

**Türkiye Halk Bankası Anonim Şirketi  
And Its Subsidiaries**

Condensed Consolidated Interim Financial Statements  
For the Six-Month Period Ended  
30 June 2016  
With Independent Auditors' Report on Review of  
Interim Financial Statements Thereon

31 October 2016

*This report contains the "Independent Auditors' Report on Review of Interim Financial Statements" comprising 1 page and; the "Condensed consolidated interim financial statements and their explanatory notes" comprising 23 pages.*

## **Türkiye Halk Bankası Anonim Şirketi and its subsidiaries**

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Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No:29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

## Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Board of Directors of  
Türkiye Halk Bankası Anonim Şirketi:

### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Halk Bankası Anonim Şirketi ("the Bank") and its subsidiaries ("the Group") as at 30 June 2016, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



*Qualified Conclusion*

Based on our review nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member of KPMG International Cooperative

Alper Güvenç  
*Partner*

31 October 2016  
İstanbul, Türkiye

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As of 30 JUNE 2016**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>30 June 2016</b>	<b>31 December 2015</b>
<b>Assets</b>			
Cash on hand		1.228.466	1.258.809
Balances with Central Bank	9	4.187.704	5.151.550
Reserve deposits at Central Bank	9	18.997.398	17.090.181
Due from banks		1.444.281	2.671.525
Financial assets at fair value through profit or loss		429.378	340.019
- <i>Trading securities</i>		132.070	86.403
- <i>Derivative financial instruments</i>	18	297.308	253.616
Loans and advances	10	139.462.297	126.643.840
Insurance premium receivables		317.232	299.481
Investment securities:		28.905.480	28.441.031
- <i>Available-for-sale investment securities</i>	11	12.908.912	11.536.154
- <i>Held-to-maturity investment securities</i>	11	15.996.568	16.904.877
Investment in equity-accounted investees		293.819	257.711
Finance lease receivables		2.162.498	2.123.482
Property and equipment	12	3.142.662	3.130.233
Intangible assets		111.776	103.006
Non-current assets held for sale		1.446	2.437
Investment property		504.940	485.594
Deferred tax assets		328.393	287.965
Other assets		2.640.737	1.978.468
<b>Total assets</b>		<b>204.158.507</b>	<b>190.265.332</b>
<b>Liabilities</b>			
Deposits from banks		17.720.222	14.690.850
Deposits from customers		112.836.551	107.807.711
Obligations under repurchase agreements		11.406.365	8.435.992
Loan and advances from banks		23.029.861	24.107.436
Interbank money market borrowings		548.341	19.965
Derivative financial instruments	18	338.642	175.673
Debt securities issued		8.874.440	8.826.436
Subordinated liabilities		-	47.144
Insurance contract liabilities		1.504.488	1.144.164
Provisions		1.138.902	1.199.491
Income tax payables		246.484	124.160
Deferred tax liability		64.211	71.264
Other liabilities		5.320.641	4.302.731
<b>Total liabilities</b>		<b>183.029.148</b>	<b>170.953.017</b>
<b>Equity</b>			
Share capital	14	2.578.184	2.578.184
Share premium		39.511	39.488
Reserves	15	3.422.163	2.841.063
Retained earnings		14.882.457	13.652.154
<b>Total equity attributable to equity holders of the Bank</b>		<b>20.922.315</b>	<b>19.110.889</b>
Non-controlling interest		207.044	201.426
<b>Total equity</b>		<b>21.129.359</b>	<b>19.312.315</b>
<b>Total liabilities and equity</b>		<b>204.158.507</b>	<b>190.265.332</b>

The notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR**  
**LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>For the six-month period ended 30 June 2016</b>	<b>For the six-month period ended 30 June 2015</b>
<b>Interest income:</b>			
-Interest income on loans		6.704.945	5.214.787
-Interest income on securities		1.229.352	1.208.827
-Interest income on finance leases		70.556	67.993
-Interest income on deposits at banks		85.679	22.995
-Interest income on other money market placements		190	565
-Other interest income		64.696	33.392
		<b>8.155.418</b>	<b>6.548.559</b>
<b>Interest expense:</b>			
-Interest expense on deposits		(3.953.219)	(2.870.548)
-Interest expense on other money market deposits		(399.335)	(316.757)
-Interest expense on borrowings		(236.363)	(176.698)
-Interest expense on debt securities issued		(247.545)	(210.575)
-Other interest expense		(47.918)	(39.846)
		<b>(4.884.380)</b>	<b>(3.614.424)</b>
<b>Net interest income</b>		<b>3.271.038</b>	<b>2.934.135</b>
Fees and commission income	19	788.958	808.136
Fees and commission expenses	19	(239.836)	(245.905)
<b>Net fee and commission income</b>		<b>549.122</b>	<b>562.231</b>
Net trading income from securities		7.928	27.630
Net trading income / (loss) from derivative financial instruments		(402.934)	(612.847)
Foreign exchange gain / (losses), net		446.690	475.968
Net impairment losses on financial assets		(343.871)	(237.693)
Income from insurance operations		634.242	405.478
Cost of insurance operations		(664.912)	(367.273)
Dividend income		39.832	4.169
Other operating income	20	290.859	209.601
Other operating expenses	21	(1.868.074)	(1.713.937)
<b>Operating profit</b>		<b>1.959.920</b>	<b>1.687.462</b>
Share of profit of equity-accounted investees		8.095	6.651
<b>Profit before income tax</b>		<b>1.968.015</b>	<b>1.694.113</b>
Income tax expense		(331.070)	(398.026)
<b>Profit for the period</b>		<b>1.636.945</b>	<b>1.296.087</b>
<b>Other comprehensive income</b>			
<b>Items that will be never classified to profit or loss:</b>			
Re-measurement of employee termination benefits		(1.185)	345
Related tax		237	(69)
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Fair value reserve (available-for-sale financial assets):			
Change in fair value		325.365	(387.834)
Amount transferred to profit or loss		(3.640)	(32.786)
Foreign currency translation differences		40.642	28.104
Revaluation differences of property and equipment		(301)	1.503.283
Related tax		54.229	(247.444)
<b>Other comprehensive income for the period, net of tax</b>		<b>415.347</b>	<b>863.599</b>
<b>Total comprehensive income for the period</b>		<b>2.052.292</b>	<b>2.159.686</b>

The notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES  
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR  
LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>For the six- month period ended 30 June 2016</b>	<b>For the six- month period ended 30 June 2015</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		1.635.888	1.291.655
Non-controlling interest		1.057	4.432
<b>Profit for the period</b>		<b>1.636.945</b>	<b>1.296.087</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		2.046.674	2.130.477
Non-controlling interest		5.618	29.209
<b>Total comprehensive income for the period</b>		<b>2.052.292</b>	<b>2.159.686</b>
<b>Basic and diluted earnings per share (full TRY per share)</b>	<b>16</b>	<b>1,3087</b>	<b>1,0333</b>

The notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - In thousands of Turkish Lira ("TRY"))

	Total equity attributable to equity holders of the Bank							Non-controlling interest	Total equity
	Notes	Share capital	Share premium	Reserves		Retained earnings	Total		
				Fair value reserve	Other reserves				
<b>Balances at 1 January 2015</b>		<b>2.578.184</b>	<b>39.009</b>	<b>191.055</b>	<b>1.323.727</b>	<b>12.215.657</b>	<b>16.347.632</b>	<b>178.981</b>	<b>16.526.613</b>
<b>Total comprehensive income for the period</b>									
Net profit of the period		-	-	-	-	1.291.655	1.291.655	4.432	1.296.087
Other comprehensive income, net of tax		-	-	-	-	-	-	-	-
Re-measurements of defined benefit plans, net of tax		-	-	-	-	276	276	-	276
Fair value reserve (available-for-sale financial assets):		-	-	-	-	-	-	-	-
Net change in fair value		-	-	(336.310)	-	-	(336.310)	1.468	(334.842)
Net amount transferred to profit or loss		-	-	(32.786)	-	-	(32.786)	-	(32.786)
Revaluation differences of property and equipment		-	-	-	1.202.847	-	1.202.847	-	1.202.847
Foreign currency translation differences		-	-	-	27.969	-	27.969	135	28.104
<b>Total other comprehensive income</b>		-	-	<b>(369.096)</b>	<b>1.230.816</b>	<b>276</b>	<b>861.996</b>	<b>1.603</b>	<b>863.599</b>
<b>Total comprehensive income for the period</b>		-	-	<b>(369.096)</b>	<b>1.230.816</b>	<b>1.291.931</b>	<b>2.153.651</b>	<b>6.035</b>	<b>2.159.686</b>
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves		-	-	(20.708)	140.938	(118.224)	2.006	-	2.006
Dividends to equity holders		-	-	-	-	(223.552)	(223.552)	-	(223.552)
<b>Changes in ownership interests in subsidiaries</b>									
Change in shares without a change in control		-	-	-	69	-	69	23.174	23.243
<b>Balances at 30 June 2015</b>		<b>2.578.184</b>	<b>39.009</b>	<b>(198.749)</b>	<b>2.695.550</b>	<b>13.165.812</b>	<b>18.279.806</b>	<b>208.190</b>	<b>18.487.996</b>
<b>Balances at 1 January 2016</b>		<b>2.578.184</b>	<b>39.488</b>	<b>(290.301)</b>	<b>3.131.364</b>	<b>13.652.154</b>	<b>19.110.889</b>	<b>201.426</b>	<b>19.312.315</b>
<b>Total comprehensive income for the period</b>									
Net profit of the period		-	-	-	-	1.635.888	1.635.888	1.057	1.636.945
Other comprehensive income, net of tax		-	-	-	-	-	-	-	-
Remeasurements of defined benefit plans, net of tax		-	-	-	-	(948)	(948)	-	(948)
Fair value reserve (available-for-sale financial assets):		-	-	-	-	-	-	-	-
Net change in fair value		-	-	379.506	-	-	379.506	88	379.594
Net amount transferred to profit or loss		-	-	(3.640)	-	-	(3.640)	-	(3.640)
Revaluation differences of property and equipment		-	-	-	(301)	-	(301)	-	(301)
Foreign currency translation differences		-	-	-	40.617	-	40.617	25	40.642
<b>Total other comprehensive income</b>		-	-	<b>375.866</b>	<b>40.316</b>	<b>(948)</b>	<b>415.234</b>	<b>113</b>	<b>415.347</b>
<b>Total comprehensive income for the period</b>		-	-	<b>375.866</b>	<b>40.316</b>	<b>1.634.940</b>	<b>2.051.122</b>	<b>1.170</b>	<b>2.052.292</b>
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves		-	-	-	165.105	(162.495)	2.610	-	2.610
Dividends to equity holders	15	-	-	-	-	(241.759)	(241.759)	-	(241.759)
<b>Changes in ownership interests in subsidiaries</b>									
Change in shares without a change in control		-	23	-	(187)	(383)	(547)	4.448	3.901
<b>Balances at 30 June 2016</b>		<b>2.578.184</b>	<b>39.511</b>	<b>85.565</b>	<b>3.336.598</b>	<b>14.882.457</b>	<b>20.922.315</b>	<b>207.044</b>	<b>21.129.359</b>

The notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>For the six-month period ended 30 June 2016</b>	<b>For the six-month period ended 30 June 2015</b>
<b>Cash flows from operating activities</b>			
Profit for the period		1.636.945	1.296.087
<b>Adjustments for:</b>			
Depreciation and amortisation		74.571	72.643
Net impairment loss on loans and advances	10	572.283	262.933
Net interest income		(3.271.038)	(2.934.135)
Dividend income		(39.832)	(4.169)
Provision for employee termination benefits		52.397	46.535
Impairment losses on property and equipment		886	686
Net gain on sale of property and equipment	12	(106.347)	(44.048)
Share of profit of equity-accounted investees		(8.095)	(6.651)
Income tax expense		331.070	398.026
		<b>(757.160)</b>	<b>(912.093)</b>
Change in financial assets at fair value through profit or loss		(45.710)	9.685
Change in due from banks		-	14.000
Change in loans and advances		(12.441.072)	(16.486.659)
Change in other assets		(3.381.828)	(3.623.134)
Change in deposits from banks		2.934.116	(1.127.886)
Change in deposits from customers		5.018.199	12.557.055
Change in loans and advances from banks		(1.152.363)	4.714.411
Change in other liabilities		5.337.927	1.033.943
Interest received		7.682.477	6.407.461
Dividends received		39.832	4.169
Interest paid		(4.868.311)	(3.327.245)
Income tax paid		(351.876)	(496.862)
Employee termination benefits paid		(11.129)	(33.156)
<b>Net cash used in operating activities</b>		<b>(1.996.898)</b>	<b>(1.266.131)</b>
<b>Cash flows from investing activities</b>			
Cash paid for purchase of joint ventures, associates and subsidiaries		-	(28.907)
Acquisitions of available-for-sale investment securities		(1.138.756)	(2.124.141)
Proceeds from sale of available-for-sale investment securities		446.256	424.915
Acquisitions of held to maturity investment securities		(1.142.029)	(1.213.130)
Proceeds from sale of held to maturity investment securities		1.794.990	2.437.411
Acquisitions of property and equipment	12	(139.957)	(197.289)
Proceeds from sale of property and equipment	12	66.077	104.199
Acquisitions of intangible assets		(8.479)	(9.302)
<b>Net cash (used in)/provided from investing activities</b>		<b>(121.898)</b>	<b>(606.214)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		1.889.764	3.871.690
Cash used for repayment of debt securities		(1.797.144)	(1.750.000)
Dividends paid	15	(241.759)	(223.552)
<b>Net cash provided from financing activities</b>		<b>(149.139)</b>	<b>1.898.138</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2.267.935)</b>	<b>25.793</b>
Cash and cash equivalents at 1 January		8.855.902	7.290.931
Effect of change in currency rate fluctuations on cash held		(5.452)	509.433
<b>Cash and cash equivalents at 30 June</b>		<b>6.582.515</b>	<b>7.826.157</b>

The notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

*(Currency - In thousands of Turkish Lira ("TRY"))*

**1. Activities of the Bank and the Group**

Türkiye Halk Bankası AŞ (the "Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 30 June 2016, the Parent Bank operates with a total of 912 branches consisting of 956 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 35 satellite branches and 1 financial services branches. The Parent Bank has also 2 representative offices in England and Iran. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consist of banking, securities, financial leasing, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ, Halk Bank AD, Beograd and Bileşim Alternatif Dağıtım Kanalları AŞ.

In 2000, the Turkish Parliament passed Statute 4603, pursuant to which state-owned banks were required to restructure its operations and prepare themselves to eventual privatization. According to the Decree number 2006/69, dated as 11 August 2006 issued by Privatization High Council, all outstanding shares of the Bank are transferred to the Privatization Administration and 99,9% of the Bank shares should be sold to general public.

The first phase of the privatization process of the Bank corresponding to 24,98% of the shares was completed in the first week of May 2007 and the Bank's shares have been traded on Istanbul Stock Exchange (Borsa İstanbul AŞ (BIST)) as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on Istanbul Stock Exchange (Borsa İstanbul AŞ (BIST)).

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi ("Pamukbank"), integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat ve Emeklilik AŞ, a life insurance company, Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ in 2010. Halk Gayrimenkul Yatırım Ortaklığı AŞ's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the investment properties, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates. 28% shares of Halk GYO started to be traded on Borsa İstanbul AŞ (BIST) at 22 February 2013.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and accounted according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which is a subsidiary of Turkish state bank that operates in Macedonia, through the merger as of 1 October 2012. As a result, the Group's equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78%. Halk Banka AD, Skopje is operating in Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - In thousands of Turkish Lira ("TRY"))

**1. Activities of the Bank and the Group (continued)**

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the Bank established in 2011, was registered on 30 June 2011. Halk Portföy's main line of business is to provide portfolio and fund management services.

Halk Faktoring AŞ ("Halk Faktoring"), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring's main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

Halkbank A.D. Beograd a subsidiary of the Bank established in 1956, was registered on 28 May 2015 with 76,76% share. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. As of 24 November 2015 the Bank's share increased to 82,47% with capital increase.

Bileşim Alternatif Dağıtım Kanalları AŞ ("Bileşim AŞ"), a subsidiary of the Bank established in 1998. As of 22 July 2013, the Bank purchased 76% shares of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. which was the associate of the Bank, from Ziraat Group (the shares of T.C. Ziraat Bank A.Ş. was 61%, the shares of Ziraat Finansal Kiralama A.Ş. was 15%) and thus the company became the Bank's subsidiary. Bileşim AŞ's main line of business is to provide atm operations, call center services, merchant operations and printing office operations to domestic and international customers.

**2. Basis of accounting**

These condensed consolidated interim financial statements as of 30 June 2016 have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for a complete set of IFRS financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2015 except for the changes mentioned in note 4.

The accompanying condensed consolidated interim financial statements are authorised for issue by the management on 8 August 2016.

**3. Use of judgements estimates**

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

**Measurement of fair values**

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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**3. Use of judgements estimates (continued)**

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 6 –financial instruments.

**4. Changes in accounting policies**

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 “Property, Plant and Equipment” (IAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in “Revaluation differences of property and equipment” under the shareholders’ equity.

**5. Basis of consolidation**

***Subsidiaries***

The consolidated financial statements include the accounts of the Bank and the subsidiaries.

Subsidiaries are the entities controlled by the Parent Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Parent Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Parent Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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**5. Basis of consolidation** (continued)

***Subsidiaries*** (continued)

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 30 June 2016 and 31 December 2015 are as follows:

	Place of incorporation	Direct ownership		Indirect ownership	
		30 June 2016	31 December 2015	30 June 2016	31 December 2015
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	94,12%	93,59%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,07%	79,03%	79,11%	79,06%
Halk Finansal Kiralama AŞ	Istanbul	99,99%	100,00%	99,99%	100,00%
Halk Bank AD, Skopje	Macedonia	98,78%	98,78%	98,78%	98,78%
Halk Bank AD, Beograd	Serbia	82,47%	75,00%	82,47%	99,99%
Halk Portföy Yönetimi AŞ	Istanbul	75,00%	97,50%	99,99%	99,99%
Halk Faktoring AŞ	Istanbul	97,50%	82,47%	99,99%	82,47%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%

***Business combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus  
if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

***Acquisitions of non-controlling interests***

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

***Investments in associates (equity-accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

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**5. Basis of consolidation** (continued)

***Investments in associates (equity-accounted investees)*** (continued)

The equity-accounted associates of the Group as of 30 June 2016 and 31 December 2015 are as follows:

	Place of incorporation	Shareholding interest	
		30 June 2016	31 December 2015
Demir-Halk Bank NV	Holland	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	İstanbul	16,67%	16,67%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

**6. Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at 31 December 2015.

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**7. Financial instruments**

*Carrying amounts and fair values*

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets	Carrying amount			Fair value			Total
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	
<b>30 June 2016</b>							
Due from banks (including central banks)	24.629.383	-	24.629.383	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities <sup>(2)</sup>	-	132.070	132.070	123.987	-	-	86.348
-Derivative financial instruments	-	297.308	297.308	-	295.621	-	297.308
Loans and advances	139.462.297	-	139.462.297	-	-	-	-
Investment securities:							
-Available-for-sale investment securities <sup>(1)</sup>	-	12.908.912	12.908.912	12.855.475	-	-	12.855.475
-Held-to-maturity investment securities	-	15.996.568	15.996.568	16.115.392	-	-	16.115.392
Finance lease receivables	2.162.498	-	2.162.498	2.084.160	-	-	2.084.160
Insurance premium receivables	317.232	-	317.232	-	-	-	-
	<b>166.571.410</b>	<b>29.334.858</b>	<b>195.906.268</b>				
<b>31 December 2015</b>							
Due from banks (including central banks)	24.913.256	-	24.913.256	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities <sup>(2)</sup>	-	86.403	86.403	-	-	-	80.191
-Derivative financial instruments	-	253.616	253.616	-	253.616	-	253.616
Loans and advances	126.643.840	-	126.643.840	-	-	-	-
Investment securities:							
-Available-for-sale investment securities <sup>(1)</sup>	-	11.536.154	11.536.154	11.418.210	-	-	11.418.210
-Held-to-maturity investment securities	-	16.904.877	16.904.877	16.260.861	-	-	16.260.861
Finance lease receivables	2.123.482	-	2.123.482	-	-	-	-
Insurance premium receivables	299.481	-	299.481	-	-	-	-
	<b>153.980.059</b>	<b>28.781.050</b>	<b>182.761.109</b>				

<sup>(1)</sup> As of 30 June 2016 share certificates amounting to TRY 53.437 (31 December 2015: TRY 117.944) in available for sale financial assets are not included in the above table, which are measured at cost.

<sup>(2)</sup> As of 30 June 2016, marketable securities amounting to TRY 8.083 (31 December 2015: TRY 6.212) that are measured at cost, are not included in financial assets at fair value through profit or loss.

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**7. Financial instrument (continued)**

*Carrying amounts and fair values (continued)*

<b>Financial liabilities</b>	<b>Carrying amount</b>			<b>Fair value</b>			
	<b>Loans and borrowings</b>	<b>Derivatives</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>30 June 2016</b>							
Deposits from banks	17.720.222	-	17.720.222	-	-	-	-
Deposits from customers	112.836.551	-	112.836.551	-	-	-	-
Obligations under repurchase agreements	11.406.365	-	11.406.365	-	-	-	-
Loans and advances from banks	23.029.861	-	23.029.861	-	-	-	-
Interbank money market borrowings	548.341	-	548.341	-	-	-	-
Derivative financial instruments	-	338.642	338.642	-	338.642	-	338.642
Debt securities issued	8.874.440	-	8.874.440	-	-	-	-
	<b>174.415.780</b>	<b>338.642</b>	<b>174.754.422</b>				
<b>31 December 2015</b>							
Deposits from banks	14.690.850	-	14.690.850	-	-	-	-
Deposits from customers	107.807.711	-	107.807.711	-	-	-	-
Obligations under repurchase agreements	8.435.992	-	8.435.992	-	-	-	-
Loans and advances from banks	24.107.436	-	24.107.436	-	-	-	-
Interbank money market borrowings	19.965	-	19.965	-	-	-	-
Derivative financial instruments	-	175.673	175.673	-	175.673	-	175.673
Debt securities issued	8.826.436	-	8.826.436	-	-	-	-
	<b>163.888.390</b>	<b>175.673</b>	<b>164.064.063</b>	-	<b>175.673</b>	-	<b>175.673</b>



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**8. Operating segments**

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other which are the Group’s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group’s management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

<b>30 June 2016</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(2)</sup></b>	<b>Other <sup>(1)</sup></b>	<b>Group</b>
Interest income	687.980	991.902	4.872.296	1.457.677	145.563	8.155.418
Interest expense	(357.103)	(214.377)	(3.015.180)	(1.239.891)	(57.829)	(4.884.380)
<b>Net interest income</b>	<b>330.877</b>	<b>777.525</b>	<b>1.857.116</b>	<b>217.786</b>	<b>87.734</b>	<b>3.271.038</b>
Net fee and commission income	88.387	98.569	332.775	121.276	(91.885)	549.122
Net trading income from securities	-	-	-	7.045	883	7.928
Net trading income from derivative transactions	-	-	-	(413.716)	10.782	(402.934)
Foreign exchange gain/ (losses), net	-	-	-	443.988	2.702	446.690
Net impairment losses on loans and advances	(28.407)	(58.209)	(168.008)	(88.609)	(638)	(343.871)
Income from insurance operations	-	-	-	-	634.242	634.242
Cost of insurance operations	-	-	-	-	(664.912)	(664.912)
Dividend income	-	-	-	39.719	113	39.832
Other operating income	4.128	4.604	42.863	81.659	165.700	298.954
Other operating expenses	(6.086)	(24.479)	(588.479)	(775.558)	(473.472)	(1.868.074)
<b>Profit before income tax</b>	<b>388.899</b>	<b>798.010</b>	<b>1.476.267</b>	<b>(366.410)</b>	<b>(328.751)</b>	<b>1.968.015</b>
Income tax expense	-	-	(1.580)	(353.410)	23.920	(331.070)
<b>Profit for the period</b>	<b>388.899</b>	<b>798.010</b>	<b>1.474.687</b>	<b>(719.820)</b>	<b>(304.831)</b>	<b>1.636.945</b>

<sup>(1)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ and Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ and Bileşim AŞ transactions are shown in other column.

<sup>(2)</sup> Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halkbank Bank AD, Beograd and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

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**8. Operating segments (continued)**

<b>30 June 2015</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(2)</sup></b>	<b>Other <sup>(1)</sup></b>	<b>Group</b>
Interest income	562.315	680.858	3.664.370	1.532.407	108.609	6.548.559
Interest expense	(386.283)	(127.697)	(2.114.592)	(951.326)	(34.526)	(3.614.424)
<b>Net interest income</b>	<b>176.032</b>	<b>553.161</b>	<b>1.549.778</b>	<b>581.081</b>	<b>74.083</b>	<b>2.934.135</b>
Net fee and commission income	89.322	126.924	317.705	104.918	(76.638)	562.231
Net trading income from securities	-	-	-	27.344	286	27.630
Net trading loss from derivative transactions	-	-	-	(601.038)	(11.809)	(612.847)
Foreign exchange gain/ (losses), net	-	-	-	459.895	16.073	475.968
Net impairment losses on loans and advances	(122.919)	(9.267)	(58.102)	(44.098)	(3.307)	(237.693)
Income from insurance operations	-	-	-	-	405.478	405.478
Cost of insurance operations	-	-	-	-	(367.273)	(367.273)
Dividend income	-	-	-	4.169	-	4.169
Other operating income	4.413	5.170	20.576	128.722	57.371	216.252
Other operating expenses	(9.486)	(26.817)	(724.080)	(737.939)	(215.615)	(1.713.937)
<b>Profit before income tax</b>	<b>137.362</b>	<b>649.171</b>	<b>1.105.877</b>	<b>(76.946)</b>	<b>(121.351)</b>	<b>1.694.113</b>
Income tax expense	-	-	-	(274.669)	(123.357)	(398.026)
<b>Profit for the period</b>	<b>137.362</b>	<b>649.171</b>	<b>1.105.877</b>	<b>(351.615)</b>	<b>(244.708)</b>	<b>1.296.087</b>

<sup>(1)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are shown in other column.

<sup>(2)</sup> Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

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**8. Operating segments (continued)**

The segment assets and liabilities as at 30 June 2016 are as follows:

<b>Assets and liabilities</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	19.593.133	26.952.255	92.089.617	61.488.466	3.741.217	203.864.688
Investment in equity-accounted investees	-	-	-	293.819	-	293.819
<b>Total assets</b>	<b>19.593.133</b>	<b>26.952.255</b>	<b>92.089.617</b>	<b>61.782.285</b>	<b>3.741.217</b>	<b>204.158.507</b>
Segment liabilities	15.788.304	8.975.061	100.490.444	53.712.462	4.062.877	183.029.148
<b>Total liabilities</b>	<b>15.788.304</b>	<b>8.975.061</b>	<b>100.490.444</b>	<b>53.712.462</b>	<b>4.062.877</b>	<b>183.029.148</b>

<sup>(1)</sup> Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Treasury / Investment” column.

The segment assets and liabilities as at 31 December 2015 are as follows:

<b>Assets and liabilities</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment <sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	19.120.441	24.160.214	74.383.536	69.053.707	3.289.723	190.007.621
Investment in equity-accounted investees	-	-	-	257.711	-	257.711
<b>Total assets</b>	<b>19.120.441</b>	<b>24.160.214</b>	<b>74.383.536</b>	<b>69.311.418</b>	<b>3.289.723</b>	<b>190.265.332</b>
Segment liabilities	14.764.190	8.274.356	89.326.441	55.275.213	3.312.817	170.953.017
<b>Total liabilities</b>	<b>14.764.190</b>	<b>8.274.356</b>	<b>89.326.441</b>	<b>55.275.213</b>	<b>3.312.817</b>	<b>170.953.017</b>

<sup>(1)</sup> Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Treasury / Investment” column.

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**9. Balances with Central Bank**

As at 30 June 2016, balances with Central Bank include restricted reserve deposits amounting to TRY 18.997.398 (31 December 2015: TRY 17.090.181) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TRY 4.187.704 (31 December 2015: TRY 5.151.550).

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD and/or standard gold at the rates between 5% and 11,5% according to their maturities (31 December 2015: between 5% and 11,5% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 5% and 25% according to their maturities (31 December 2015: between 5% and 25% according to their maturities), as per the Communiqué no.2013/15 “Reserve Deposits” of the Central Bank of Turkey. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the Board of Minutes No.872 dated 30 January 2014 of TRNC Central Bank’s, required reserve ratio is between 5% and 8% for foreign currency liabilities.

As per the change at 21 October 2014, CBT started to pay interests on TRY reserves with 300 or 500 basis points lower than the weighted average fund costs shown on the CBT website.

With the change in press release dated 23 January 2015, it has been decided to apply annual commission, to be charged on daily account balances and collected on a monthly basis, on required reserves and two days’ notice account denominated in Euro held by banks and these are going to be collected as of 1 February 2015. Central Bank of Turkey got to announced commission rates as zero percent at the web page.

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 0,49% for the reporting period (Announced on 17 December 2015).

With the Board of Minutes No. 129 dated 2006 of Central Bank of Macedonia, required reserve ratio are 8% for MKD currency liabilities and 15% for foreign currency liabilities.

**10. Loans and advances to customers**

As at 30 June 2016 and 31 December 2015, all the loans and advances to customers are at amortized cost.

	<b>30 June 2016</b>	<b>31 December 2015</b>
Performing loans	139.423.492	126.689.617
Non-performing loans	4.510.392	4.189.536
<b>Gross amount</b>	<b>143.933.884</b>	<b>130.879.153</b>
Specific allowance for impairment on loans	(3.868.376)	(3.692.772)
Portfolio allowance for impairment on loans	(603.211)	(542.541)
<b>Carrying amount</b>	<b>139.462.297</b>	<b>126.643.840</b>

**Allowance for impairment including the portfolio basis allowances**

	<b>30 June 2016</b>	<b>30 June 2015</b>
Balance on 1 January	(4.235.313)	(3.005.549)
Net impairment loss/reversals for the period:	(236.274)	8.235
- Charge for the period	(572.283)	(262.933)
- Recoveries and reversals	336.009	271.168
<b>Balance at end of the period</b>	<b>(4.471.587)</b>	<b>(2.997.314)</b>

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**11. Securities portfolio**

*Available-for-sale investment securities*

At 30 June 2016 and 31 December 2015, available for sale securities portfolio comprised the following:

	<b>30 June 2016</b>	<b>31 December 2015</b>
Treasury bills and government bonds	12.672.963	11.271.408
Equity shares	235.949	264.746
<i>Share certificates not quoted on a stock exchange</i>	254.831	283.653
<i>Allowance for impairment on equity shares</i>	(18.882)	(18.907)
<b>Total of available for sale securities</b>	<b>12.908.912</b>	<b>11.536.154</b>

Available-for-sale securities include securities given as collateral amounting to TRY 389.038 (31 December 2015: TRY 850.788). Securities subject to repurchase agreements amounting to TRY 5.214.912 (31 December 2015: TRY 1.624.489).

*Held to maturity investment securities*

	<b>30 June 2016</b>	<b>31 December 2015</b>
<b>Debt securities:</b>		
Quoted on a stock exchange	15.965.762	16.733.595
Not quoted	30.806	171.282
<b>Total</b>	<b>15.996.568</b>	<b>16.904.877</b>

Held to maturity investments comprised the following items:

	<b>30 June 2016</b>	<b>31 December 2015</b>
Government bonds	15.856.633	16.887.448
Other securities	139.935	17.429
<b>Total</b>	<b>15.996.568</b>	<b>16.904.877</b>

Held to maturity investment securities include securities given as collateral amounting to TRY 6.581.100 (31 December 2015: TRY 7.039.584) and securities subject to repurchase agreements amounting to TRY 4.546.163 (31 December 2015: TRY 4.179.415).

The movements of held to maturity investment securities in the six-month periods ended 30 June 2016 and 30 June 2015 are as follows:

	<b>30 June 2016</b>	<b>30 June 2015</b>
Beginning balance	16.904.877	17.869.082
Foreign currency differences	(15.234)	228.375
Purchases during the period <sup>(1)</sup>	989.712	1.211.327
Disposals through sales and redemptions	(1.882.787)	(2.358.537)
Impairment provision (-)	-	-
<b>Balance at the of the period / year</b>	<b>15.996.568</b>	<b>16.950.247</b>

<sup>(1)</sup> Interest income accrual difference between 30 June 2016 amounting to TRY 1.729.585 and 31 June 2015 amounting to TRY 1.544.622 has been included in purchases row.

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**12. Property and equipment**

During the six-month period ended 30 June 2016, the Group acquired property and equipment with a cost of TRY 139.957 (six-month period ended 30 June 2015: TRY 197.289).

Assets with a carrying amount of TRY 79.929 were disposed of during six-month period ended 30 June 2016 (six-month period ended 30 June 2015: TRY 60.151), resulting in a net gain on disposal of TRY 106.347 (six-month period ended 30 June 2015: net gain of TRY 44.048), which was included in ‘other income’ in the condensed consolidated statement of profit or loss and other comprehensive income. Properties with a carrying amount of TRY 58 were transferred to non-current asset held for sale (six-month period ended 30 June 2015: TRY 1.120).

**13. Income taxes**

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2016 (31 June 2015: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group’s results for the period.

The Group’s consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2016 is 16,8% (30 June 2015: 23,5%).

***Tax applications for foreign branches and foreign operations***

The principal tax rates (%) of the tax authorities in each country used to calculate deferred taxes as of 30 June 2016 and 31 December 2015 are as follows:

	<b>30 June 2016</b>	<b>31 December 2015</b>
TRNC	10%	10%
Bahrain	-	-
Republic of Macedonia	10%	10%
Republic of Serbia	15%	15%

**14. Share capital**

	<b>30 June 2016</b>	<b>31 December 2015</b>
TRY 1 (in full TRY), par value	1.250.000	1.250.000
<b>Total number of shares</b>	<b>1.250.000</b>	<b>1.250.000</b>
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
<b>Shared capital issued</b>	<b>2.578.184</b>	<b>2.578.184</b>

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**15. Reserves and dividends paid and proposed**

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

**Other reserves**

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 30 June 2016 is TRY 1.558.571 (31 December 2015: TRY 1.396.506).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 30 June 2016 is TRY 105.397 (31 December 2015: TRY 61.927).

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 “Property, Plant and Equipment” (IAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in “Revaluation differences of property and equipment” under the shareholders’ equity. The revaluation differences of property and equipment is TRY 1.672.630.

**Dividends paid and proposed**

As of the reporting date, the Bank has paid dividend amounting to TRY 241.759 out of 2015 profit.

**16. Earnings per share**

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

There is no dilution of shares as of 30 June 2016 and 30 June 2015.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	<b>30 June 2016</b>	<b>30 June 2015</b>
Net profit attributable to ordinary shareholders for basic earnings per share	1.635.888	1.291.655
Weighted average number of ordinary shares for basic earnings per share	1.250.000	1.250.000
<b>Basic earnings per share (full TRY per share)</b>	<b>1,3087</b>	<b>1,0333</b>

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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**17. Related parties**

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group’s Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

***Transactions with key management personnel***

Key management personnel comprise of the Group’s directors and key management executive officers.

As of 30 June 2016 and 30 June 2015, the Group’s directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	<b>30 June 2016</b>	<b>30 June 2015</b>
Salaries and short-term benefits	12.318	12.319

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank’s management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

***Other related party transactions***

There is no transaction related to the risk group of the Parent Bank in current period.

<b>Prior period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission Income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	2.220	21.900	-	2.385	-
Kredi Kayıt Bürosu A.Ş.	-	-	-	-	5	-
Bankalararası Kart Merkezi A.Ş.	-	-	4.000	-	230	-
<b>Total</b>	<b>-</b>	<b>2.220</b>	<b>25.900</b>	<b>-</b>	<b>2.620</b>	<b>-</b>



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**18. Commitments and contingencies**

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	<b>30 June 2016</b>	<b>31 December 2015</b>
Letters of guarantee issued	35.085.023	30.866.677
Letters of credit	4.694.698	5.016.951
Acceptance credits	4.171.607	3.273.781
Other	854.966	879.817
<b>Total non-cash loans</b>	<b>44.806.294</b>	<b>40.037.226</b>
Credit card limit commitments	11.932.856	11.181.001
Other commitments	11.714.791	9.974.847
<b>Total</b>	<b>68.453.941</b>	<b>61.193.074</b>

**Derivative financial instruments**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	<b>30 June 2016</b>			<b>31 December 2015</b>		
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in Turkish Lira equivalent</b>	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in Turkish Lira equivalent</b>
Currency swap contracts	126.862	97.420	8.806.970	30.776	26.998	8.802.995
Other swap contracts	42.631	25.748	7.569.353	84.698	-	7.595.638
Other	127.815	215.474	11.627.283	138.142	148.675	9.104.652
<b>Total</b>	<b>297.308</b>	<b>338.642</b>	<b>28.003.606</b>	<b>253.616</b>	<b>175.673</b>	<b>25.503.285</b>

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

**Fiduciary activities**

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying financial statements.

The Group transferred all investment funds to Halk Portföy Yönetimi AŞ, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of 11 funds.

**Letters of guarantee given to BIST and Borsa Istanbul Precious Metals and Diamond Market**

As of 30 June 2016, according to the general requirements of the BIST, letters of guarantee amounting to TRY 85.000 (31 December 2015: TRY 65.000) was obtained from various local banks and were provided to BIST for bond and stock market transactions by the Group.

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**18. Commitments and contingencies (continued)**

**Litigation**

In the normal course of its operations, the Group can constantly be faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

**Other**

634 branch premises of the Bank are lease holder under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management no provision is necessary for this remote contingency.

**19. Fees and commission income and expenses**

	<b>30 June 2016</b>	<b>30 June 2015</b>
<b>Fees and commission income</b>		
Banking	776.046	794.544
Brokerage	12.912	13.592
<b>Total</b>	<b>788.958</b>	<b>808.136</b>
<b>Fees and commission expenses</b>		
Banking	(239.398)	(245.539)
Brokerage	(438)	(366)
<b>Total</b>	<b>(239.836)</b>	<b>(245.905)</b>

**20. Other operating income**

	<b>30 June 2016</b>	<b>30 June 2015</b>
Reversal from prior years' provision	143.161	69.869
Other	17.160	56.315
Gain on sale of property and equipment	106.347	44.048
Rent income	24.191	39.369
<b>Total</b>	<b>290.859</b>	<b>209.601</b>

**21. Other operating expense**

	<b>30 June 2016</b>	<b>30 June 2015</b>
Staff costs		
<i>Personnel expenses</i>	925.937	798.420
<i>Retirement pay provision</i>	52.397	47.014
Administrative expenses	619.430	450.203
Saving deposit insurance fund expenses	97.953	77.212
Depreciation and amortisation expense	74.571	72.643
Taxes, duties, charges and premium expenses	77.408	70.760
Service income	15.016	25.961
Provision expense for lawsuits	2.111	2.548
Other	3.251	169.176
<b>Total</b>	<b>1.868.074</b>	<b>1.713.937</b>

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**22. Subsequent events**

None.