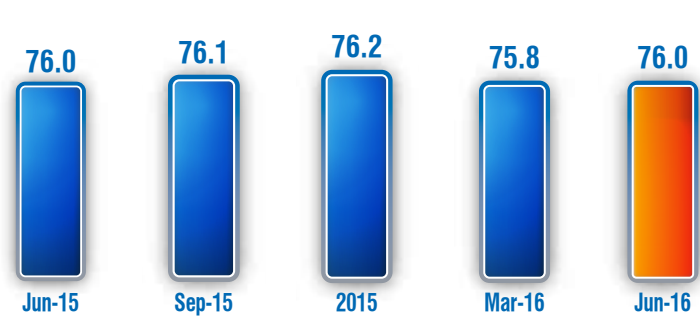
NPL Portfolio (TRY million)



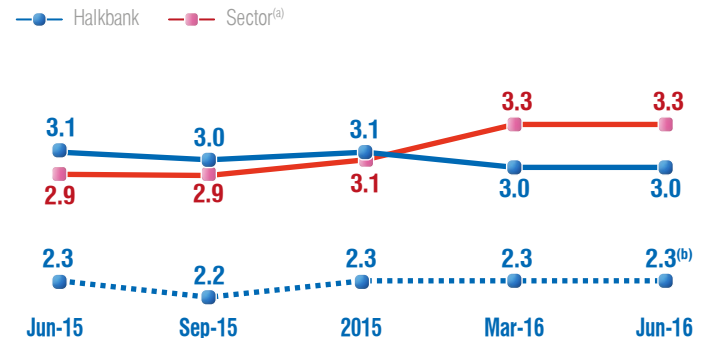
Loans under Close Watch (TRY million)



NPL Coverage (%)



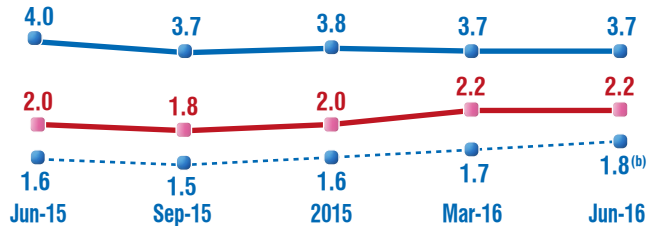
NPL/Total Loans (%)



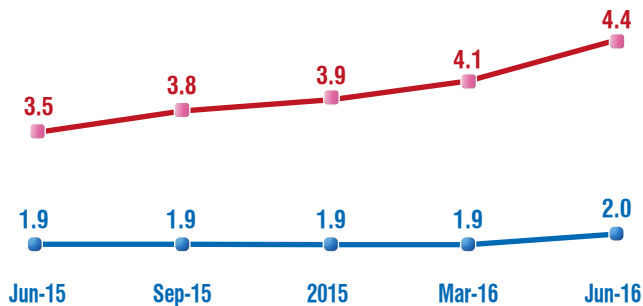
(a) BRSA daily data as of 30.06.2016 (b) Adjusted with one-off big ticket loan.

NPL ratio by segments

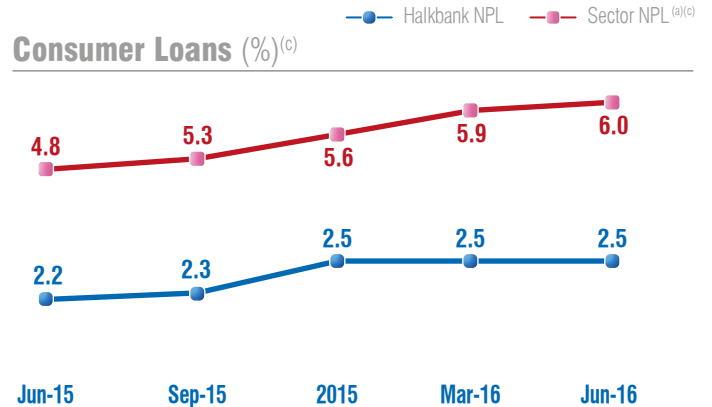
Corporate - Commercial (%)^(a)



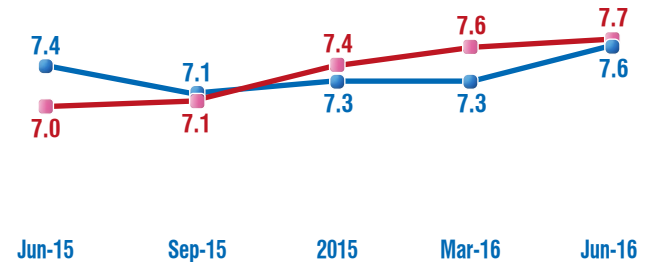
SME Loans (%)^(a)



Consumer Loans (%)^(c)



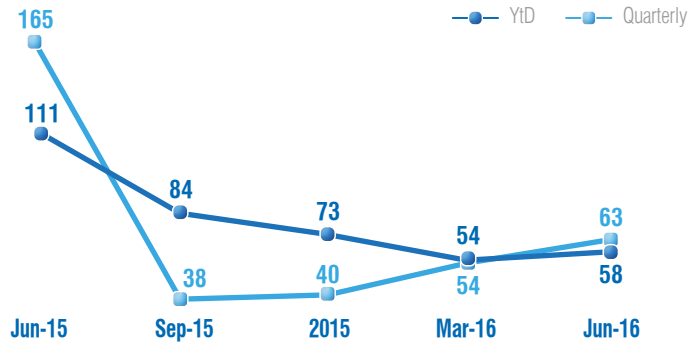
Credit Cards (%)^(c)



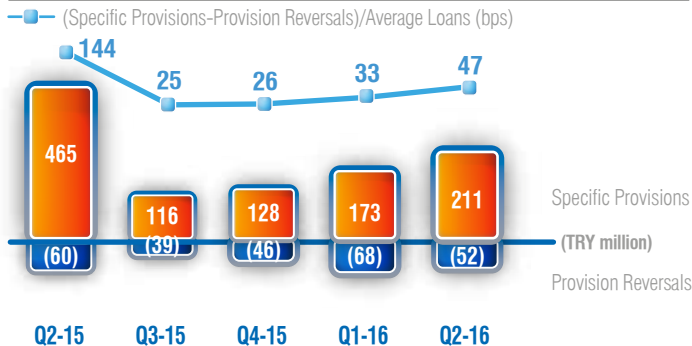
(a) BRSA monthly data as of May-16, Halkbank data excluding legacy NPLs (b) Adjusted with one-off big ticket corporate loan. (c) BRSA weekly data as of 24.06.2016

CoR resistant and in line with expectations

Cost of Risk (bps)^(a)

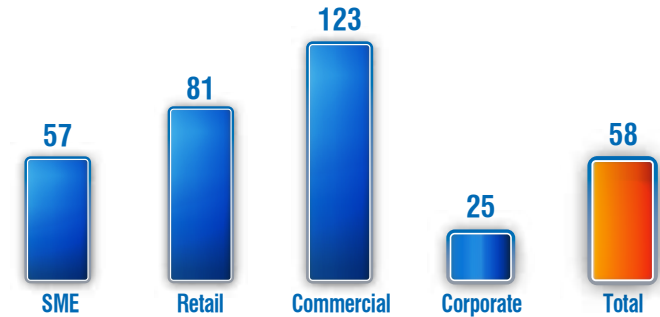


Net Cost of Risk

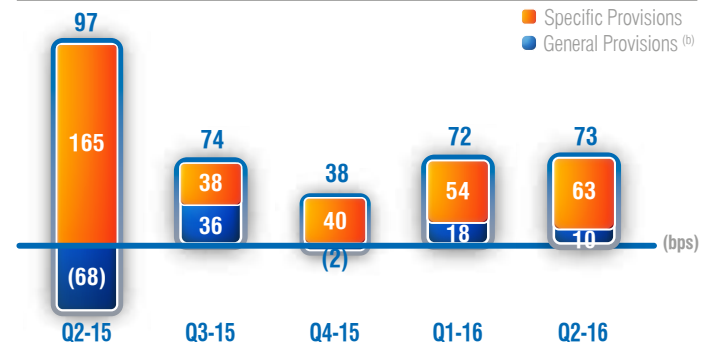


(a) Specific provisions/Average Net Loans (b) General Provisions of Cash Loans/Average Cash Loans

Cost of Risk by Segments (bps)^(a)



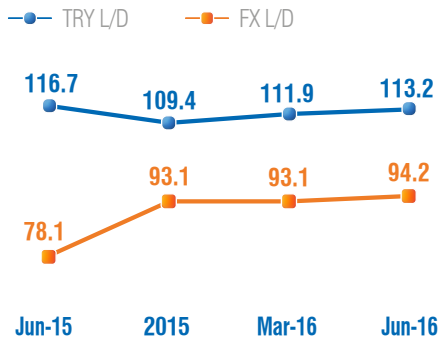
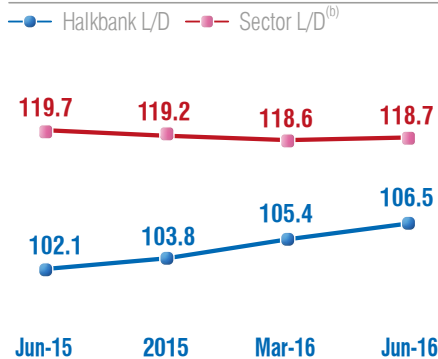
Gross Cost of Risk (bps)



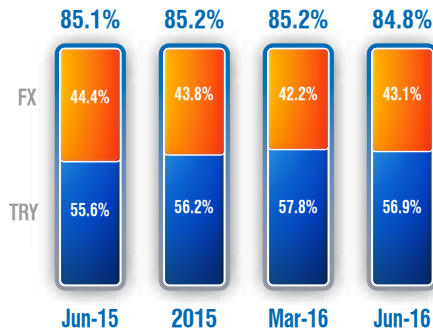
LDR preserved at comfortable level

IBL 84.8%^(a)

Loan to Deposit (%)

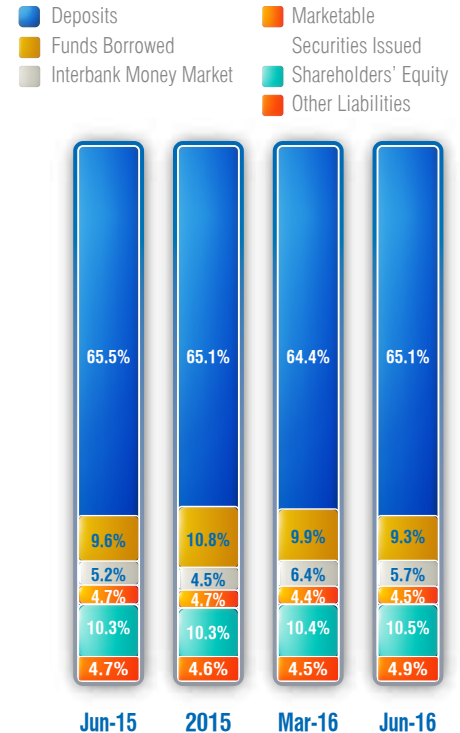


Composition of IBLs^(a)



- > Share of non-deposit short term FX borrowings in Total Liabilities 5.3%
- > Syndicated loan rolled over in Jun-16 and EUR 477 mn & USD 175 mn secured with a consortium of 33 banks from 16 countries. Cost of the facility is Libor + 85 bps/Euribor + 75 bps
- > USD 500 mn of 5-year Eurobond issuance with a coupon rate of 5.0%, first CEEMEA bond issuance post Brexit referendum, more than 4x over-subscription with c. 225 investors.

Liabilities Mix (%)



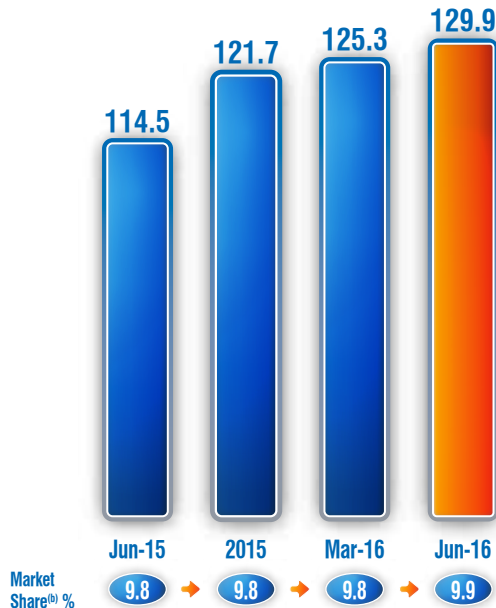
(a) Including interest accruals and excluding funds. Excluding demand deposit, the share of IBL is 75.2% in June-16.

(b) BRSA monthly data as of May-16.

Robust deposit growth 3.7% QoQ

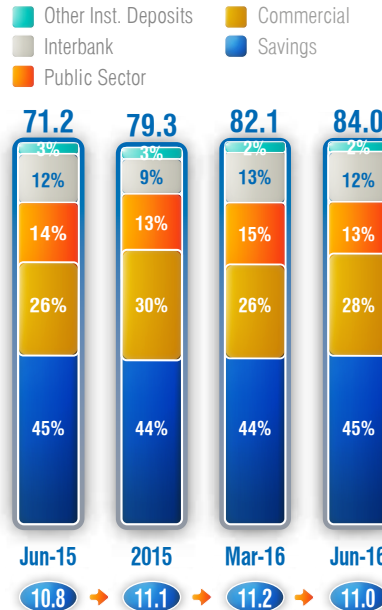
		HALKBANK	B. Sector^(b)
Total Dep.	YtD	6.8%	5.0%
	QoQ	3.7%	2.1%

Total Deposits (TRY billion)^(a)



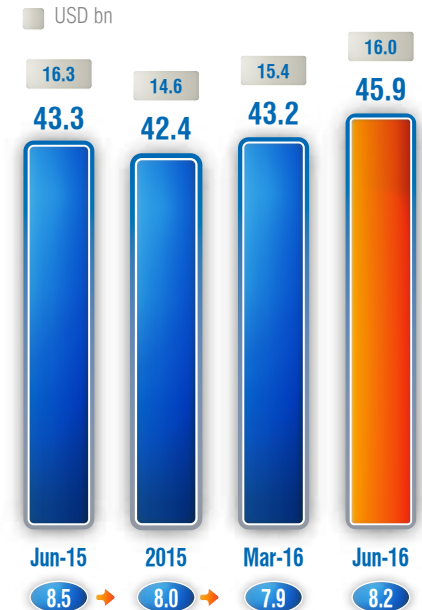
		HALKBANK	B. Sector^(b)
TRY Dep.	YtD	5.9%	7.3%
	QoQ	2.3%	4.6%

TRY Deposits (TRY billion)^(a)



		HALKBANK	B. Sector^(b)
FX Dep.	YtD	8.5%	2.2%
	QoQ	6.4%	-1.1%
in USD terms	YtD	9.4%	3.1%
	QoQ	3.6%	-3.7%

FX Deposits (TRY billion)^(a)

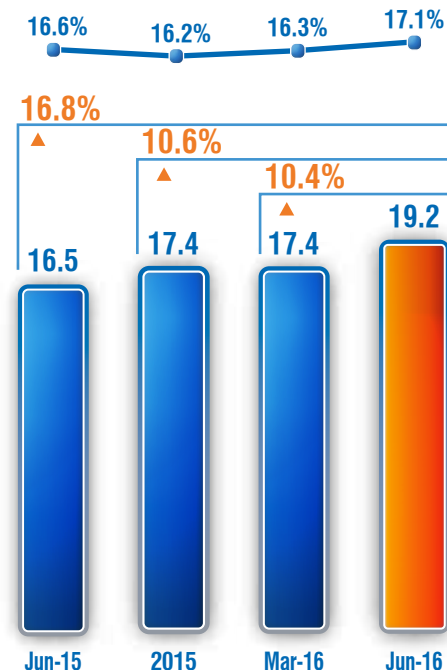


(a) Excluding interest accruals. (b) BRSA daily data as of 30.06.2016

Restrained cost of TRY deposits, improving 30 bps QoQ

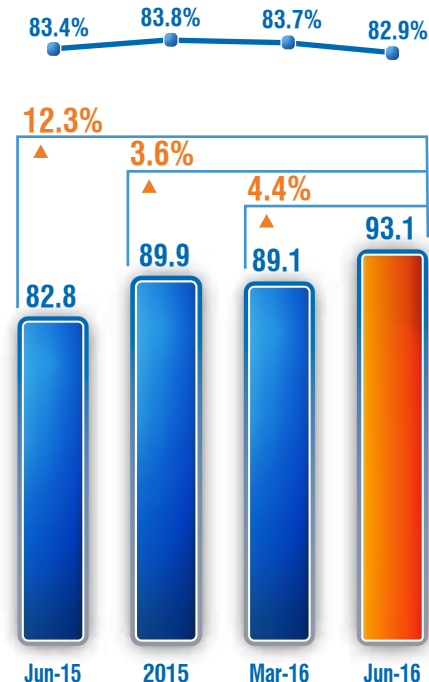
Demand Deposits (TRY billion)^(a)

—●— Demand Deposits/Total Deposits (%)



Time Deposits (TRY billion)^(a)

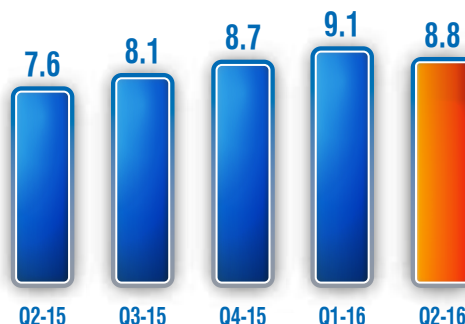
—●— Time Deposits/Total Deposits (%)



Deposits by Currency (%)



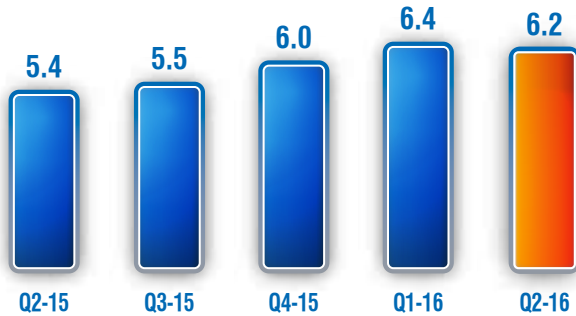
Cost of TRY Deposits (%)^(b)



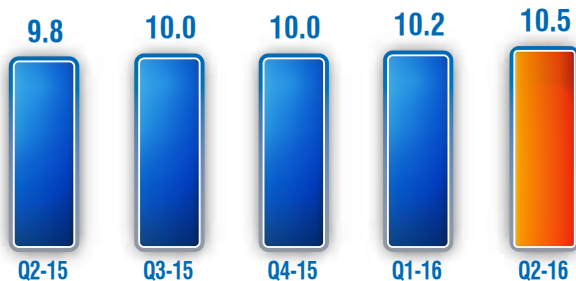
(a) Excluding interest accruals and interbank. (b) Time & Demand Blended.

Cost - Yield - Spread^(a)

Cost of Deposits (%)

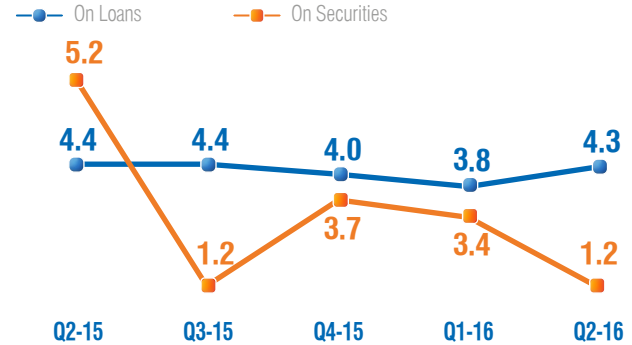


Yield on Loans (%)^(b)

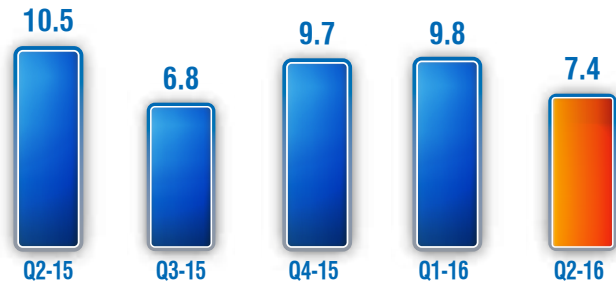


(a) TRY-FX blended (b) Excluding fund loans.

Spreads (%)



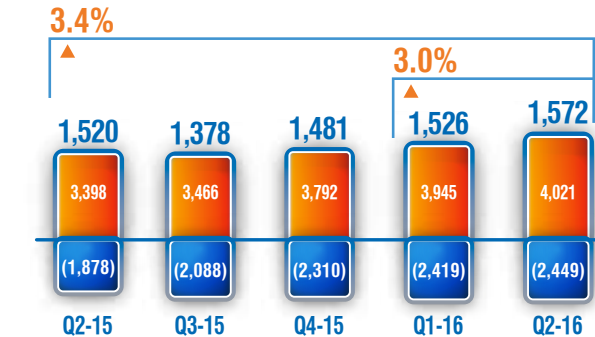
Yield on Securities (%)



NIM sustained at 3.9% thanks to the increasing interest income from loans

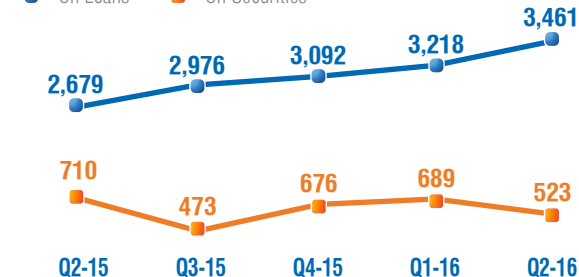
Net Interest Income (TRY million)

Interest Income Interest Expenses

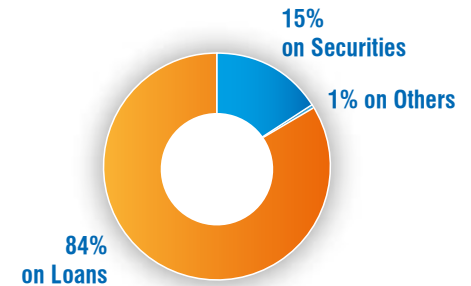


Interest Income (TRY million)

On Loans On Securities

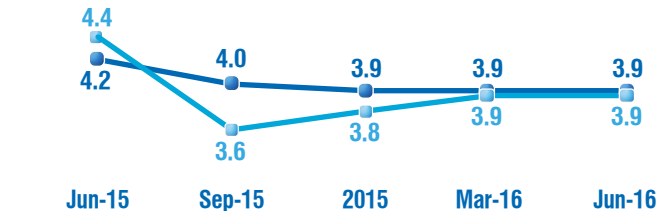


Breakdown of Interest Income (%)



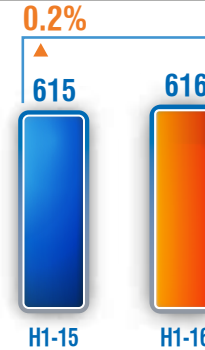
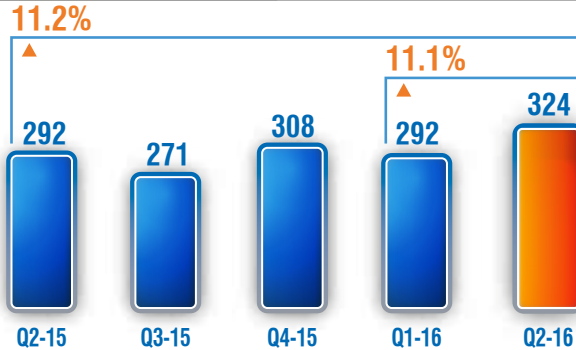
NIM (%)

YtD Quarterly

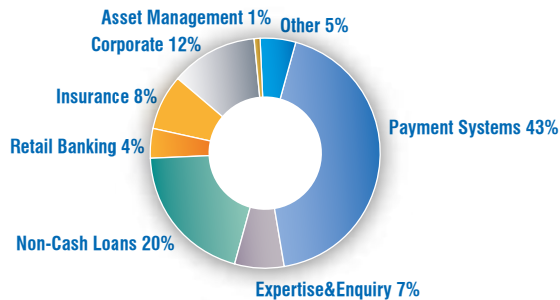


Net fees & commissions growth gained momentum: 11.1% QoQ

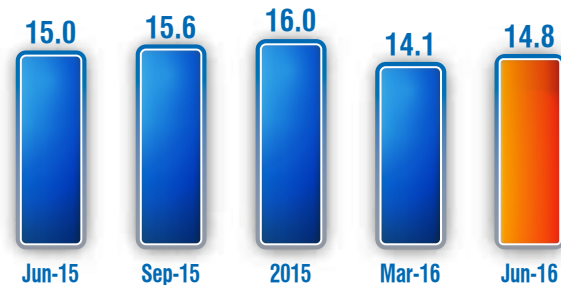
Net Fees & Commissions Income (TRY million)



Breakdown of Fees & Commissions (%)

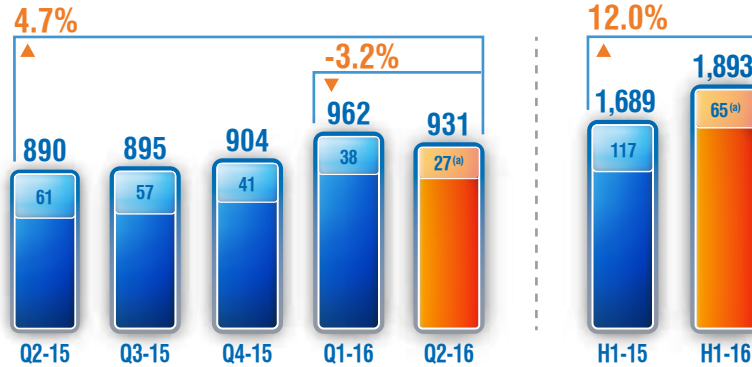


Net Fees & Commissions / Operating Revenues (%)

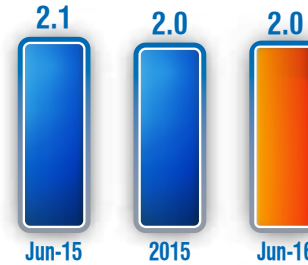


Opex under control: 12.0% YoY

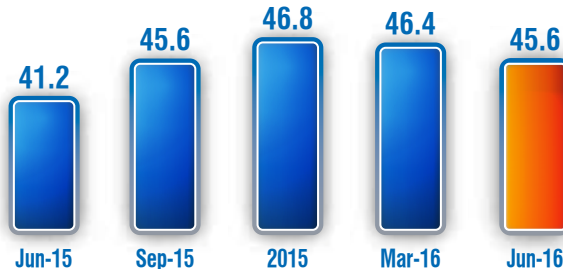
Operating Expenses (TRY million)



Operating Expenses / Average Assets (%)

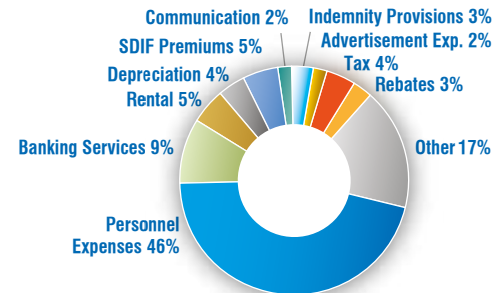


Cost/Income (%)



(a) Rebates in commissions

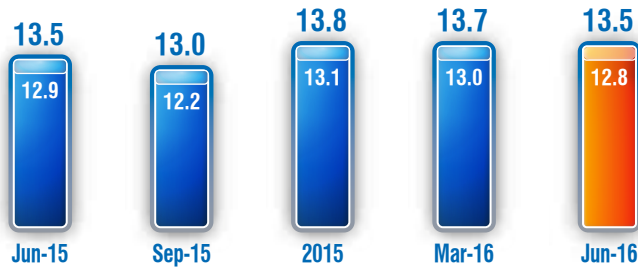
Breakdown of Operating Expenses (%)



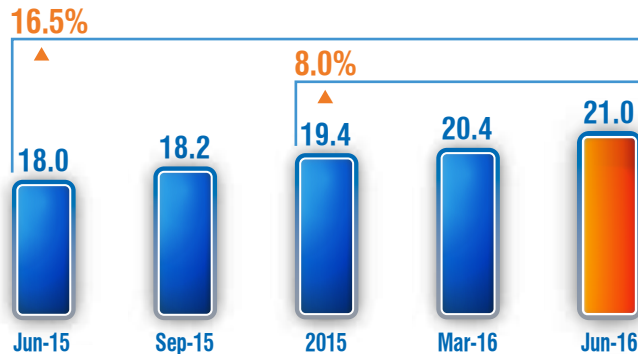
Solvency Ratios

CAR (%)

■ Tier-I ■ CAR



SHE (TRY billion)



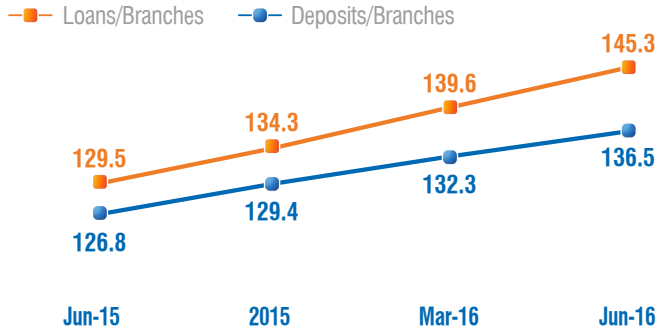
Details on Capital Ratio

(TRY mn)	Basel III H1-16
Credit Risk Base Amount (CRBA)	145,929
Market Risk Base Amount (MRBA)	5,118
Operational Risk Base Amount (ORBA)	11,297
Total Risk Weighted Assets (RWAs)	162,345
Shareholders' Equity	21,954
CAR (%)	13.5
Tier-I (%)	12.8
Common Equity Tier-I (%)	12.9

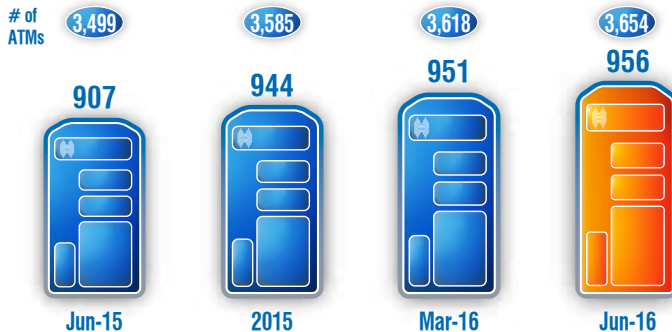
Additional capital buffer for SIFIs kicked in as of Apr-16. Due to being classified under G1, Halkbank has to implement an additional buffer of 0.25%.

Branch Network – Human Resources

Loans and Deposits per Branches (%)

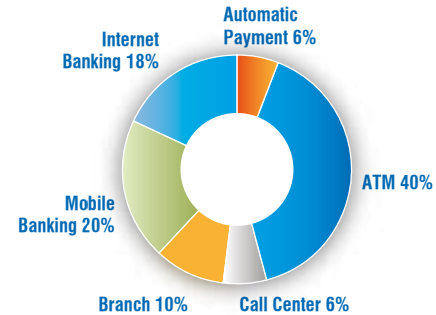


Branches^(a)

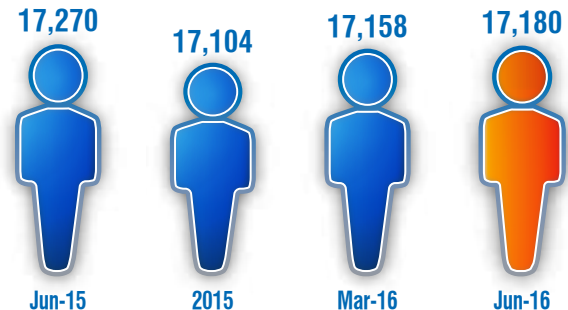


(a) Including domestic branches and special transaction centers.

Breakdown of Banking Transactions (%)



Headcount



Balance Sheet

In TRY million	H1-15	2015	Q1-16	H1-16	QoQ Change%	YtD Change%	YoY Change%
Cash and Balances Held with the Central Bank ^(a)	21,515	23,325	24,642	24,236	(1.6)	3.9	12.6
Banks & Money Market ^(b)	2,468	2,513	1,987	852	(57.1)	(66.1)	(65.5)
Securities ^(b)	27,194	27,908	28,467	28,433	(0.1)	1.9	4.6
Net Loans ^(b)	117,460	126,745	132,720	138,917	4.7	9.6	18.3
Gross NPL	3,772	3,974	4,137	4,330	4.7	9.0	14.8
NPL Net	903	946	1,003	1,038	3.4	9.7	14.8
Property and Equipment	2,297	2,176	2,196	2,213	0.8	1.7	(3.7)
Other Assets	4,673	5,062	5,317	5,726	7.7	13.1	22.5
Total Assets	175,608	187,729	195,328	200,377	2.6	6.7	14.1
Deposits ^(b)	114,989	122,146	125,862	130,470	3.7	6.8	13.5
Funds Borrowed ^(b)	16,836	20,262	19,398	18,711	(3.5)	(7.7)	11.1
Interbank Money Market ^(b)	9,208	8,410	12,413	11,381	(8.3)	35.3	23.6
Marketable Securities Issued	8,238	8,905	8,552	8,922	4.3	0.2	8.3
Funds	1,790	1,964	1,973	2,050	3.9	4.4	14.5
Other Liabilities	4,442	4,489	4,559	5,702	25.1	27.0	28.4
Provisions	2,099	2,129	2,174	2,159	(0.7)	1.4	2.9
Shareholders' Equity	18,005	19,424	20,396	20,981	2.9	8.0	16.5
Total Liabilities	175,608	187,729	195,328	200,377	2.6	6.7	14.1

(a) Reserve deposits monitored in balance with Central Bank

(b) Including interest accruals

Income Statement

In TRY million	H1-15	H1-16	YoY Change %	Q2-15	Q1-16	Q2-16	QoQ Change %	YoY Change %
Interest Income	6,399	7,966	24.5	3,398	3,945	4,021	1.9	18.3
On Loans	5,189	6,679	28.7	2,679	3,218	3,461	7.5	29.2
On Securities	1,192	1,212	1.7	710	689	523	(24.0)	(26.3)
Interest Expense	3,596	4,868	35.4	1,878	2,419	2,449	1.2	30.4
On Deposits	2,896	4,005	38.3	1,501	2,004	2,002	(0.1)	33.4
Net Interest Income	2,803	3,098	10.5	1,520	1,526	1,572	3.0	3.4
Net Fees and Commissions	615	616	0.2	292	292	324	11.1	11.2
Net Trading Income	(27)	37	N/A	(48)	21	16	(21.3)	N/A
Other Operating Income	707	403	(43.0)	528	232	171	(26.4)	(67.7)
Reversal of Loan Loss Provisions	146	120	(17.9)	60	68	52	(22.9)	(12.5)
Total Operating Revenues	4,097	4,154	1.4	2,292	2,071	2,083	0.6	(9.1)
Operating Expenses	1,689	1,893	12.0	890	962	931	(3.2)	4.7
Net Operating Income	2,408	2,261	(6.1)	1,403	1,109	1,152	3.9	(17.9)
Provision for Loan Losses and Other Receivables	1,093	540	(50.6)	838	271	269	(0.9)	(67.9)
Loan Loss Provisions for Cash Loans	600	385	(35.9)	465	173	211	21.8	(54.6)
Profit/(Losses) from Associates	189	196	4.0	189	0	196	N/A	4.0
Income Before Taxes	1,504	1,918	27.6	753	838	1,080	28.8	43.3
Provision for Tax	274	352	28.4	108	158	194	22.8	80.4
Net Income	1,229	1,566	27.4	646	680	886	30.2	37.1

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