

Q3 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 has taken a pass on Sep-16 rate hike, waiting for further evidence of economic progress towards its objectives. The economy added 156k new jobs in September while the unemployment rate somewhat increased to 5.0%.
- > The dot plot of Sep-16 meeting draws a more dovish picture compared to Jun-16 plot, the median FOMC member has seen rates between 0.50%-0.75%, signaling one rate hike until year-end.
- > UST 10Y yield has inched up to 1.8% on growing expectations that the FED would continue to increase interest rates before year-end.
- > As we come closer to the expiration of the economic stimulus program, ECB officials decided to keep QE unchanged, leaving question marks on whether bond purchases will be extended further or whether tapering will commence.
- > Chinese economy grew 6.7% in Q3-16, in line with yearly target of 6.5% - 7.0%.
- > The BOJ has not taken any further steps to expand its QE policy, kept its short term interest rate at -0.1%.
- > Brent oil price has exceeded USD 50 per barrel because of the expectation that a potential OPEC supply cut becomes a greater possibility.
- > Turkish GDP grew 3.1% in Q2-16, lower than expectations, missing export contribution and industrial investments, H1-16 GDP growth at 3.9%
- > CBRT kept O/N lending rate unchanged at 8.25% in Oct-16. Cumulative rate cut since Mar-16 stands at 225 bps.
- > Headline CPI dipped from 8.05% to 7.28% in Sep-16 as food & beverages continued to be supportive. Monthly CPI showed an increase of 0.18%.
- > Sep-16 trade deficit fell to USD 4.4 bn, down by 8.4% MoM, the export-import ratio improved to 71.5%.
- > Cumulative CAD somewhat rose to USD 31.0 bn in Aug-16 from USD 28.9 bn in Jul-16, due to the declining income from tourism and exports.
- > Budget posted TRY 16.9 bn loss in Sep-16, bringing cumulative loss to TRY 12.0 bn.
- > Unemployment rate materialized at 10.7% in Jul-16.
- > Moody's has downgraded the government of Turkey's long-term issuer rating to Ba1 from Baa3 and assigned a stable outlook.
- > The medium term programme covering 2017-2019 period was announced:

MTP 2016 - 2019	2016	2017	2018	2019
GDP Growth	3.2%	4.4%	5.0%	5.0%
CPI	7.5%	6.5%	5.0%	5.0%
CAD / GDP	-4.3%	-4.2%	-3.9%	-3.5%
Unemployment	10.5%	10.2%	10.1%	9.8%
Total Saving / GDP	13.5%	14.6%	15.5%	16.0%

Banking Sector Overview

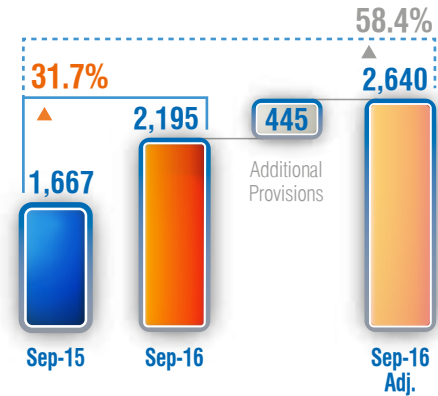
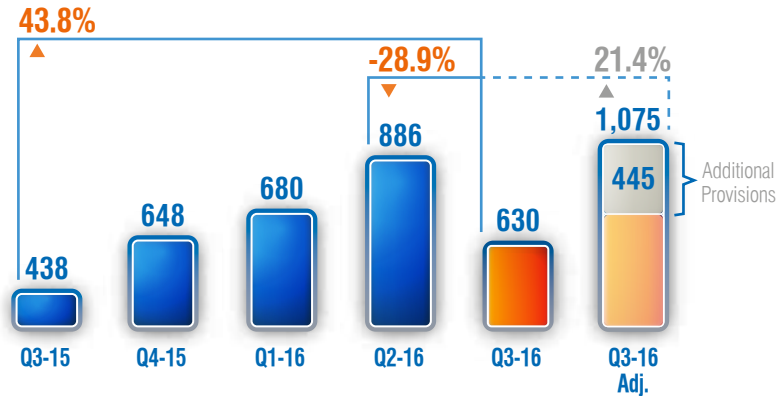
- > Total loan book increased 2.6% QoQ reaching TRY 1,626 bn. TRY loans showed 1.2% increase, growing less than FX loans which was also supported with currency depreciation.
- > Credit card loans and housing loans rose by 3.7% and 2.2% respectively, leading retail loan book to increase 2.6%.
- > Total deposits grew by 2.3% QoQ. Increase in TRY deposits was 6.7% compensating FX deposits shrinking by 3.6%.
- > Blended L/D continued to increase, 120.2% as of Aug-16. TRY L/D at 136.0% and FX L/D at 96.4%.
- > NPL ratio flat at 3.3%, coverage ratio at 76.0%.
- > Aug-16 sectoral RoAE touched 14.4%, backed by improving spreads and cost management.
- > Decreasing deposit costs reflected into core spread improvement, sectoral NIM positively effected.
- > Trading income line continued to take toll on the bottom line.
- > OpEx growth slowed down further, 4.2% YoY as of Aug-16.
- > C/I ratio improved to 41.0 %, OpEx/Avg. Assets flat at 2.1%.
- > Both CAR and Tier-1 strengthened, 16.0% and 13.7% respectively as of Aug-16.
- > CBRT short term repo volume at TRY 91 bn whereas effective funding cost decreased to 7.7%.
- > BRSA released a new set of regulations on retail lending:
 - Generic provisions for retail loans are cut back to 1% for G1 and 2% for G2 loans whereas those for rescheduled loans are also downed to 1% and 2% from the previous 5%.
 - Overdue amount of consumer loans and credit cards are allowed to be restructured up to 72 months.
 - Instalment cap of 9 months in credit card loans are extended to 12 months.

September 2016 Highlights

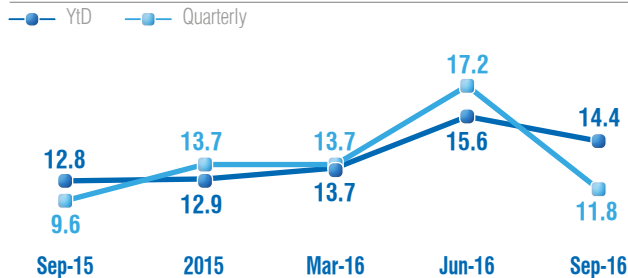
- > Total net income has reached TRY 2,195 mn as of Sep-16, up by 31.7% from the previous year.
- > YtD RoE at 14.4% and RoA at 1.5%.
- > Quarterly NIM improved ~50 bps to 4.4% level thanks to the rising core spread and CPI linkers' yield.
- > Loan growth at 14.1% YtD and 4.1% QoQ, mainly driven by corporate loans.
- > Asset quality remained solid. NPL ratio is below sector average at 3.1% without any write-offs/sell-offs.
- > CoR still below yearly guidance at 59 bps. NPL coverage at 75.1%.
- > Deposit growth exceeded loan growth, up 5.5% QoQ with lower TRY deposit pricing.
- > Comfortable liquidity position maintained, L/D ratio at 105.1%.
- > Low cost CBRT repo continued to be effectively used, volume at TRY 13.8 bn.
- > Net fees & commission income rises more, quarterly TRY 344 mn income. Cumulative growth rate reached 8.4% YoY.
- > Positive trading line, cumulative amount TRY 99 mn.
- > Rebates are fading away, OpEx is under control. Yearly growth rate decreased to 8.4%.
- > C/I ratio came down to 43.0%, OpEx/Av. Assets at 1.9%.
- > CAR and Tier-I maintained their solid and efficient levels at 13.5% and 12.6% respectively.

Total net income up 31.7% YoY, supported by strong NII

Net Income (TRY million)



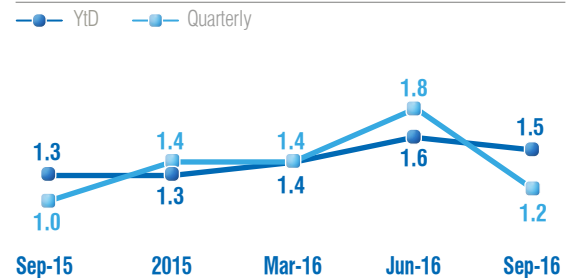
RoE (%)



Adj. RoE^(a)
 Sep.16 17.1
 Q3-16 20.0

Adj. RoA^(a)
 Sep.16 1.8
 Q3-16 2.1

RoA (%)



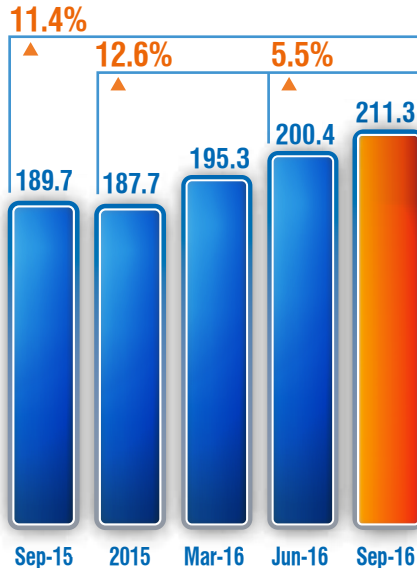
(a) Excluding additional provision expenses

Robust asset growth, rising 5.5% QoQ

Asset Growth

YtD **12.6%** QoQ **5.5%**

Total Asset Growth (TRY billion)

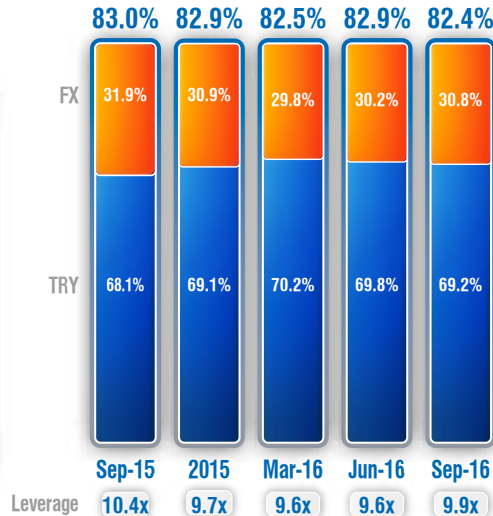


(a) Including interest accruals and excluding fund loans

IEA

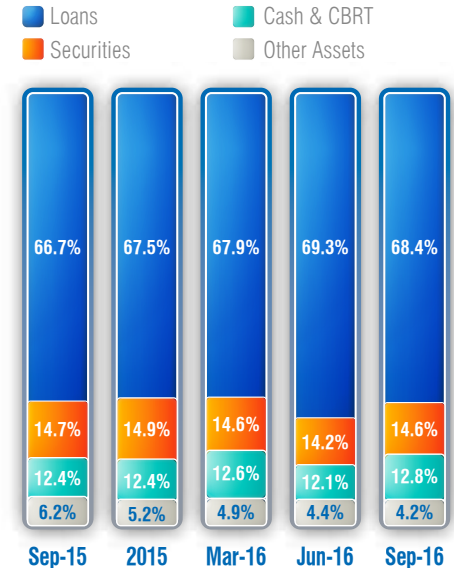
82.4%

Composition of IEAs^(a)



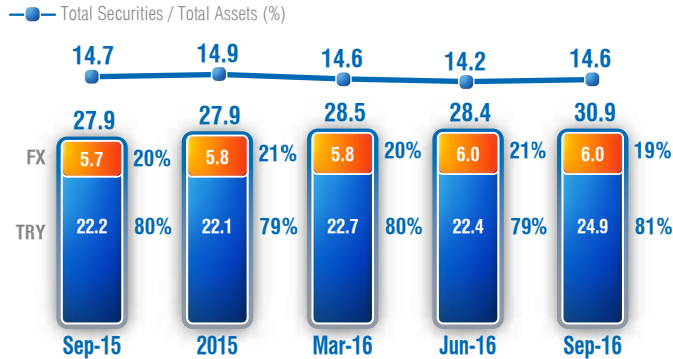
Securities Portion **14.6%**

Asset Mix (%)

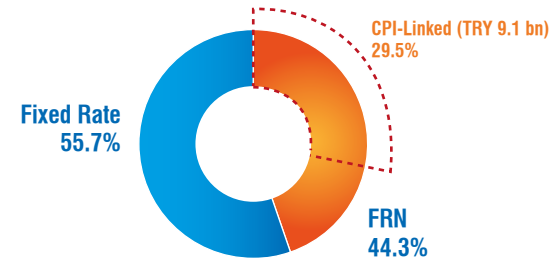


Growing securities portfolio accompanied by high yields of CPI linkers

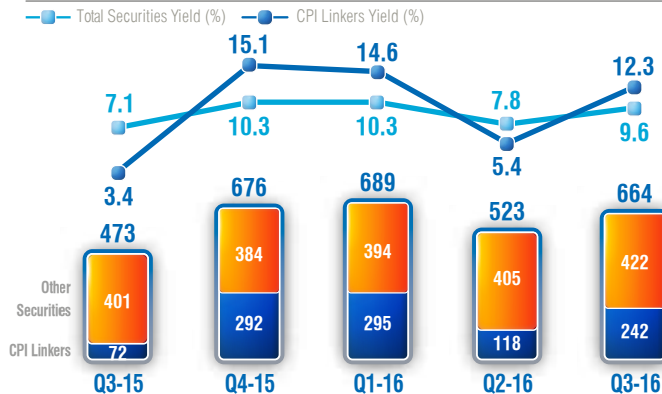
Total Securities Portfolio (TRY billion)



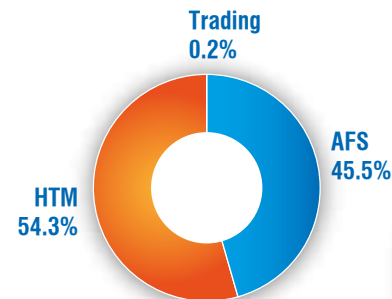
Interest Structure (%)



Interest Income on Securities (TRY million)



Securities Composition (%)



AFS MtM cumulative
loss under SHE
TRY 87 mn

Solid loan growth of 3.9% QoQ, bringing cumulative growth in line with the budget (TRY billion)^(a)

Total Loans

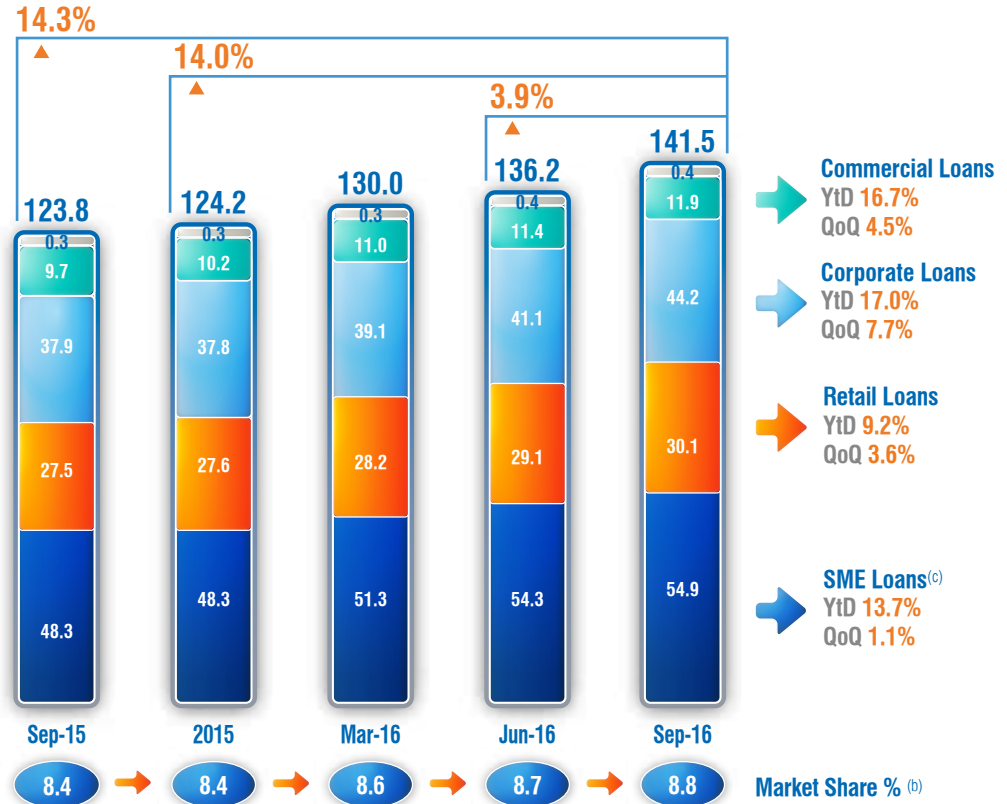
HALKBANK	B. Sector ^(b)
YtD 14.0%	YtD 8.4%
QoQ 3.9%	QoQ 2.6%

TRY Loans

HALKBANK	B. Sector ^(b)
YtD 11.9%	YtD 7.4%
QoQ 2.0%	QoQ 1.2%

FX Loans

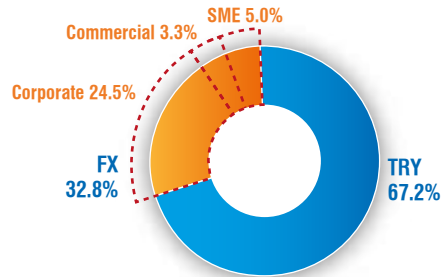
HALKBANK	B. Sector ^(b)
YtD 18.5%	YtD 10.3%
QoQ 8.0%	QoQ 5.5%
in USD terms	
YtD 15.3%	YtD 7.4%
QoQ 4.2%	QoQ 1.8%



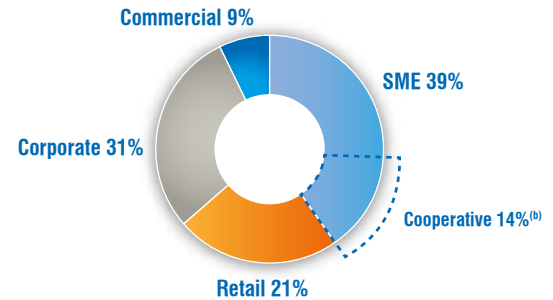
(a) Excluding interest accruals (b) BRSA daily data as of 30.09.2016 (c) According to the BRSA definition

Well-balanced loan portfolio with efficient segmentation

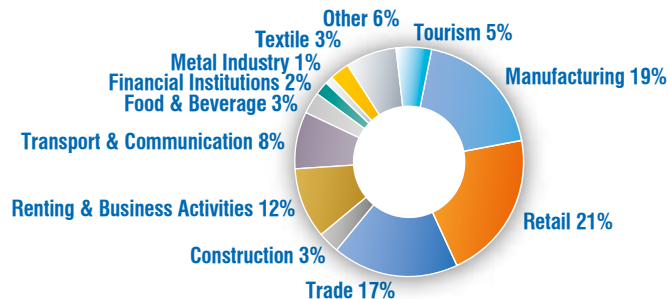
Loans by Currency (%)^(a)



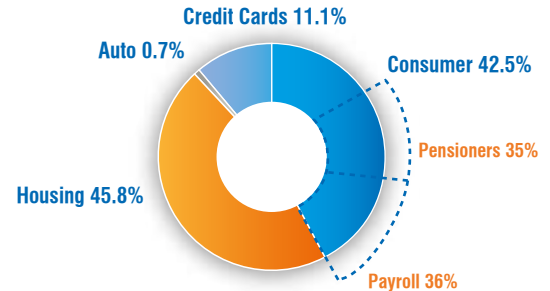
Loans by Customer Segmentation (%)^(a)



Sectoral Breakdown of Loans (%)^(a)



Retail Loans by Types (%)^(a)



(a) Excluding interest accruals (b) Micro SMEs

Retail loan growth supported by secured mortgage loans

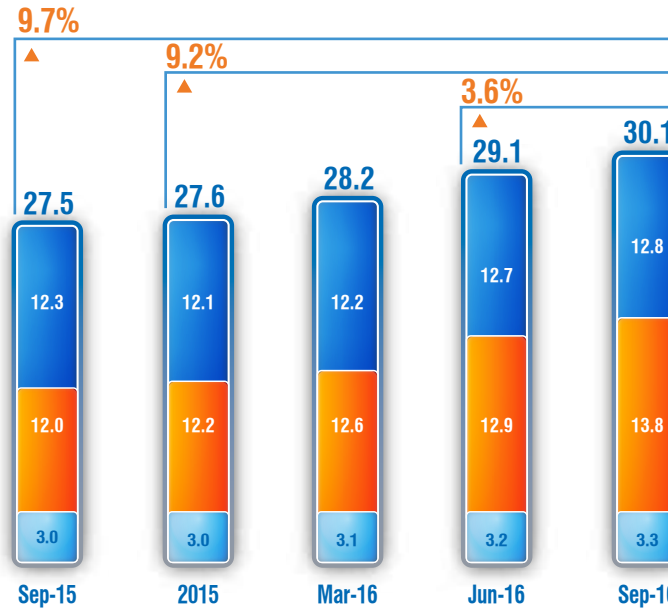
(TRY billion)^(a)

HALKBANK

YtD
9.2%
QoQ
3.6%

B. Sector^(b)

YtD
5.1%
QoQ
1.4%



Consumer Loans

YtD **5.6%**
QoQ **0.8%**
Share in total 42.5%



Housing Loans

YtD **12.7%**
QoQ **6.5%**
Share in total 45.8%



Credit Cards

YtD **9.2%**
QoQ **3.6%**
Share in total 11.1%

Retail Loans Market Share %



Consumer Loans Market Share %



Housing Loans Market Share %



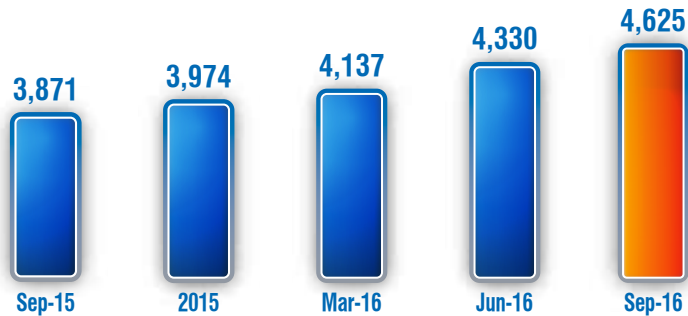
Credit Card Loans Market Share %



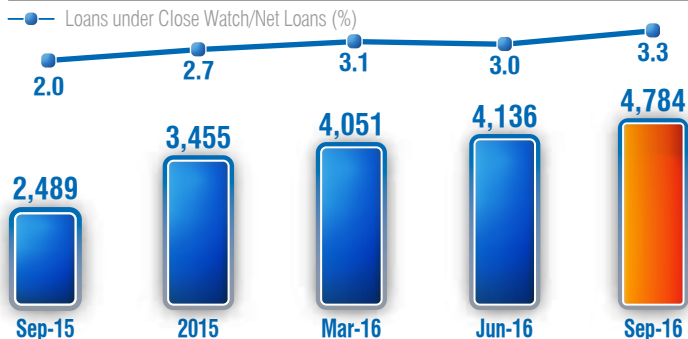
(a) Excluding interest accruals
(b) BRSB weekly data as of 30.09.2016

Restrained NPL ratio below sector average, no write-off/no sell-off

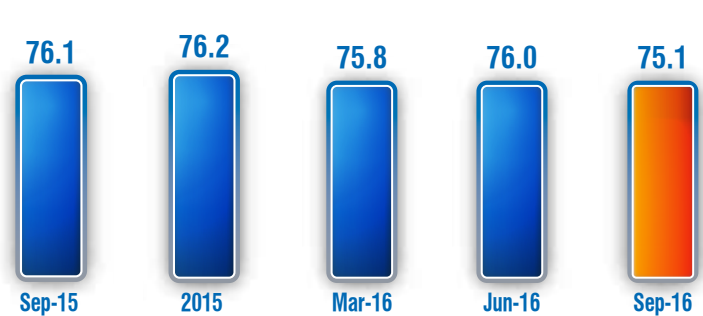
NPL Portfolio (TRY million)



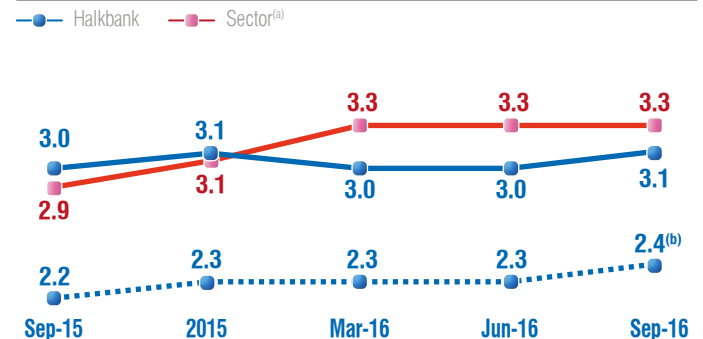
Loans under Close Watch (TRY million)



NPL Coverage (%)



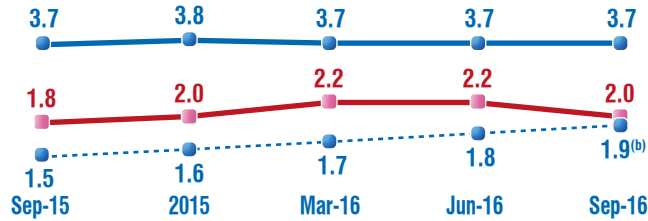
NPL/Total Loans (%)



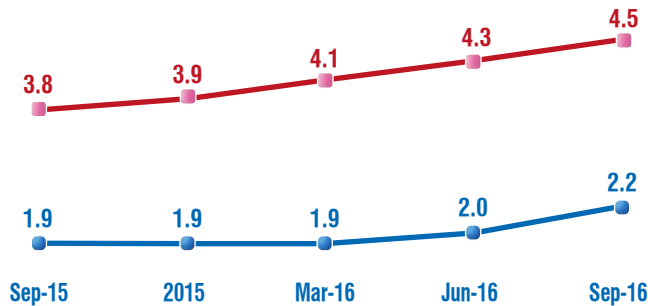
(a) BRSA daily data as of 30.09.2016 (b) Adjusted with one-off big ticket loan.

NPL ratio by segments

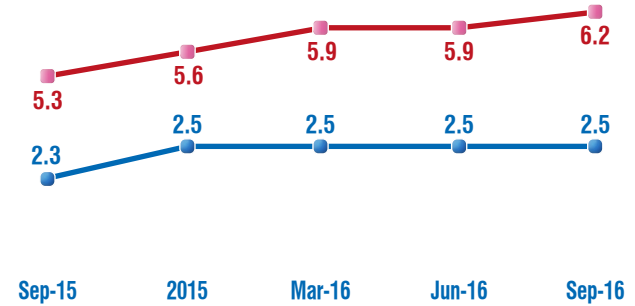
Corporate - Commercial (%)^(a)



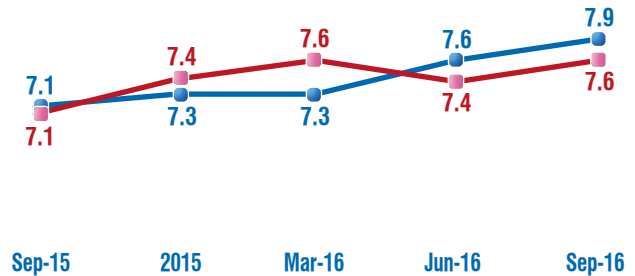
SME Loans (%)^(a)



Consumer Loans (%)^(a)



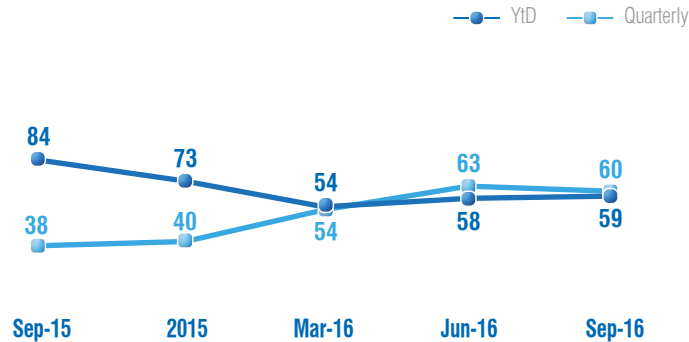
Credit Cards (%)^(c)



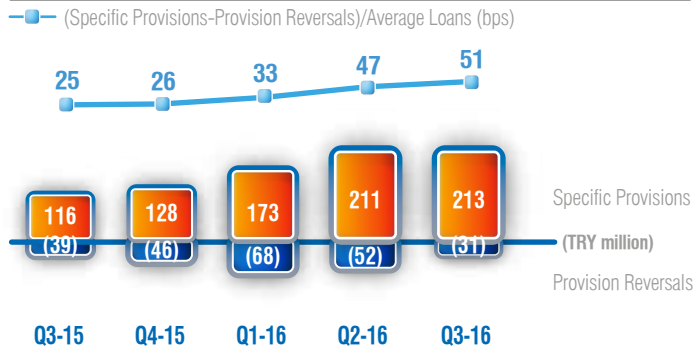
(a) BRSA monthly data as of Aug-16, Halkbank data excluding legacy NPLs (b) Adjusted with one-off big ticket corporate loan. (c) BRSA weekly data as of 30.09.2016

CoR completely in line with the budget, 59 bps YtD

Cost of Risk (bps)^(a)

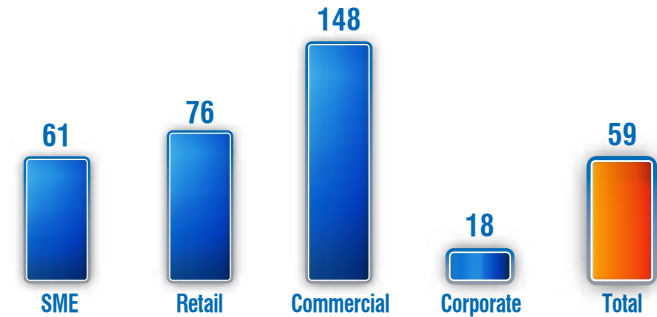


Net Cost of Risk

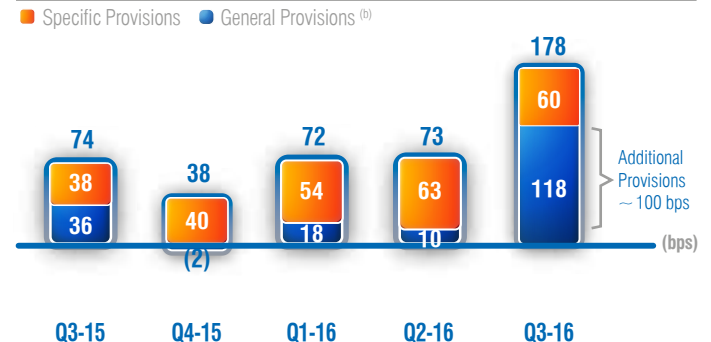


(a) Specific provisions/Average Net Loans (b) General Provisions of Cash Loans/Average Cash Loans

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



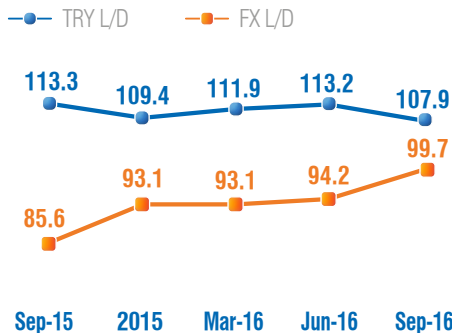
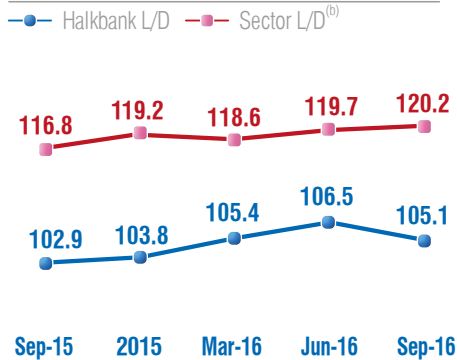
Gross Cost of Risk (bps)



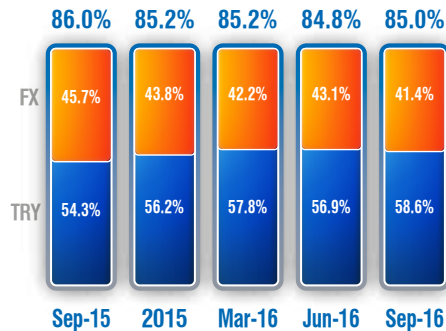
LDR down to 105%, diverging from sector average

IBL 85.0%^(a)

Loan to Deposit (%)

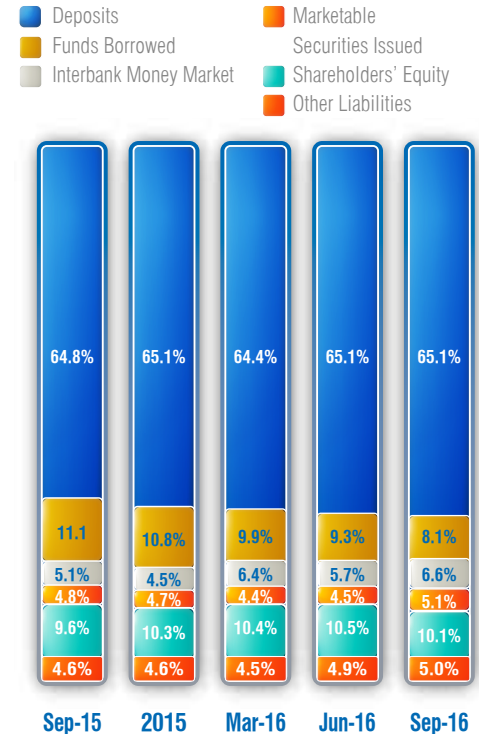


Composition of IBLs^(a)



> Share of non-deposit short term FX borrowings in Liabilities 4.8%

Liabilities Mix (%)



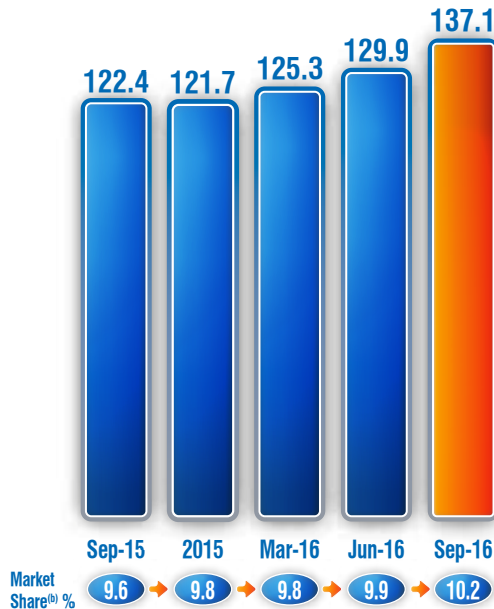
(a) Including interest accruals and excluding funds. Excluding demand deposit, the share of IBL is 76.2% in Sep-16.

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

Deposit base further strengthened, growing 5.5% QoQ

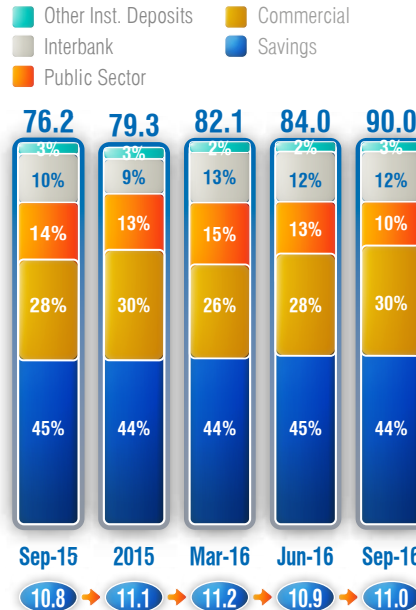
	HALKBANK	B. Sector^(b)
YtD	12.6%	7.4%
QoQ	5.5%	2.3%

Total Deposits (TRY billion)^(a)



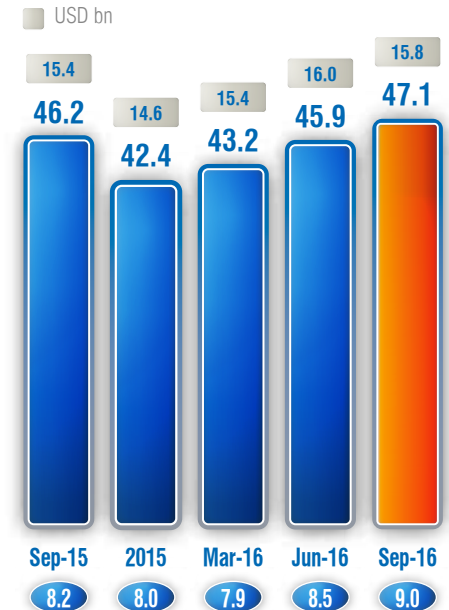
	HALKBANK	B. Sector^(b)
YtD	13.5%	14.5%
QoQ	7.1%	6.7%

TRY Deposits (TRY billion)^(a)



	HALKBANK	B. Sector^(b)
YtD	11.1%	-1.5%
QoQ	2.5%	-3.6%
in USD terms	YtD 8.2%	-4.2%
	QoQ -1.2%	-7.0%

FX Deposits (TRY billion)^(a)

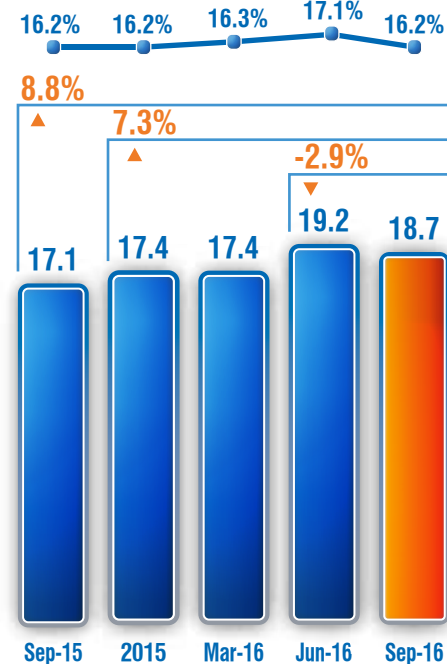


(a) Excluding interest accruals. (b) BRSA daily data as of 30.09.2016

Remarkable decline in the Cost of TRY deposits, 50 bps QoQ

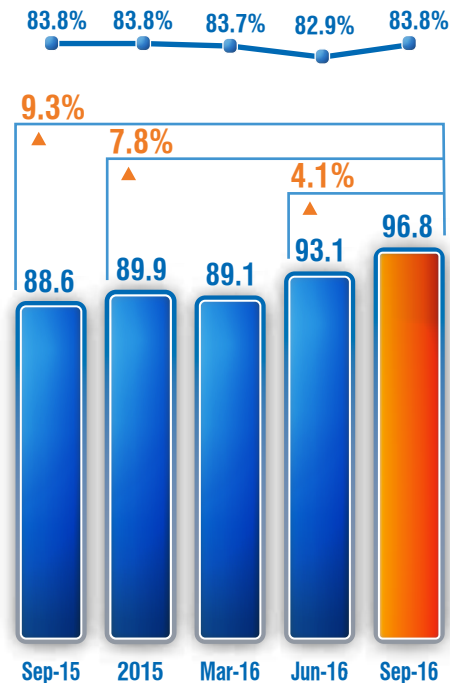
Demand Deposits (TRY billion)^(a)

—●— Demand Deposits/Total Deposits (%)



Time Deposits (TRY billion)^(a)

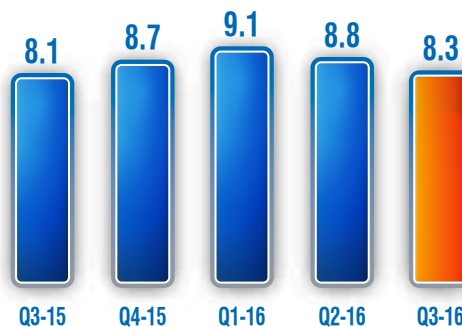
—●— Time Deposits/Total Deposits (%)



Deposits by Currency (%)



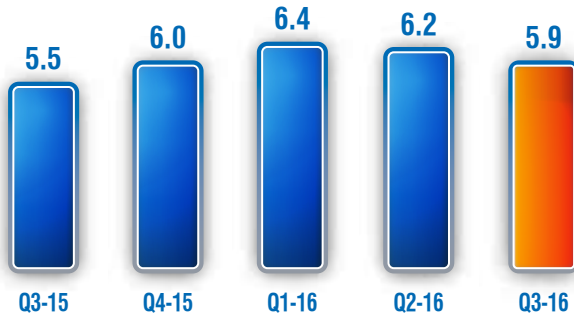
Cost of TRY Deposits (%)^(b)



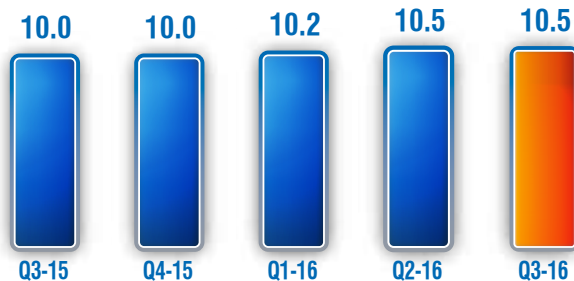
(a) Excluding interest accruals and interbank. (b) Time & Demand Blended.

Cost - Yield - Spread^(a)

Cost of Deposits (%)

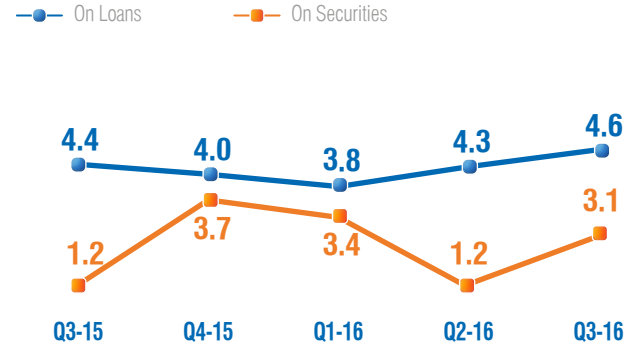


Yield on Loans (%)^(b)

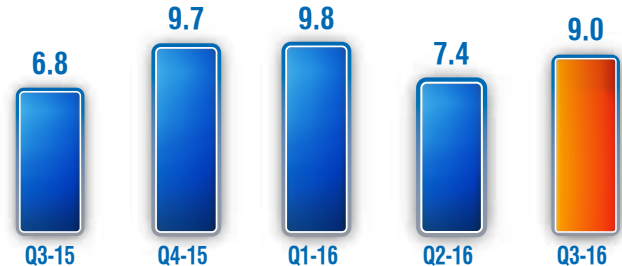


(a) TRY-FX blended (b) Excluding fund loans.

Spreads (%)



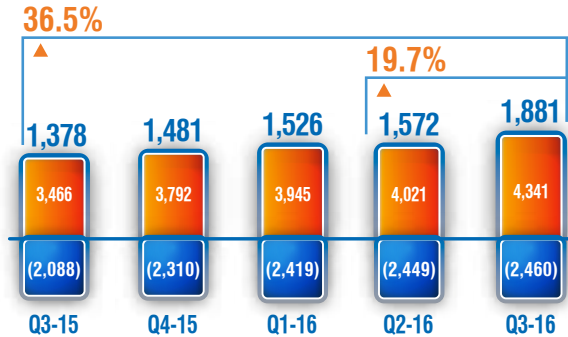
Yield on Securities (%)



Quarterly NIM expanded ~50 bps, enjoying core spread improvement and CPI linkers' support.

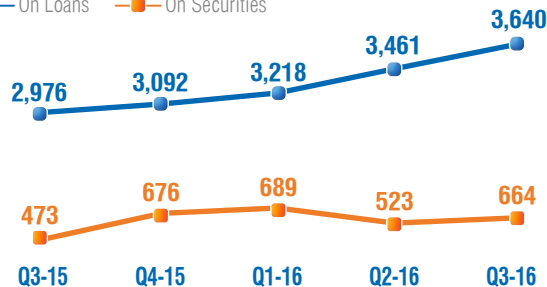
Net Interest Income (TRY million)

Interest Income Interest Expenses

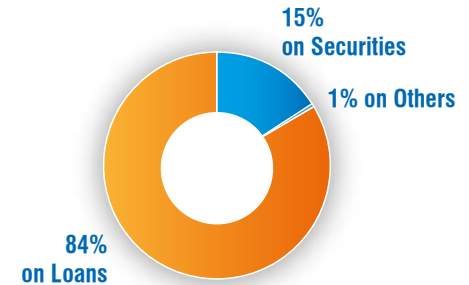


Interest Income (TRY million)

On Loans On Securities



Breakdown of Interest Income (%)



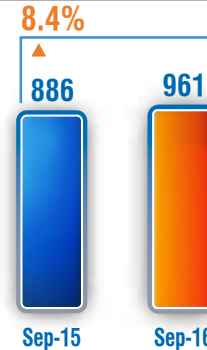
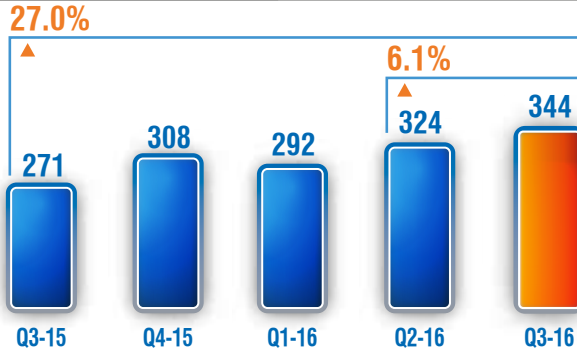
NIM (%)

YtD Quarterly

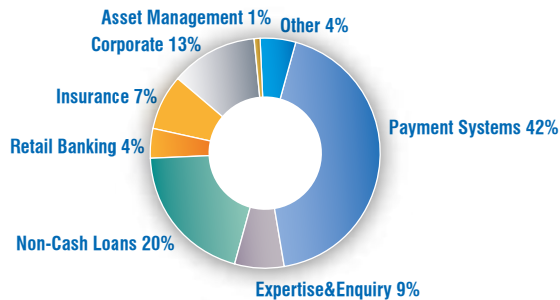


Growth in Net fees & commissions pick up towards targeted levels

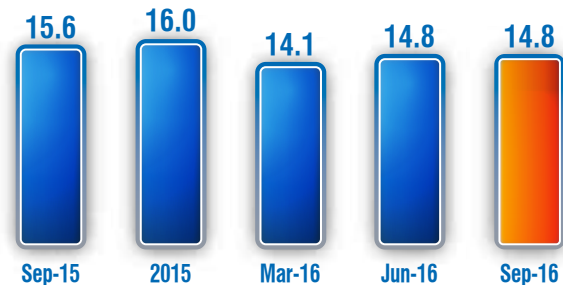
Net Fees & Commissions Income (TRY million)



Breakdown of Fees & Commissions (%)

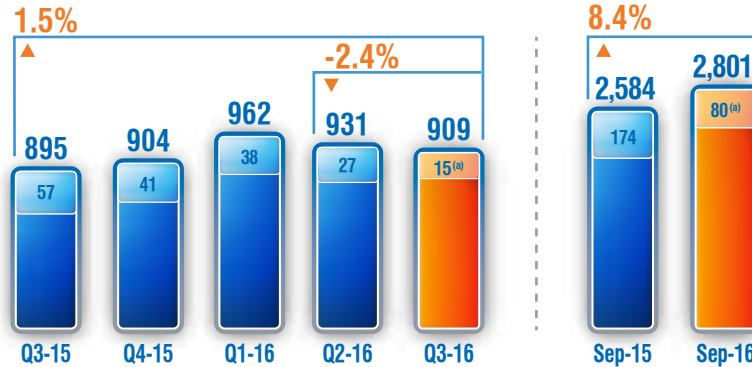


Net Fees & Commissions / Operating Revenues (%)

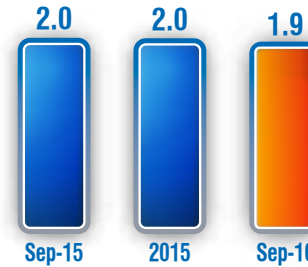


Opex growth cut pace further as rebates fare below expectations

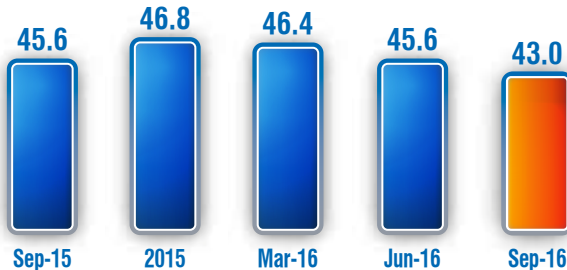
Operating Expenses (TRY million)



Operating Expenses / Average Assets (%)

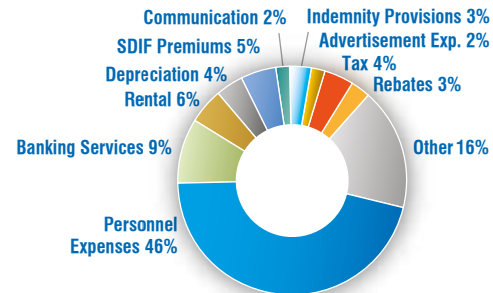


Cost/Income (%)



(a) Rebates in commissions

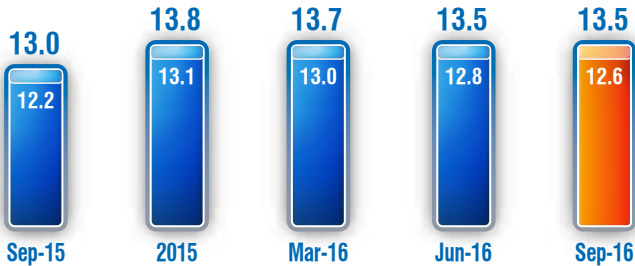
Breakdown of Operating Expenses (%)



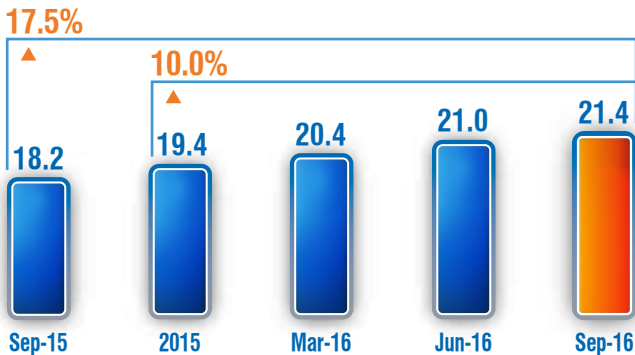
Solvency Ratios

CAR (%)

■ Tier-I ■ CAR



SHE (TRY billion)



Details on Capital Ratio

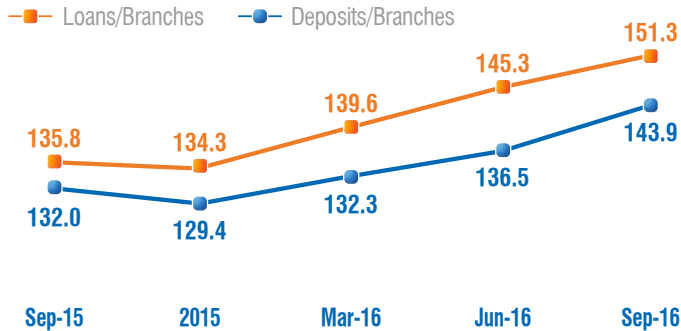
(TRY mn)	Basel III Sep-16
Credit Risk Base Amount (CRBA)	151,507
Market Risk Base Amount (MRBA)	5,710
Operational Risk Base Amount (ORBA)	11,297
Total Risk Weighted Assets (RWAs)	168,514
Shareholders' Equity	22,777
CAR (%)	13.5
Tier-I (%)	12.6
Common Equity Tier-I (%)	12.6

In 2017, Capital conservation buffer will increase to 1.25% from 0.625% whereas SIFI buffer for Halkbank (G1) is expected to be at 0.5%.

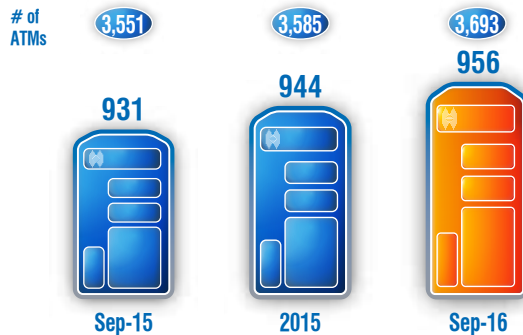
CAR is comfortably above regulatory required thresholds.

Branch Network – Human Resources

Loans and Deposits per Branches (%)



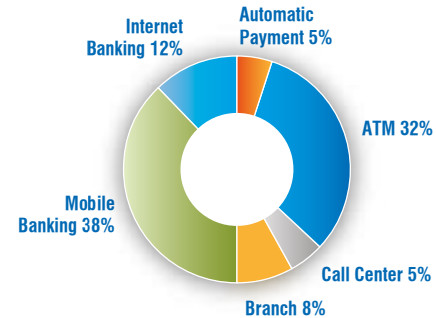
Branches^(a)



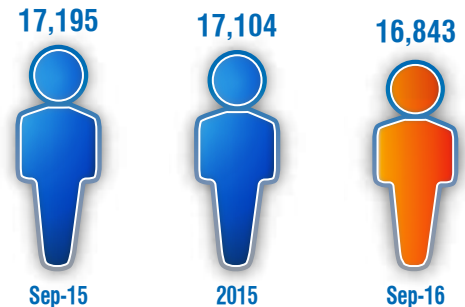
(a) Including domestic branches and special transaction centers.

- > 12 new branches opened until Sep-16.
- > Total branch number reached 956.

Breakdown of Banking Transactions (%)



Headcount



Balance Sheet

In TRY million	Sep-15	2015	Jun-16	Sep-16	QoQ Change%	YtD Change%	YoY Change%
Cash and Balances Held with the Central Bank ^(a)	23,506	23,325	24,236	27,038	11.6	15.9	15.0
Banks & Money Market ^(b)	4,591	2,513	852	810	(5.0)	(67.8)	(82.4)
Securities ^(b)	27,900	27,908	28,433	30,870	8.6	10.6	10.6
Net Loans ^(b)	126,450	126,745	138,917	144,612	4.1	14.1	14.4
Gross NPL	3,871	3,974	4,330	4,625	6.8	16.4	19.5
NPL Net	926	946	1,038	1,151	10.9	21.7	24.3
Property and Equipment	2,333	2,176	2,213	2,196	(0.8)	0.9	(5.9)
Other Assets	4,907	5,062	5,726	5,793	1.2	14.4	18.1
Total Assets	189,686	187,729	200,377	211,319	5.5	12.6	11.4
Deposits ^(b)	122,903	122,146	130,470	137,594	5.5	12.6	12.0
Funds Borrowed ^(b)	21,076	20,262	18,711	17,062	(8.8)	(15.8)	(19.0)
Interbank Money Market ^(b)	9,768	8,410	11,381	13,842	21.6	64.6	41.7
Marketable Securities Issued	9,107	8,905	8,922	10,873	21.9	22.1	19.4
Funds	1,880	1,964	2,050	2,125	3.7	8.2	13.0
Other Liabilities	4,608	4,489	5,702	5,822	2.1	29.7	26.3
Provisions	2,152	2,129	2,159	2,628	21.7	23.4	22.1
Shareholders' Equity	18,192	19,424	20,981	21,372	1.9	10.0	17.5
Total Liabilities	189,686	187,729	200,377	211,319	5.5	12.6	11.4

(a) Reserve deposits monitored in balance with Central Bank

(b) Including interest accruals

Income Statement

In TRY million	Sep-15	Sep-16	YoY %	Q3-15	Q2-16	Q3-16	QoQ Change %	YoY Change %
Interest Income	9,865	12,307	24.8	3,466	4,021	4,341	8.0	25.2
On Loans	8,166	10,319	26.4	2,976	3,461	3,640	5.2	22.3
On Securities	1,665	1,876	12.7	473	523	664	26.9	40.4
Interest Expense	5,684	7,328	28.9	2,088	2,449	2,460	0.4	17.8
On Deposits	4,555	6,027	32.3	1,659	2,002	2,021	1.0	21.8
Net Interest Income	4,181	4,979	19.1	1,378	1,572	1,881	19.7	36.5
Net Fees and Commissions	886	961	8.4	271	324	344	6.1	27.0
Net Trading Income	(171)	99	N/A	(143)	16	61	275.8	N/A
Other Operating Income	769	470	(38.9)	63	171	67	(60.6)	7.2
Reversal of Loan Loss Provisions	185	151	(18.2)	39	52	31	(39.8)	(19.5)
Total Operating Revenues	5,666	6,508	14.9	1,569	2,083	2,354	13.0	50.1
Operating Expenses	2,584	2,801	8.4	895	931	909	(2.4)	1.5
Net Operating Income	3,082	3,707	20.3	674	1,152	1,446	25.5	114.6
Provision for Loan Losses and Other Receivables	1,214	1,170	(3.6)	121	269	631	134.7	423.0
Loan Loss Provisions for Cash Loans	717	598	(16.6)	116	211	213	0.8	82.9
Profit/(Losses) from Associates	189	267	41.6	0	196	71	(63.8)	N/A
Income Before Taxes	2,057	2,804	36.3	553	1,080	886	(17.9)	60.2
Provision for Tax	389	608	56.2	115	194	256	32.0	122.4
Net Income	1,667	2,195	31.7	438	886	630	(28.9)	43.8

Notes



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