KPMG

Türkiye Halk Bankası Anonim Şirketi And Its Subsidiaries

Consolidated Interim Financial Statements
For the Six-Month Period Ended
30 June 2013
With Independent Auditors' Report on Review of
Interim Financial Statements Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

2 August 2013

This report contains the "Independent Auditors' Report on Review of Interim Financial Statements" comprising 1 page and; the "Consolidated Interim Financial Statements and their explanatory notes" comprising 74 pages.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

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Independent Auditors' Report on Review of Consolidated Interim Financial Statements

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

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of Türkiye Halk Bankası Anonim Şirketi ("the Bank") and its subsidiaries ("the Group") as at 30 June 2013, the consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim financial statements 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 statements 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.

Basis for Qualified Conclusion

The accompanying consolidated interim statement of financial position as at 30 June 2013 include a general reserve amounting to TL 328.300 thousands of which had been recognized as expense in the prior periods, provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions. If this general reserve was not recognised as at 30 June 2013, provision would be decreased by TL 328.300 thousands, retained earnings would be increased by TL 328.300 thousands.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of the Group as at 30 June 2013, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 "Interim Financial Reporting".

Istanbul, Turkey
2 August 2013

KPMG Akis Bağımsız Denetim ve SMMM AŞ

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Interim Statement of Financial Position
As at 30 June 2013
(Currency-In thousands of Turkish Lira ("TL"))

	Notes	30 June 2013	31 December 2012
Assets			
Cash on hand	*6*	560.476	693.330
Balances with Central Bank	*7*	2.619.361	1.952.852
Reserve deposits at Central Bank	*7*	12.079.975	9.870.896
Due from banks	*8*	2.293.409	2.750.971
Financial assets at fair value through profit or loss		222.507	153.503
- Trading securities	*9*	*133.129*	*66.935*
- Derivative financial instruments	*25*	*89.378*	*86.568*
Loans and advances	*10*	73.658.886	65.696.218
Insurance premium receivables	*11*	200.282	131.348
Investment securities:		21.322.800	23.303.282
- Available-for-sale investment securities	*9*	*9.204.487*	*9.660.191*
- Held-to-maturity investment securities	*9*	*12.118.313*	*13.643.091*
Investment in equity-accounted investees	*12*	189.402	173.545
Finance lease receivables	*13*	1.111.009	999.644
Property and equipment	*14*	1.450.734	1.496.116
Intangible assets	*15*	60.523	56.007
Non-current assets held for sale	*16*	6.602	5.752
Investment property	*17*	24.390	28.156
Deferred tax assets	*23*	200.729	294.054
Other assets	*18*	1.884.118	1.345.707
Total assets		**117.885.203**	**108.951.381**
Liabilities			
Deposits from banks	*19*	8.724.591	7.420.652
Deposits from customers	*19*	73.134.103	72.378.871
Obligations under repurchase agreements	*20*	1.672.936	417.419
Loan and advances from banks	*21*	13.320.715	9.438.957
Interbank money market borrowings	*22*	424.939	297.857
Derivative financial instruments	*25*	32.391	50.282
Debt securities issued	*26*	3.602.671	2.118.979
Insurance contract liabilities	*11*	725.116	563.451
Provisions	*24*	1.010.582	919.607
Income tax payables	*23*	2.143	379.523
Deferred tax liability	*23*	2.436	2.456
Other liabilities	*24*	2.272.614	2.726.037
Total liabilities		**104.925.237**	**96.714.091**
Equity			
Share capital	*27*	2.578.184	2.578.184
Share premium		36.384	--
Reserves	*28*	987.067	1.341.514
Retained earnings		9.161.409	8.312.761
Total equity attributable to equity holders of the Bank		**12.763.044**	**12.232.459**
Non-controlling interest		196.922	4.831
Total equity		**12.959.966**	**12.237.290**
Total liabilities and equity		**117.885.203**	**108.951.381**

The notes on pages 6 to 74 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Comprehensive Income
For the Six-Month Period Ended 30 June 2013

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

	Notes	1 January - 30 June 2013	1 January - 30 June 2012
Interest income:			
-Interest income on loans		3.458.598	3.246.960
-Interest income on securities		951.177	1.235.848
-Interest income on finance leases		46.345	38.225
-Interest income on deposits at banks		8.491	5.271
-Interest income on other money market placements		1.315	7.288
-Other interest income		8.794	4.397
		4.474.720	**4.537.989**
Interest expense:			
-Interest expense on deposits		(1.708.446)	(2.014.329)
-Interest expense on other money market deposits		(22.379)	(105.705)
-Interest expense on borrowings		(113.704)	(90.791)
-Interest expense on debt securities issued		(81.084)	(35.978)
-Other interest expense		(29.340)	(26.589)
		(1.954.953)	**(2.273.392)**
Net interest income		**2.519.767**	**2.264.597**
Fees and commission income	*33*	537.056	492.566
Fees and commission expenses	*33*	(129.723)	(80.245)
Net fee and commission income		**407.333**	**412.321**
Net trading income from securities		272.285	69.348
Net trading income / (loss) from derivative financial instruments		124.265	(315.666)
Foreign exchange gain / (losses), net		(80.645)	264.076
Net impairment losses on financial assets	*9,10,13,24*	(151.616)	(212.384)
Income from insurance operations		307.807	144.777
Cost of insurance operations		(204.852)	(46.690)
Dividend income		3.111	655
Other operating income	*31*	86.938	85.186
Other operating expenses	*32*	(1.366.629)	(1.105.608)
Operating profit		**1.917.764**	**1.560.612**
Share of profit of equity-accounted investees		8.799	5.132
Profit before income tax		**1.926.563**	**1.565.744**
Income tax expense	*23*	(349.654)	(318.485)
Profit for the period		**1.576.909**	**1.247.259**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		(278.229)	302.755
Net amount transferred to profit or loss		(256.092)	(46.871)
Foreign currency translation differences		19.054	(12.871)
Other comprehensive income for the period, net of tax		**(515.267)**	**243.013**
Total comprehensive income for the period		**1.061.642**	**1.490.272**

The notes on pages 6 to 74 are an integral part of these consolidated interim financial statements.

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

	Notes	1 January - 30 June 2013	1 January - 30 June 2012
Profit attributable to:			
Equity holders of the Bank		1.573.113	1.246.381
Non-controlling interest		3.796	878
Profit for the period		**1.576.909**	**1.247.259**
Total comprehensive income attributable to:			
Equity holders of the Bank		1.057.806	1.489.498
Non-controlling interest		3.836	774
Total comprehensive income for the period		**1.061.642**	**1.490.272**
Basic and diluted earnings per share (full TL per share)	*29*	**1,2585**	**0,9971**

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Interim Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2013
(Currency-In thousands of Turkish Lira ("TL"))

			Reserves					
	Share capital	Share Premium	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2012	**2.578.184**	**--**	**(278.203)**	**785.059**	**6.029.808**	**9.114.848**	**6.922**	**9.121.770**
Total comprehensive income for the period								
Net profit of the period	--	--	--	--	1.246.381	1.246.381	878	**1.247.259**
Other comprehensive income, net of tax								
Items that are or may be reclassified subsequently to profit or loss:								
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	--	302.718	--	--	302.718	37	302.755
Net amount transferred to profit or loss	--	--	(46.871)	--	--	(46.871)	--	(46.871)
Foreign currency translation differences	--	--	--	(12.730)	--	(12.730)	(141)	(12.871)
Total other comprehensive income	**--**	**--**	**255.847**	**(12.730)**	**--**	**243.117**	**(104)**	**243.013**
Total comprehensive income for the period	**--**	**--**	**255.847**	**(12.730)**	**1.246.381**	**1.489.498**	**774**	**1.490.272**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--	--	--	149.613	(149.613)	--	--	--
Dividends to equity holders	--	--	--	--	(386.770)	(386.770)	--	**(386.770)**
Balances at 30 June 2012	**2.578.184**	**--**	**(22.356)**	**921.942**	**6.739.806**	**10.217.576**	**7.696**	**10.225.272**
Balances at 1 January 2013	**2.578.184**	**--**	**406.863**	**934.651**	**8.312.761**	**12.232.459**	**4.831**	**12.237.290**
Total comprehensive income for the period								
Net profit of the period	--	--	--	--	1.573.113	1.573.113	3.796	**1.576.909**
Other comprehensive income, net of tax								
Items that are or may be reclassified subsequently to profit or loss:								
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	--	(278.215)	--	--	(278.215)	(14)	(278.229)
Net amount transferred to profit or loss	--	--	(256.092)	--	--	(256.092)	--	(256.092)
Foreign currency translation differences	--	--	--	19.000	--	19.000	54	19.054
Total other comprehensive income	**--**	**--**	**(534.307)**	**19.000**	**--**	**(515.307)**	**40**	**(515.267)**
Total comprehensive income for the period	**--**	**--**	**(534.307)**	**19.000**	**1.573.113**	**1.057.806**	**3.836**	**1.061.642**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--		--	172.349	(172.349)	--	--	--
Dividends to equity holders	--		--	--	(552.793)	(552.793)	--	(552.793)
Changes in ownership interests in subsidiaries								
Change in non-controlling interests without a change in control	--	36.384	--	(728)	(10.084)	25.572	188.255	213.827
Other	--	--		(10.761)	10.761	--	--	--
Balances at 30 June 2013	**2.578.184**	**36.384**	**(127.444)**	**1.114.511**	**9.161.409**	**12.763.044**	**196.922**	**12.959.966**

The notes on pages 6 to 74 are an integral part of these consolidated interim financial statements.

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

	Notes	1 January - 30 June 2013	1 January - 30 June 2012
Cash flows from operating activities			
Profit for the period		1.576.909	1.247.259
Adjustments for:			
Depreciation and amortisation	*32*	58.995	51.358
Net impairment loss on loans and advances	*10*	245.246	303.212
Net interest income		(2.519.767)	(2.264.597)
Dividend income		(3.111)	(655)
Provision for employee termination benefits	*32*	35.840	30.611
Impairment losses on property and equipment		1.680	7.084
Net gain on sale of property and equipment	*31*	(35.502)	(54.039)
Share of profit of equity-accounted investees		(8.799)	(5.132)
Income tax expense	*23*	349.654	318.485
		(298.855)	**(366.414)**
Change in financial assets at fair value through profit or loss		(66.589)	21.001
Change in due from banks		(12.513)	(12.112)
Change in loans and advances		(8.054.310)	(4.267.791)
Change in other assets		(3.330.723)	(2.187.504)
Change in deposits from banks		1.329.911	1.534.873
Change in deposits from customers		688.523	10.265.000
Change in loans and advances from banks		3.833.409	(253.610)
Change in other liabilities		1.232.293	(3.851.847)
Interest received		4.270.376	4.663.452
Dividends received		3.111	655
Interest paid		(1.678.416)	(2.107.307)
Income tax paid		(719.651)	(370.999)
Employee termination benefits paid		(10.773)	(10.165)
Net cash provided from / (used in) operating activities		**(2.814.207)**	**3.057.232**
Cash flows from investing activities			
Acquisitions of available-for-sale investment securities		(5.052.598)	(2.179.876)
Proceeds from sale of available-for-sale investment securities		6.405.802	2.536.420
Acquisitions of held to maturity investment securities	*9*	(1.488.775)	(1.834.285)
Proceeds from sale of held to maturity investment securities	*9*	1.856.070	691.253
Acquisitions of property and equipment	*14*	(137.974)	(146.833)
Proceeds from sale of property and equipment	*14*	157.325	91.753
Acquisitions of intangible assets	*15*	(6.675)	(2.451)
Net cash provided from / (used in) investing activities		**1.733.175**	**(844.019)**
Cash flows from financing activities			
Proceeds from issue of debt securities		2.037.860	716.806
Repayment of debt securities		(750.000)	(500.000)
Dividends paid	*28*	(552.793)	(386.770)
Other		30.954	(248)
Net cash provided from / (used in) financing activities		**766.021**	**(170.212)**
Net increase / (decrease) in cash and cash equivalents		**(315.101)**	**2.043.001**
Cash and cash equivalents at 1 January		5.254.694	4.783.966
Effect of change in currency rate fluctuations on cash held		373.441	(424.679)
Cash and cash equivalents at 30 June	*34*	**5.313.034**	**6.402.288**

The notes on pages 6 to 74 are an integral part of these consolidated interim financial statements.

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 2013, the Bank operates 866 branches, including 861 domestic branches and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 40 satellite branches and 2 financial services branches. There is 1 representative office in Iran. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated interim 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 and Halk Faktoring 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 Parent 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.

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.

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The consolidated interim financial statements were authorised for issue by the Board of Directors on 2 August 2013.

3. Basis of preparation

These consolidated interim financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The consolidated interim financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose and available-for-sale investment securities whose fair value can reliably be measured.

3.1. Use of estimates and judgements

The preparation of the consolidated interim financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated interim financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 4.8 – *financial assets and financial liabilities*.

Investments in equity securities were evaluated for impairment on the basis described in Note 4.8 – *financial assets and financial liabilities*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

3. Basis of preparation (continued)

3.1. Use of estimates and judgements (continued)

Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 4.8 – *financial assets and financial liabilities*.

The Group measures fair values using the fair value hierarchy which is disclosed in Note 36 – *financial risk management*.

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', the Group has determined that it meets the description of trading assets and liabilities set out in Note 4.10.

In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 4.12.

3.2. Functional and presentation currency

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The functional currency of the Bank's foreign associates is the local currency. Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

4. Significant accounting policies

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2013.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

•IFRS 10 Consolidated Financial Statements (2011) (see (a))

•IFRS 11 Joint Arrangements (see (b))

•IFRS 13 Fair Value Measurement (see (c))

•Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (see (d))

•IAS 19 Employee Benefits (2011) (see (e))

•Annual Improvements to IFRS 2009–2011 Cycle (see (f)).

4. Significant accounting policies (continued)

The nature and the effect of the changes are further explained below.

(a) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. As a consequence, the change had no significant impact on the consolidated investees of the Group.

(b) Joint arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. The change had no impact on the financial statements of the Group, since the Group has no joint arrangement.

(c) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included disclosures in this regard (see Note 36).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(d) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its condensed consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

(e) Defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit.

Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

•interest cost on the defined benefit obligation;

•interest income on plan assets; and

•interest on the effect on the asset ceiling.

4. Significant accounting policies (continued)

(e) Defined benefit plans (continued)

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The adoption of the amendment to IAS 19 has no significant impact on the recognised assets, liabilities and comprehensive income of the Group.

(f) Segment information

The amendment to IAS 34 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The adoption of the amendment to IAS 34 has no significant impact on the disclosure of segment assets and liabilities.

4.1. Basis of consolidation

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

Subsidiaries are the entities controlled by the 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 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 interim 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 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.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim 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.

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 acquiree; plus
  if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; 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.

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

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

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.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date control ceases.

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.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 30 June 2013 and 31 December 2012 are as follows:

	Place of incorporation	**Direct ownership**		**Indirect ownership**	
		30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**
Halk Sigorta AŞ	Istanbul	89.18%	89.18%	92.45%	96.04%
Halk Hayat ve Emeklilik AŞ	Istanbul	94.40%	94.40%	99.62%	99.80%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99.94%	99.94%	99.96%	99.96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	72.74%	99.84%	72.85%	99.99%
Halk Finansal Kiralama AŞ	Istanbul	100.00%	100.00%	100.00%	100.00%
Halk Banka AD, Skopje	Skopje	98.78%	98.78%	98.78%	98.78%
Halk Portföy Yönetimi AŞ	Istanbul	56.00%	56.00%	99.63%	98.71%
Halk Faktoring AŞ	Istanbul	95.00%	95.00%	99.90%	99.90%

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 interim 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.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

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

For TL associates and subsidiaries, the additions of funds (such as revaluation fund) are deducted from the cost of the associate and subsidiary (the additions of these funds to the capital are permitted for statutory purposes) and later, these costs are indexed based on the capital increase payment dates until 31 December 2005.

The equity-accounted associates of the Group as of 30 June 2013 and 31 December 2012 are as follows:

	Place of incorporation	Shareholding interest	
		30.06.2013	**31.12.2012**
Demir-Halk Bank NV	Rotterdam	30.00%	30.00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31.47%	31.47%
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	Istanbul	24.00%	24.00%

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.

4.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

4. Significant accounting policies (continued)

4.2 Foreign currency (continued)

Foreign operations (continued)

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 30 June 2013 foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and EUR. The TL/USD and TL/EUR exchange rates as at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013		31 December 2012	
	Period end	**Average**	**Year end**	**Average**
TL / USD	1,9100	1,7915	1,7650	1,7795
TL / EUR	2,4876	2,3516	2,3284	2,2875

4.3 Interest

Interest income and expense are recognised in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the consolidated interim statement of income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

4.4 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

4. Significant accounting policies (continued)

4.6 Dividends

Dividend income is recognised when the right to receive the income is established.

4.7 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated interim financial statements, have been calculated on a separate-entity basis.

4.8 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, obligations under repurchase agreements, loans and advances from banks and interbank money market borrowings on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date on which the Group commits to purchase or sell the asset. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled or expired.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Amortised cost measurement

Amortised cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, the Group established fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Identification and measurement of impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

In determining whether an impairment loss should be recorded profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: (i) adverse changes in the payment status of borrowers; or (ii) national or local economic conditions that correlate with defaults on the assets in the group.

Assets carried at amortised cost (continued)

- All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realised from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in profit or loss.

Assets carried at fair value

Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through statement of profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the consolidated interim statement of financial position.

4.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

4.11 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortised cost using the effective interest method less any impairment in value. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

4.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

4. Significant accounting policies (continued)

4.12 Investment securities (continued)

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio during 2013 and 2012.

Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

Interest earned whilst holding held to maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortised cost. Any previous gain or losses on those assets that have been recognised in equity are amortised over the remaining life of the held-to-maturity investments using the effective interest method.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. After initial recognition, available for sale financial assets are measured at fair value. Quoted equity securities and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Gains or losses on re-measurement to fair value are recognised as a separate component of equity until the instrument is derecognised, or until the instrument is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss, however interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

4. Significant accounting policies (continued)

4.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated interim financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated interim statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

4.14 Property and equipment

Recognition and measurement

Items of property and equipment acquired before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated depreciation and impairment losses, and items of property and equipment acquired after 1 January 2006 are carried at acquisition cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expense in profit or loss.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognised in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Other movable properties	2 – 25 years
Assets held under financial leases	4 – 5 years
Safe-deposit boxes	50 years

4. Significant accounting policies (continued)

4.14 Property and equipment (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Derecognition

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

4.15 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Estimated useful lives of investment properties and depreciation rates are 50 years and 2.0%, respectively.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

4.16 Intangible assets

Intangible assets acquired

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated amortisation and impairment losses, and items of intangible assets acquired after 1 January 2006 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 3 and 5 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

4. Significant accounting policies (continued)

4.16 Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they meet the definition of an intangible asset and their fair value can be measured reliably. Cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development expenditures previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalized are amortised from the commencement of the commercial production of the product on a straight-line basis in five years.

4.17 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

4.18 Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that one not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

4. Significant accounting policies (continued)

4.18 Impairment of non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.19 Leases

The Group as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as the lessor

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated interim financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated interim statement of income on a straight-line basis over the lease term.

Finance leases

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

4. Significant accounting policies (continued)

4.20 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings and deposits are the Group's sources of debt funding.

Borrowings and deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.21 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

4.22 Employee benefits

Defined benefit plans

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in other comprehensive income.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 24 are reviewed regularly. The carrying value of employee termination benefit provisions as of 30 June 2013 is TL 319.644 (31 December 2012: TL 302.418).

4. Significant accounting policies (continued)

4.22 Employee benefits (continued)

Defined contribution plans

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

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Grand National Assembly of Turkey ("GNA") started to work on establishing new legal regulations; and after, the "Law Regarding the Amendments to the Social Security and General Health Insurance Act and Certain Laws and Decree Laws" numbered 5754 which was published on the Official Gazette dated 8 May 2008 and numbered 26870 approved at the General Assembly of the GNA and came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Council of Ministers' decision. Related transfer period has been prolonged for 2 years by the Council of Ministers' decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years after that related transfer period has been prolonged for one more year by the Cabinet decision dated 8 April 2013, which was published on the Official Gazette dated 3 May 2013 and numbered 28636.

The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the balance sheet in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the expected interest rates for Turkish Lira. The methodology included the calculation of the defined benefit obligation using 9,8% and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of 30 June 2013 and 31 December 2012, no technical deficit has been reported.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4. Significant accounting policies (continued)

4.23 Insurance businesses

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisition costs, and are gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated interim statement of income.

Premium received for an investment contract, is not recognised as revenue. Premiums for such contracts are recognised directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under insurance contract liabilities in the accompanying consolidated interim statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. In the accompanying consolidated interim financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under insurance contract liabilities. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under insurance contract liabilities in the accompanying consolidated interim statement of financial position.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies.

Long term insurance contracts are presented under insurance contract liabilities in the accompanying consolidated interim financial statements.

Investment contracts: Premiums received for such contracts are recognised directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated interim financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated interim financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated interim statement of comprehensive income.

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

4. Significant accounting policies (continued)

4.24 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated interim statement of income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank.

4.25 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated interim financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

4.26 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4.27 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated interim financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted.

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

5. 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.

30 June 2013	Corporate	Commercial	Entrepreneur	Treasury /Investment[2]	Other[1]	Eliminations	Group
Interest income	555.259	441.357	4.207.801	3.296.475	61.812	(4.087.984)	4.474.720
Interest expense	(299.069)	(246.513)	(3.277.044)	(2.201.126)	(19.185)	4.087.984	(1.954.953)
Net interest income	**256.190**	**194.844**	**930.757**	**1.095.349**	**42.627**	**--**	**2.519.767**
Net fee and commission income	75.981	49.358	278.406	7.534	(3.946)	--	407.333
Net trading income from securities	--	--	--	272.285	--	--	272.285
Net trading income / (loss) from derivative transactions	--	--	--	124.667	(402)	--	124.265
Foreign exchange gain/(losses), net	--	--	--	(82.185)	1.540	--	(80.645)
Net impairment losses on loans and advances	(15.210)	(17.491)	(55.445)	(48.715)	(14.755)	--	(151.616)
Income from insurance operations	--	--	--	--	307.807	--	307.807
Cost of insurance operations	--	--	--	--	(204.852)	--	(204.852)
Dividend income	--	--	--	2.849	262	--	3.111
Other income	37.709	28.659	25.419	3.950	--		95.737
Other expenses	(14.650)	(33.695)	(579.174)	(714.522)	(24.588)	--	(1.366.629)
Profit before income tax	**340.020**	**221.675**	**599.963**	**661.212**	**103.693**	**--**	**1.926.563**
Income tax expense	--	--	--	(330.202)	(19.452)	--	(349.654)
Profit for the period	**340.020**	**221.675**	**599.963**	**331.010**	**84.241**	**--**	**1.576.909**

[1]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.

[2]Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira ("TL"))

5. **Operating segments** (continued)

30 June 2012	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment**[2]	**Other**[1]	**Eliminations**	**Group**
Interest income	572.444	497.951	4.789.486	3.780.819	51.399	(5.154.110)	4.537.989
Interest expense	(412.769)	(367.487)	(3.509.706)	(3.118.392)	(19.148)	5.154.110	(2.273.392)
Net interest income	**159.675**	**130.464**	**1.279.780**	**662.427**	**32.251**	**--**	**2.264.597**
Net fee and commission income	76.969	78.103	229.444	20.261	7.544	--	412.321
Net trading income from securities	--	--	--	69.348	--	--	69.348
Net trading loss from derivative transactions	--	--	--	(316.727)	1.061	--	(315.666)
Foreign exchange gain/(losses), net	--	--	--	268.205	(4.129)	--	264.076
Net impairment losses on loans and advances	(6.385)	(8.258)	(75.546)	(121.171)	(1.024)	--	(212.384)
Income from insurance operations	--	--	--	--	144.777	--	144.777
Cost of insurance operations	--	--	--	--	(46.690)	--	(46.690)
Dividend income	--	--	--	655	--	--	655
Other income	340	7.520	58.482	23.976	--	--	90.318
Other expenses	(12.623)	(26.560)	(459.427)	(533.706)	(73.292)	--	(1.105.608)
Profit before income tax	**217.976**	**181.269**	**1.032.733**	**73.268**	**60.498**	**--**	**1.565.744**
Income tax expense	--	--	--	(303.722)	(14.763)	--	(318.485)
Profit for the period	**217.976**	**181.269**	**1.032.733**	**(230.454)**	**45.735**	**--**	**1.247.259**

[1] Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ and Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira (“TL”))

5. Operating segments (continued)

The segment assets and liabilities as at 30 June 2013 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[(1)]	Group
Segment assets	10.572.654	10.362.902	47.189.019	47.691.604	1.879.622	117.695.801
Investment in equity-accounted investees	--	--	--	189.402	--	189.402
Total assets	**10.572.654**	**10.362.902**	**47.189.019**	**47.881.006**	**1.879.622**	**117.885.203**
Segment liabilities	9.387.535	3.609.878	59.157.292	30.422.556	2.347.976	104.925.237
Total liabilities	**9.387.535**	**3.609.878**	**59.157.292**	**30.422.556**	**2.347.976**	**104.925.237**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Other” column.

The segment assets and liabilities as at 31 December 2012 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[(1)]	Group
Segment assets	10.049.986	9.560.940	41.299.020	46.343.806	1.524.084	108.777.836
Investment in equity-accounted investees	--	--	--	173.545	--	173.545
Total assets	**10.049.986**	**9.560.940**	**41.299.020**	**46.517.351**	**1.524.084**	**108.951.381**
Segment liabilities	11.966.446	4.508.421	58.257.333	20.605.615	1.376.276	96.714.091
Total liabilities	**11.966.446**	**4.508.421**	**58.257.333**	**20.605.615**	**1.376.276**	**96.714.091**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Other” column.

Geographical segments

The Group’s geographical segments are based on the location of Group’s assets. The Group’s activities are conducted predominantly in Turkey and Turkey is the home country of the Bank. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

The Group’s acquisition of properties and equipments, intangible assets and investment properties as of 30 June 2013 is mainly occurred in Turkey.

(Currency – In thousands of Turkish lira ("TL"))

6. Cash on hand

At 30 June 2013 and 31 December 2012, cash on hand comprised the following:

	30 June 2013	**31 December 2012**
Cash on hand		
- *Turkish lira*	*434.727*	*523.334*
- *Foreign currency*	*122.468*	*165.655*
Precious metals (gold)	*3.275*	4.327
Other liquid assets	6	14
Total cash on hand	**560.476**	**693.330**

7. Balances with Central Bank

	30 June 2013	**31 December 2012**
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	1.517.690	1.076.051
Demand deposits – Foreign currency	1.101.671	876.801
	2.619.361	**1.952.852**
Reserve deposits		
Demand deposits – Turkish Lira(1)	8.202	7.456
Demand deposits – Foreign currency	12.071.773	9.863.440
	12.079.975	**9.870.896**
Total balances with Central Bank	**14.699.336**	**11.823.748**

According to the Communiqué on Reserve Requirements, No. 2005/1 based on Article 40-II of The Law on the Central Bank of the Republic of Turkey No. 1211 as amended by Banking Law No. 5411, dated 19 October 2005, banks are obliged to maintain required reserves at the Central Bank for their liabilities. Deposits subject to reserve requirement include the deposits of real and legal persons, interbank deposits (excluding domestic interbank deposits) and the deposits collected in Turkey by the banks on behalf of their branches abroad.

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TL, USD, EUR/and or standard gold at the rates between 5% and 11,5% according to their maturities (31 December 2012: between 5% and 11% according to their maturities), foreign currency liabilities in USD, EUR/and or standard gold at the rates between 6% and 13% according to their maturities (31 December 2012: between 6% and 11.5% according to their maturities), respectively as per the Communique no.2011/11 and 2011/13 "Reserve Deposits" of the Central Bank of Turkey.

With the Board of Minutes No. 827 dated 16 July 2012 of TRNC Central Bank's, required reserve ratios are between 5% and 8% for TL liabilities and 8% for FC liabilities.

With the Board of Minutes No. 129 dated 2006 of Central Bank of Macedonia, required reserve ratios are 10% for MKD currency liabilities and 13% for foreign currency liabilities.

Reserve deposits required by the Central Bank of Turkey are not interest bearing except those kept by the Central Banks of TRNC and Macedonia.

(Currency – In thousands of Turkish lira ("TL"))

8. Due from banks

	30 June 2013	31 December 2012
Domestic banks		
Demand deposits – Turkish Lira	21.863	8.023
Demand deposits – Foreign currency	1.965	66
Time deposits – Turkish Lira	21.540	162.490
Time deposits – Foreign currency	1.495.995	474.351
	1.541.363	**644.930**
Foreign banks		
Demand deposits – Turkish lira	15.292	31.690
Demand deposits – Foreign currency	198.390	1.575.589
Time deposits – Turkish Lira	15.122	5.865
Time deposits – Foreign currency	345.461	330.363
	574.265	**1.943.507**
Money market placements[(1)]	**177.781**	**162.534**
Total due from banks	**2.293.409**	**2.750.971**

[(1)]Money market placements include interest income accrual amounting to TL 167 (31 December 2012: TL 34).

For cash flow purposes, the bank balances and money market placements having original maturity of less than 3 months were classified as cash and cash equivalents. These balances are amounting to TL 2.280.896 as at 30 June 2013 (30 June 2012: TL 1.890.664).

9. Securities portfolio

Financial assets at fair value through profit or loss

At 30 June 2013 and 31 December 2012, financial assets at fair value through profit or loss comprised the following:

	30 June 2013	31 December 2012
Turkish Government bonds and Eurobonds issued by the Turkish Government	111.826	51.600
Bonds issued by financial institutions	21.303	15.335
Total of financial assets at fair value through profit or loss	**133.129**	**66.935**

(Currency – In thousands of Turkish lira (“TL”))

9. Securities portfolio (continued)

At 30 June 2013 and 31 December 2012, available for sale securities portfolio comprised the following:

	30 June 2013	**31 December 2012**
Treasury bills and government bonds	9.182.028	9.639.643
Quoted bills and bonds on a stock exchange	*9.376.502*	*9.642.209*
Fair value change	*(194.474)*	*(2.566)*
Equity shares	22.459	20.548
Share certificates not quoted on a stock exchange	*41.366*	*39.455*
Allowance for impairment on equity shares	*(18.907)*	*(18.907)*
Total of available for sale securities	**9.204.487**	**9.660.191**

Available-for-sale securities include securities given as collateral amounting to TL 1.114.382 (31 December 2012: TL 288.286). As of 30 June 2013, available-for-sale investment securities include securities pledged under repurchase agreements amounting to TL 49.785 (31 December 2012: None).

The equity shares in available for sale portfolio are unquoted and detailed as follows:

	30 June 2013	**31 December 2012**
Macar-Halk Bank Magysrorszagi VolksBank RT	19.344	19.344
IMKB Takas ve Saklama Bankası AŞ	3.671	3.671
Bankalararası Kart Merkezi AŞ	3.803	3.803
Kredi Kayıt Bürosu AŞ	2.516	2.516
Kredi Garanti Fonu İşletme ve Araştırma AŞ	4.240	4.240
Uluslararası Garagum Ortaklar Bankası	1.851	1.851
Other	5.941	4.030
Allowance for impairment on equity securities	(18.907)	(18.907)
Total equity shares in available for sale investments	**22.459**	**20.548**

The details of allowance for impairment are as follows:

	30 June 2013	**31 December 2012**
Macar-Halk Bank Magysrorszagi VolksBank RT	17.280	17.280
Uluslararası Garagum Ortaklar Bankası	1.627	1.627
Allowance for impairment on equity securities	**18.907**	**18.907**

(Currency – In thousands of Turkish lira ("TL"))

9. Securities portfolio (continued)

Held to maturity investment securities comprised the following items:

	30 June 2013	31 December 2012
Government bonds	12.111.248	13.636.006
Other securities	7.065	7.085
Total	**12.118.313**	**13.643.091**

Held to maturity investment securities include securities pledged under repurchase agreements and given as collateral amounting to TL 1.582.059 and TL 2.482.100 (31 December 2012: TL 396.489 and TL 2.644.670), respectively.

	30 June 2013	31 December 2012
Held to maturities portfolio:		
Quoted on a stock exchange	10.285.592	11.810.664
Not quoted	1.832.721	1.832.427
Total	**12.118.313**	**13.643.091**

The movements of held to maturity investment securities for the six-month periods ended 30 June 2013 and 30 June 2012 are as follows:

	30 June 2013	30 June 2012
Beginning balance	13.643.091	14.064.458
Foreign currency differences	(30)	(97.048)
Purchases during the year(1)	1.550.196	1.931.850
Disposals through sales and redemptions(2)	(3.074.944)	(814.712)
Balance at the end of the period	**12.118.313**	**15.084.548**

(1) Differences between 30 June 2013 interest income accrual amounting to TL 879.788 and 31 December 2012 interest accrual amounting to TL 818.367 has been included in purchases row.

(2) In accordance with the exceptions to the tainting rules defined in IAS 39-Financial Instruments: Recognition and Measurement, as of 30 June 2013, the Bank reclassified EUR 264.347 thousands and USD 342.113 thousands of financial assets from held to maturity investments portfolio to available for sale portfolio. Related amount was presented in "Disposals Through Sales and Redemptions" row. The remaining day to maturity of such financial assets is very short and the carrying value of these financial assets approximates their maturity value.

(Currency – In thousands of Turkish lira ("TL"))

10. Loans and advances

	30 June 2013	31 December 2012
Short term loans		
Guaranteed export loans	2.180.086	1.925.409
Other guaranteed loans	10.973.764	10.798.809
Other non-guaranteed loans	2.961.433	2.714.490
Loans provided to financial sector	595.594	1.326.175
Loans provided to foreign institutions	141.202	124.484
Non-guaranteed export loans	302.648	402.643
Interest accruals	183.332	202.698
	17.338.059	**17.494.708**
Medium and long term loans		
Guaranteed other investment and operating loans	37.227.038	31.542.052
Other non-guaranteed loans	17.905.436	15.403.074
Loans given to foreign institutions	245.221	224.918
Loans given to financial sector	225.535	349.662
Interest accruals	596.031	559.784
	56.199.261	**48.079.490**
Total performing loans and advances	**73.537.320**	**65.574.198**
Non-performing loans and advances and allowance for impairment		
Gross non-performing loans	2.084.628	1.974.073
Specific allowance for impairment on loans	(1.643.368)	(1.557.769)
Portfolio allowance for impairment on loans	(319.694)	(294.284)
Loans and advances, net	**73.658.886**	**65.696.218**

The movement in the allowance for impairment on loans for the six-month periods ended 30 June 2013 and 30 June 2012 are as follows:

	30 June 2013	30 June 2012
Balance on 1 January	(1.852.053)	(1.477.823)
Net impairment loss for the period:	(111.009)	(195.656)
- Charge for the period	*(245.246)*	*(303.212)*
- Recoveries and reversals	*134.237*	*107.556*
Balance at 30 June	**(1.963.062)**	**(1.673.479)**

(Currency – In thousands of Turkish lira (“TL”))

11. Insurance receivables and insurance contract liabilities

Insurance receivables

At 30 June 2013 and 31 December 2012, insurance receivables comprised the following:

	30 June 2013	31 December 2012
Receivables from reinsurance and insurance companies	123.293	86.970
Receivables from agencies, brokers and intermediaries	75.410	41.967
Cash deposited to insurance and reinsurance companies	16.802	17.753
Total insurance receivables	**215.505**	**146.690**
Allowance for non-performing insurance receivables	(15.223)	(15.342)
Insurance receivables, net	**200.282**	**131.348**

The details of guarantees for the Group’s insurance receivables are presented below:

	30 June 2013	31 December 2012
Mortgage notes	14.384	15.686
Letters of guarantees	4.476	4.277
Treasury bills and government bonds	330	522
Other guarantees	522	323
Total	**19.712**	**20.808**

The movement in the allowance for impairment in respect of insurance receivables for the six-month periods ended 30 June 2013 and 30 June 2012 are as follows:

	30 June 2013	30 June 2012
Balance at 1 January	15.342	15.029
Impairment loss recognised	311	331
Collections during the period	(430)	(458)
Balance at 30 June	**15.223**	**14.902**

(Currency – In thousands of Turkish lira ("TL"))

11. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance technical reserves as of 30 June 2013 and 31 December 2012 are detailed in the tables below:

	30 June 2013	31 December 2012
Life mathematical reserve	218.298	188.347
Unearned premiums reserve	297.005	225.516
Claims provision	153.396	124.151
Unexpired risk reserve	8.842	8.144
Other technical reserves	44	43
Total technical reserve	**677.585**	**546.201**
Other insurance liabilities	47.531	17.250
Total insurance contract liabilities	**725.116**	**563.451**

12. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	30 June 2013	31 December 2012
Demir-Halk Bank NV	171.011	155.676
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	14.329	14.324
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	4.062	3.545
Equity accounted investees	**189.402**	**173.545**

(Currency – In thousands of Turkish lira ("TL"))

12. Equity accounted investees (continued)

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	Ownership	Total assets	Equity	Profit / (loss) for the period
2013				
Demir-Halk Bank NV	30.00%	4.453.289	576.352	25.905
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31.47%	45.790	45.529	15
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	24.00%	31.105	16.931	3.653
2012				
Demir-Halk Bank NV	30.00%	4.213.875	524.209	18.364
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31.47%	46.854	46.649	665
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	24.00%	27.782	12.670	1.093

13. Finance lease receivables

Maturity structure of investments on financial lease:

	30 June 2013		31 December 2012	
	Gross	Net	Gross	Net
Less than 1 year	288.572	213.930	255.693	184.640
Between 1-4 years	840.150	735.229	677.244	589.091
More than 4 years	172.429	161.850	240.259	225.913
Total	**1.301.151**	**1.111.009**	**1.173.196**	**999.644**

Information on gross investments of financial lease:

	30 June 2013	31 December 2012
Gross financial lease investment	1.301.151	1.173.196
Unearned revenues from financial lease	(190.142)	(173.552)
Total	**1.111.009**	**999.644**

Information on receivables from non- performing loans of financial lease:

	30 June 2013	31 December 2012
Non-performing financial lease receivables	122.711	90.707
Specific provisions	(37.536)	(34.708)
Total	**85.175**	**55.999**

(Currency – In thousands of Turkish lira ("TL"))

14. Property and equipment

During the six-month period ended 30 June 2013, the Group acquired property and equipment with a cost of TL 137.974 (six-month period ended 30 June 2012: TL 146.833).

Property and equipment with a carrying amount of TL 121.823 were disposed of during six-month period ended 30 June 2013 (six-month period ended 30 June 2012: TL 37.714), resulting in a net gain on disposal of TL 35.502 (six-month period ended 30 June 2012: net gain of TL 54.039), which is included in other income. Properties with a carrying amount of TL 3.257 were transferred to non-current asset held for sale (six-month period ended 30 June 2012: TL 54.715).

15. Intangible assets

During the six-month period ended 30 June 2013, the Group acquired intangible asset with a cost of TL 6.765 (six-month period ended 30 June 2012: TL 2.451).

The intangible assets of the Group as of 30 June 2013 are TL 60.523 (31 December 2012: TL 56.007).

16. Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The non-current assets held for sale of the Group as of 30 June 2013 is TL 6.602 (31 December 2012: TL 5.752).

17. Investment property

The investment property of the Group as of 30 June 2013 is TL 24.390 (31 December 2012: TL 28.156).

18. Other assets

At 30 June 2013 and 31 December 2012, other assets comprised the following:

	30 June 2013	**31 December 2012**
Prepaid expense	535.252	315.596
Factoring receivables	329.477	463
Receivables from credit card payments	237.962	176.123
Advances given for lease transactions	108.683	74.573
Receivables from asset sale on credit terms	99.480	66.850
Clearing house account	64.144	439.881
Cash guarantees given	17.221	6.086
Other assets	491.899	266.135
Total other assets	**1.884.118**	**1.345.707**

(Currency – In thousands of Turkish lira ("TL"))

19. Deposits

At 30 June 2013 and 31 December 2012, deposits from banks comprised the following:

	30 June 2013	31 December 2012
Call deposits	4.134.297	3.800.718
Time deposits	4.590.294	3.619.934
Deposits from banks	**8.724.591**	**7.420.652**

As at 30 June 2013, deposits from banks include TL accounts amounting to TL 3.853.161 (31 December 2012: TL 1.494.266) and foreign currency accounts amounting to TL 4.871.430 (31 December 2012: TL 5.926.386) in total.

At 30 June 2013 and 31 December 2012, deposits from customers comprised the following:

	30 June 2013		31 December 2012	
	Demand	**Time**	**Demand**	**Time**
Saving deposits	3.093.353	23.832.599	2.563.522	24.721.733
Foreign currency deposits	2.344.155	18.013.733	3.058.762	15.258.921
Commercial deposits	2.934.396	10.367.470	2.146.606	10.230.638
Public institutions and other deposits	4.952.349	7.596.048	4.526.503	9.872.186
Deposits from customers	**13.324.253**	**59.809.850**	**12.295.393**	**60.083.478**

20. Obligations under repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	30 June 2013	31 December 2012
Obligations under repurchase agreements	1.672.936	417.419
Total	**1.672.936**	**417.419**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 June 2013, the maturities of the obligations varied from one day to 1 year (31 December 2012: one day to 1 year).

(Currency – In thousands of Turkish lira (“TL”))

21. Loan and advances from banks

At 30 June 2013 and 31 December 2012, loans and advances from banks comprised the following:

	30 June 2013	31 December 2012
Borrowings	11.881.064	8.031.070
Funds	1.439.651	1.407.887
Total	**13.320.715**	**9.438.957**

At 30 June 2013 and 31 December 2012, borrowings comprised the following:

	30 June 2013		31 December 2012	
	Short term	**Long term**	**Short term**	**Long term**
Loans and advances from domestic banks and institutions	941.186	164.767	370.246	75.125
Loans and advances from foreign banks and institutions	5.685.786	5.089.325	3.882.108	3.703.591
Borrowings	**6.626.972**	**5.254.092**	**4.252.354**	**3.778.716**

Borrowings are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as of 30 June 2013 (31 December 2012: None).

Funds borrowed include funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the ministries or the institutions that the funds belong to.

(Currency – In thousands of Turkish lira ("TL"))

21. Loan and advances from banks (continued)

As at 30 June 2013 and 31 December 2012, interest rates and maturities of short-term bank borrowings are as follows:

Fixed rates			
30 June 2013	**Amount**	**Interest rate**	**Maturity**
USD borrowings	5.074.248	0% - 5,69%	January 2013 - September 2038
EUR borrowings	3.742.314	0,25% - 6,22%	January 2013 - September 2038
TL borrowings	1.137.219	0% - 10%	January 2013 - June 2020
Other borrowings	34.562	%0.87 - %1.00	January 2013 - December 2019
Total	**9.988.343**		

Floating rates			
30 June 2013	**Amount**	**Interest rate**	**Maturity**
USD borrowings	494.690	Libor+0,60	July 2014
EUR borrowings	1.398.031	Euribor+0,60	July 2014
Total	**1.892.721**		

Fixed rates			
31 December 2012	**Amount**	**Interest rate**	**Maturity**
USD borrowings	2.607.493	0% - 5,69%	January 2013 - September 2038
EUR borrowings	3.133.746	0,567% - 6,22%	January 2013 - September 2038
TL borrowings	585.053	0% - 9%	January 2013 - June 2020
Other borrowings	39.294	0,2776% - 3,497%	January 2013 - December 2019
Total	**6.365.586**		

Floating rates			
31 December 2012	**Amount**	**Interest rate**	**Maturity**
USD borrowings	366.238	Libor + 0,95	July 2013
EUR borrowings	1.299.246	Euribor + 0,95	July 2013
Total	**1.665.484**		

As of 30 June 2013 borrowings from foreign banks and institutions include syndicated loans amounting to USD 259.000 thousand and EUR 562.000 thousand (31 December 2012: USD 207.500 thousand and EUR 558.000 thousand).

(Currency – In thousands of Turkish lira ("TL"))

22. Interbank money market borrowings

	30 June 2013	31 December 2012
Payables to stock exchange money market	162.017	150.049
On behalf of customer	262.922	147.808
Total	**424.939**	**297.857**

Payables to stock exchange money markets have a maturity of 31 days (31 December 2012: 31 days) with between 6,65% and 8,30% (31 December 2012: between 5,65% and 6,50%) of interest rates.

23. Taxation

The Bank and its subsidiaries located in Turkey are 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 2013 (31 December 2012: 20%). Provision is made in the accompanying consolidated interim financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated interim financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2013 is 20% (31 December 2012: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

(Currency – In thousands of Turkish lira ("TL"))

23. Taxation (continued)

Investment incentives

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the "2006, 2007 and 2008" clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group's subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per "Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws" accepted on 23 July 2010 at the Grand National Assembly of Turkey, the expression of "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date" has been amended as "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date" and the following expression of " Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate" has been added. This Law has been published in the Official Gazette on 1 August 2010.

The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20.

Transfer pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

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 2013 and 31 December 2012 are as follows:

	30 June 2013	**31 December 2012**
TRNC	10%	10%
Bahrain	--	--
Republic of Macedonia	10%	10%

As of 30 June 2013 and 31 December 2012 advance income taxes are netted off with the current income tax liability as stated below:

	30 June 2013	**31 December 2012**
Income tax liability	147.311	1.034.121
Income tax paid in advance	(145.168)	(654.598)
Income tax payables	**2.143**	**379.523**

(Currency – In thousands of Turkish lira (“TL”))

23. Taxation (continued)

Deferred taxes

Taxes on income for the period also comprise deferred taxes. Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2012: 20%) is used.

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

Deferred tax assets and liabilities are attributable to the following:

	30 June 2013	**31 December 2012**
Valuation differences on financial assets and liabilities	14.227	126.388
Provisions	117.951	102.686
Portfolio and specific provision for impairment on loans and advances	66.649	57.614
Other	1.902	7.366
Deferred tax assets	**200.729**	**294.054**

As of 30 June 2013, the Group also has net deferred tax liability amounting to TL 2.436 (31 December 2012: TL 2.456).

Movement of net deferred tax can be presented as follows:

	30 June 2013	**31 December 2012**
Deferred tax, net at 1 January	291.598	118.829
Deferred income tax recognised in other comprehensive income	109.038	(135.486)
Deferred tax recognised in the comprehensive income statement	(202.343)	308.255
Deferred tax, net	**198.293**	**291.598**

An analysis of the Group’s income tax expense for the periods ended 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013	**30 June 2012**
Current tax expense		
Current period	147.311	462.309
Deferred tax expense/ (benefit)		
Origination and reversal of temporary differences	202.343	(143.824)
Total income tax expense	**349.654**	**318.485**

(Currency – In thousands of Turkish lira ("TL"))

23. Taxation (continued)

Reconciliation of effective tax rate

The reported taxation charge for the six-month period ended 30 June 2013 and 30 June 2012 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	30 June 2013		30 June 2012	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**1.926.563**		**1.565.744**	
Income tax using the Bank's domestic tax rate	385.313	20	313.149	20
Tax exempt income	(62.466)	(3,24)	(17.999)	(1,15)
Non-deductible expenses	26.807	1,39	23.335	1,49
Income tax expense	**349.654**	**18,15**	**318.485**	**20,34**

24. Other liabilities and provisions

	30 June 2013	**31 December 2012**
Other liabilities		
Cooperative deposit blockages	849.526	786.325
Credit card members restricted account	430.761	315.220
Unearned revenue	339.860	282.049
Taxes and dues payable	234.118	263.047
Cheques clearance account	134.954	849.130
Banking transactions	100.473	101.366
Payment orders	25.324	22.526
Resource utilization support fund	23.323	23.762
Collaterals received for derivative instruments	11.241	12.968
Import transfer orders	10.994	14.144
Other liabilities	112.040	55.500
Total	**2.272.614**	**2.726.037**
Provisions		
Employee termination benefits	319.644	302.418
Unused vacation provision	117.938	103.247
Provision on non-cash loans	75.271	62.469
Provision on lawsuits	28.918	29.112
Provisions for credit card bonuses	7.376	5.292
Other(1)	461.435	417.069
Total	**1.010.582**	**919.607**

(1) As of 30 June 2013 other provisions includes a general reserve amounting to TL 328.300 (31 December 2012: TL 328.300) provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

(Currency – In thousands of Turkish lira ("TL"))

24. Other liabilities and provisions (continued)

Employee termination benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 3.129,25 and full TL 3.033,98 at 30 June 2013 and 31 December 2012 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to full TL 3.254,44 effective 1 July 2013.

The principal actuarial assumptions used in the calculation of the total liability at the reporting date are as follows:

	30 June 2013	31 December 2012
Discount rate for pension plan liabilities	2,63%	2,63%
Expected rates of salary increase	5,20%	5,20%
Inflation	5,00%	5,00%

25. 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 period-end and are neither indicative of the market risk nor credit risk.

	30 June 2013			31 December 2012		
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
Currency swap contracts	41.096	19.082	8.550.897	51.872	45.427	7.229.476
Other swap contracts	34.371	1.405	1.377.000	24.786	--	147.350
Other	13.911	11.904	3.886.566	9.910	4.855	3.508.472
Total	**89.378**	**32.391**	**13.814.463**	**86.568**	**50.282**	**10.885.298**

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

(Currency – In thousands of Turkish lira ("TL"))

26. Debt securities issued

	30 June 2013	31 December 2012
Debt securities issued at amortized cost	3.602.671	2.118.979
Total of debt securities issued	**3.602.671**	**2.118.979**

On 11 January 2013, the treasury bills amounting to TL 750.000 with maturity of 175 days are issued by the Bank. On 19 July 2012 and 5 February 2013, the bonds respectively amounting to USD 750.000 thousands with maturity of 5 years and amounting to USD 750.000 thousands with maturity of 7 years are issued by the Bank. On 25 September 2012, the bonds amounting to TL 100.000 with maturity of 24 months are issued by the Halk Finansal Kiralama AŞ.

27. Share capital

As at 30 June 2013, the authorized nominal share capital of the Bank amounts to TL 1.250.000 (31 December 2012: TL 1.250.000). The Bank's paid-in capital is divided into 1,250,000,000 shares, each with a nominal value of full TL 1.

	30 June 2013	31 December 2012
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
Shared capital issued	**2.578.184**	**2.578.184**

28. 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 2013 is TL 1.075.812 (31 December 2012: TL 914.952).

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 2013 is TL 38.699 (31 December 2012: TL 19.699).

Dividends paid and proposed

As of the reporting date, the Bank has paid TL 552.793 out of 2012 profit.

(Currency – In thousands of Turkish lira ("TL"))

29. 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 2013 and 30 June 2012.

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

	30 June 2013	**30 June 2012**
Net profit attributable to ordinary shareholders for basic earnings per share	1.573.113	1.246.381
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
Basic earnings per share (full TL per share)	**1,2585**	**0,9971**

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.

30. 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 interim 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.

(Currency – In thousands of Turkish lira (“TL”))

30. Related parties (continued)

Transactions with key management personnel

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

As of 30 June 2013 and 30 June 2012 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:

	30 June 2013	30 June 2012
Salaries and short-term benefits	8.245	5.941

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.

Related party balances and transactions

2013	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission income
Demir-Halk Bank NV	--	--	--	--	--	--
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	1.869	22.327	--	811	5
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sis. AŞ	--	--	5.131	--	73	--
Mersin Serbest Bölge İşletmesi AŞ	--	--	--	--	--	--
Kredi Kayıt Bürosu AŞ	--	--	45	--	4	--
Total	**--**	**1.869**	**27.503**	**--**	**888**	**5**

2012	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission income
Demir-Halk Bank NV	--	88	--	--	--	--
Kredi Garanti Fonu İşletme ve Araştırma AŞ	--	--	--	--		--
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	2.638	23.690	--	1.441	6
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sis. AŞ	--	--	--	--	197	--
Mersin Serbest Bölge İşletmesi AŞ	--	--	--	--	--	--
Kredi Kayıt Bürosu AŞ	--	--	--	--	63	--
Fintek AŞ	--	--	--	--	--	--
Bankalararası Kart Merkezi A.Ş.	--	--	--	--	91	--
Total	**--**	**2.726**	**23.690**	**--**	**1.792**	**6**

(Currency – In thousands of Turkish lira ("TL"))

31. Other operating income

	30 June 2013	30 June 2012
Gain on sale of property and equipment	35.502	54.039
Reversal from prior years' provision	11.629	6.997
Income from other banking services	7.528	6.500
Rent income	4.040	3.568
Other	28.239	14.082
Total	**86.938**	**85.186**

32. Other operating expenses

	30 June 2013	30 June 2012
Staff costs:		
Personnel expenses	575.698	427.280
Retirement pay provision	35.840	30.611
Administrative expenses	536.237	346.600
Depreciation and amortization expense	58.995	51.358
Saving deposit insurance fund expenses	56.693	49.392
Taxes, duties, charges and premium expenses	57.252	42.497
Provision expense for lawsuits	2.539	5.769
Other[1]	43.375	152.101
Total	**1.366.629**	**1.105.608**

[1] As at 30 June 2013 there is no charge of general reserve (30 June 2012: TL 51.500) provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

33. Fees and commission income and expenses

	30 June 2013	30 June 2012
Fees and commission income		
Banking	529.484	485.766
Brokerage	7.572	6.800
Total	**537.056**	**492.566**
Fees and commission expenses		
Banking	(129.548)	(80.166)
Brokerage	(175)	(79)
Total	**(129.723)**	**(80.245)**

(Currency – In thousands of Turkish lira ("TL"))

34. Additional cash flow information

	30 June 2013	30 June 2012
Cash on hand	560.470	483.534
Due from banks		
(with original maturity of less than 3 months)	2.100.288	1.787.821
Money market placements	177.614	99.914
Bank blockage balance(1)	(144.705)	(75.951)
Unrestricted balances with Central Bank	2.619.367	4.106.970
Cash and cash equivalents in the statement of cash flows	**5.313.034**	**6.402.288**

(1) Blocked accounts for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TL 118.804 (30 June 2012: TL 75.951) and of Halk Sigorta AŞ amounting to TL 25.901 (30 June 2012: None), which are given as collateral to Under secretariat of Treasury of Republic of Turkey.

The reserve deposits with Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

35. 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:

	30 June 2013	31 December 2012
Letters of guarantee issued	16.706.260	15.213.859
Letters of credit	2.761.741	2.809.737
Acceptance credits	1.579.008	1.183.307
Other	791.783	551.962
Total non-cash loans	**21.838.792**	**19.758.865**
Credit card limit commitments	9.522.873	6.021.405
Other commitments	7.815.706	7.101.140
Total	**39.177.371**	**32.881.410**

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 also manages eleven investment funds, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of six of Bank's funds; and Halk Yatırım Menkul Değerler AŞ is engaging in fund management of five of Bank's funds. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

35. Commitments and contingencies (continued)

Letters of guarantee given to BİST and Borsa İstanbul Precious Metals and Diamond Market

As of 30 June 2013, according to the general requirements of the BİST, letters of guarantee amounting to TL 331.800 (31 December 2012: TL 186.000) was obtained from various local banks and were provided to BİST for bond and stock market transactions by the Group.

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

530 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.

On the other hand, according to the decision numbered 11-55/1438 dated 2 November 2011 of the Competition Board, investigation on some enterprises in banking sector, including 12 banks and 2 financial services institutions, including the Bank, allegedly violating the fourth substance of Law numbered 4054 is continuing, as a result the Bank has been imposed a fine amounting TL 89.691 on 8 February 2013 with the declaration of decision. As determined by Bank's management all activities subject to investigation are in conformity with the legislation, therefore, provided no provision as of 30 June 2013.

36. Financial risk management

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Group. The Bank Risk Management supervises the risk management process of the Group.

The mission of Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

36. Financial risk management (continued)

Credit risk

The Group manages its credit risk by limiting its risk through involvement with highly credible banks and organizations. Under the risk management the bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The Group's credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily in cooperation with the Treasury Department.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Financial statements obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank's Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of suretyships, mortgages on property, cash blockages and cheques.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan clients of the Bank to the total loan portfolio is 19,07% (31 December 2012: 20,60%).

The percentage of the top 100 non-cash loan clients of the Bank to the total non-cash loan portfolio is 52% (31 December 2012: 53,90%).

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 15,65% (31 December 2012: 15,89%).

Derivatives:

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

36. Financial risk management (continued)

Credit risk (continued)

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows:

	30 June 2013	
	Cash	**Non-cash**
Agricultural	539.357	24.509
Farming and raising livestock	*487.143*	*22.209*
Forestry	*1.997*	*250*
Fishing	*50.217*	*2.050*
Manufacturing	20.918.416	8.346.143
Mining	*335.381*	*145.338*
Production	*19.043.290*	*7.126.120*
Electric, gas and water	*1.539.745*	*1.074.685*
Construction	2.070.867	5.446.017
Services	25.411.251	7.893.466
Wholesale and retail trade	*12.818.376*	*3.131.694*
Hotel, food and beverage services	*1.715.264*	*83.652*
Transportation and telecommunication	*3.947.240*	*171.254*
Financial Institutions	*925.304*	*2.971.888*
Real estate and renting services	*4.672.751*	*1.470.706*
Self-employment services	*458.249*	*9.711*
Education services	*170.102*	*10.513*
Health and social services	*703.965*	*44.048*
Other	24.597.429	128.657
Total loans	**73.537.320**	**21.838.792**
Non-performing loans	2.084.628	--
Less: allowance for losses on loans and advances	(1.963.062)	--
Total	**73.658.886**	**21.838.792**

(*) As of 30 June 2013 allowance for losses on non cash loans are TL 75.271.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows: (continued)

	31 December 2012	
	Cash	**Non-cash**
Agricultural	565.391	23.425
Farming and raising livestock	*531.372*	*21.032*
Forestry	*2.063*	*311*
Fishing	*31.956*	*2.082*
Manufacturing	18.927.193	7.928.878
Mining	*286.928*	*169.462*
Production	*17.726.168*	*6.970.219*
Electric, gas and water	*914.097*	*789.197*
Construction	1.713.563	5.143.626
Services	23.480.425	6.509.813
Wholesale and retail trade	*11.858.137*	*2.869.721*
Hotel, food and beverage services	*1.533.082*	*62.138*
Transportation and telecommunication	*3.012.311*	*153.267*
Financial Institutions	*1.596.307*	*2.526.353*
Real estate and renting services	*4.323.803*	*843.020*
Self-employment services	*349.634*	*9.163*
Education services	*167.170*	*8.483*
Health and social services	*639.981*	*37.668*
Other	20.887.626	153.123
Total loans	**65.574.198**	**19.758.865**
Non-performing loans	1.974.073	--
Less: allowance for losses on loans and advances	(1.852.053)	--
Total	**65.696.218**	**19.758.865**

(*) As of 31 December 2012 allowance for losses on non cash loans are TL 62.469.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Credit risk (continued)

Credit risk types according to sectors and geographical concentration:

Credit risk of the Group as of 30 June 2013 and 31 December 2012 is calculated and credit risk types according to sectors and geographical concentration are presented in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II.

Sectoral breakdown of risk weighted assets is as follows:

	30 June 2013	31 December 2012
Agricultural	585.788	650.507
Farming and raising livestock	*530.269*	*612.883*
Forestry	*2.330*	*3.814*
Fishing	*53.189*	*33.810*
Manufacturing	24.288.115	22.724.573
Mining	*416.331*	*435.966*
Production	*21.994.542*	*20.965.055*
Electric, gas and water	*1.877.242*	*1.323.552*
Construction	4.828.301	4.374.433
Services	59.771.670	55.831.794
Wholesale and retail trade	*14.350.657*	*12.976.445*
Hotel, food and beverage services	*1.779.858*	*1.707.522*
Transportation and telecommunication	*4.046.509*	*3.168.953*
Financial Institutions	*32.758.834*	*31.931.127*
Real estate and renting services	*5.456.091*	*4.791.243*
Self-employment services	*471.602*	*365.506*
Education services	*170.697*	*188.818*
Health and social services	*737.422*	*702.180*
Other	35.026.402	29.717.797
Total Risk Weighted Assets	**124.500.276**	**113.299.104**

Information according to geographical concentration:

	30 June 2013	31 December 2012
Domestic	121.831.242	109.772.445
EU Countries	1.164.210	600.520
OECD Countries(*)	224.549	1.513.623
Off-shore banking regions	--	--
USA, Canada	229.321	364.053
Other countries	1.050.954	1.047.100
Investment and associates, subsidiaries and joint ventures	--	1.363
Total Risk Weighted Assets	**124.500.276**	**113.299.104**

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

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets:

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities as of 30 June 2013 and 31 December 2012.

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

30 June 2013	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and advances				
Corporate loans	1.301	5.178	6.131	12.610
SME loans	86.487	24.695	18.975	130.157
Consumer loans	14.376	6.278	4.253	24.907
Credit cards	138.248	20.695	9.489	168.432
Total	**240.412**	**56.846**	**38.848**	**336.106**

31 December 2012	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and advances				
Corporate loans	8.766	5.624	14.545	28.935
SME loans	80.765	32.350	20.697	133.812
Consumer loans	29.954	5.919	3.913	39.786
Other	100.296	15.219	6.770	122.285
Total	**219.781**	**59.112**	**45.925**	**324.818**

(Currency – In thousands of Turkish lira (“TL”))

36. Financial risk management (continued)

Credit risk (continued)

As of 30 June 2013, the fair value of collaterals held against the past due but not yet impaired loans amounts to TL 2.048.194. The net value and type of the collaterals is as follows:

Collateral type	**30 June 2013**	**31 December 2012**
Real estate mortgage	1.652.777	1.519.823
Salary pledge, vehicle pledge and pledge of commercial undertaking	75.616	75.401
Financial collaterals (Cash, securities pledge, etc.)	12.087	14.047
Cheque, bills	13.676	11.204
Suretyships	134.347	188.735
Other	159.691	115.603
Total	**2.048.194**	**1.924.813**

(1) The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

Carrying amount per class of financial assets whose terms have been renegotiated:

	30 June 2013	**31 December 2012**
Loans and advances(1)		
Corporate loans	75.700	37.964
SME loans	19.847	26.712
Consumer loans	13.727	16.098
Other	88	152
Total	**109.362**	**80.926**

(1) Accruals are not included to the table above

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Liquidity risk

Liquidity risk occurs when there is not sufficient amount of cash or cash flows to meet the cash outflow needs completely and on time. Liquidity risk may also occur when the market penetration is not enough and when the open positions cannot be closed timely at competitive prices due to barriers and break-ups at the markets.

The Group uses domestic and foreign markets for its liquidity needs. Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (CBRT, ISE, Interbank money market, Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized positions; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

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

30 June 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	60.188.907	15.086.569	6.785.318	236.596	5.093	82.302.483	81.858.694
Obligations under repurchase agreements	1.614.354	59.075	--	--	--	1.673.429	1.672.936
Loans and advances from banks	2.755.903	654.556	4.653.582	3.617.144	2.204.458	13.885.643	13.320.715
Interbank money market borrowings	--	424.939	--	--	--	424.939	424.939
Debt securities issued	750.000	--	--	1.532.500	1.432.500	3.715.000	3.602.671
Total	**65.309.164**	**16.225.139**	**11.438.900**	**5.386.240**	**3.642.051**	**102.001.494**	**100.879.955**

31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	57.319.699	17.704.559	5.040.828	213.739	4.385	80.283.210	79.799.523
Obligations under repurchase agreements	162.214	255.790	--	--	--	418.004	417.419
Loans and advances from banks	890.342	607.748	3.830.810	2.642.985	2.071.328	10.043.213	9.438.957
Interbank money market borrowings	--	297.857	--	--	--	297.857	297.857
Debt securities issued	719.014	--	32.266	1.669.657	--	2.420.937	2.118.979
Total	**59.091.269**	**18.865.954**	**8.903.904**	**4.526.381**	**2.075.713**	**93.463.221**	**92.072.735**

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Liquidity risk (continued)

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

30 June 2013	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	835.812	212.093	391.301	109.644	--	1.548.850
Forward contracts – sell	836.085	229.066	391.860	120.378	--	1.577.389
Swaps – buy	2.921.965	833.346	154.711	382.000	611.200	4.903.222
Swaps – sell	2.934.657	838.086	153.857	332.275	611.200	4.870.075
Credit default swap – buy	--	--	--	95.500	--	95.500
Credit default swap – sell	--	--	--	59.100	--	59.100
Forward precious metal – buy	--	95.727	--	--	--	95.727
Forward precious metal – sell	--	77.634	--	--	--	77.634
Money buy options	17.470	80.114	194.760	1.139	--	293.483
Money sell options	17.470	80.114	194.760	1.139	--	293.483
Total	**7.563.459**	**2.446.180**	**1.481.249**	**1.101.175**	**1.222.400**	**13.814.463**

31 December 2012	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	641.463	503.262	156.391	349	--	1.301.465
Forward contracts – sell	637.040	594.598	156.378	374	--	1.388.390
Swaps – buy	704.421	2.281.832	117.536	529.500	--	3.633.289
Swaps – sell	705.785	2.258.622	117.605	514.175	--	3.596.187
Credit default swap – buy	--	--	--	88.250	--	88.250
Credit default swap – sell	--	--	--	59.100	--	59.100
Forward precious metal – buy	--	314.800	--	--	--	314.800
Forward precious metal – sell	--	222.683	--	--	--	222.683
Money buy options	540	95.317	44.711	--	--	140.568
Money sell options	540	95.340	44.686	--	--	140.566
Total	**2.689.789**	**6.366.454**	**637.307**	**1.191.748**	**--**	**10.885.298**

(Currency – In thousands of Turkish lira (“TL”))

36. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position:

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
30 June 2013								
Assets								
Cash on hand	560.476	--	--	--	--	--	--	560.476
Balances with and reserve deposits at Central Bank	1.115.706	6.316.626	4.311.103	2.921.218	34.283	400	--	14.699.336
Due from banks	237.510	1.836.905	206.481	12.513	--	--	--	2.293.409
Financial assets at fair value through profit or loss	5.509	5.098	77.498	19.464	75.100	39.319	519	222.507
Loans and advances(1)	343.312	7.090.537	5.589.484	23.009.294	32.436.812	5.067.881	--	73.537.320
Investments securities	--	395.663	793.028	5.332.108	8.379.884	6.399.658	22.459	21.322.800
Other assets	184.161	87.859	409.756	457.141	862.256	103.018	3.145.164	5.249.355
Total assets	**2.446.674**	**15.732.688**	**11.387.350**	**31.751.738**	**41.788.335**	**11.610.276**	**3.168.142**	**117.885.203**
Liabilities and equity								
Deposits from banks	4.134.297	3.786.867	241.028	562.399	--	--	--	8.724.591
Deposits from customers	13.324.253	38.793.555	14.711.820	6.067.225	232.172	5.078	--	73.134.103
Obligations under repurchase agreements	--	1.613.926	59.010	--	--	--	--	1.672.936
Loans and advances from banks	1.130	2.752.509	635.577	4.461.680	3.325.003	2.144.816	--	13.320.715
Interbank money market borrowings	--	--	424.939	--	--	--	--	424.939
Debt securities issued	--	678.757	--	--	1.502.018	1.421.896	--	3.602.671
Other liabilities(2)	2.601.103	898.599	367.418	880.703	734.885	237.933	11.284.607	17.005.248
Total liabilities and equity	**20.060.783**	**48.524.213**	**16.439.792**	**11.972.007**	**5.794.078**	**3.809.723**	**11.284.607**	**117.885.203**
Liquidity gap	**(17.614.109)**	**(32.791.525)**	**(5.052.442)**	**19.779.731**	**35.994.257**	**7.800.553**	**(8.116.465)**	**--**

(1) Non performing loans (net) are presented in other assets.
(2) Shareholders’ equity is presented in the “undistributed” column.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position (continued):

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2012								
Assets								
Cash on hand	693.330	--	--	--	--	--	--	693.330
Balances with and reserve deposits at Central Bank	890.591	2.713.399	4.978.852	3.177.168	55.532	8.206	--	11.823.748
Due from banks	1.615.064	1.133.904	2.003	--	--	--	--	2.750.971
Financial assets at fair value through profit or loss	--	37.735	32.322	67.874	14.137	--	1.435	153.503
Loans and advances[1]	822.424	7.437.927	5.653.655	19.607.956	28.354.282	3.697.954	--	65.574.198
Investments securities	152.509	1.069.136	672.148	4.700.617	11.294.880	5.393.444	20.548	23.303.282
Other assets	495.250	64.103	64.909	307.565	634.961	201.925	2.883.636	4.652.349
Total assets	**4.669.168**	**12.456.204**	**11.403.889**	**27.861.180**	**40.353.792**	**9.301.529**	**2.905.619**	**108.951.381**
Liabilities and equity								
Deposits from banks	3.800.718	2.990.561	273.257	356.116	--	--	--	7.420.652
Deposits from customers	12.295.393	38.116.945	17.240.112	4.511.219	210.817	4.385	--	72.378.871
Obligations under repurchase agreements	--	162.193	255.226	--	--	--	--	417.419
Loan and advances from banks	539.329	321.062	595.840	3.726.821	2.385.294	1.870.611	--	9.438.957
Interbank money market borrowings	--	--	297.857	--	--	--	--	297.857
Debt securities issued	--	710.741	--	31.423	1.376.815	--	--	2.118.979
Other liabilities[2]	2.931.818	239.879	845.809	634.895	231.156	221.218	11.773.871	16.878.646
Total liabilities and equity	**19.567.258**	**42.541.381**	**19.508.101**	**9.260.474**	**4.204.082**	**2.096.214**	**11.773.871**	**108.951.381**
Liquidity gap	**(14.898.090)**	**(30.085.177)**	**(8.104.212)**	**18.600.706**	**36.149.710**	**7.205.315**	**(8.868.252)**	**--**

(1) Non performing loans (net) are presented in other assets.
(2) Shareholders' equity is presented in the "undistributed" column.

(Currency – In thousands of Turkish lira (“TL”))

36. Financial risk management (continued)

Liquidity risk (continued)

Net liquidity gap

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Market risk

In accordance with the Group’s risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of “Regulation On Measurement and Evaluation Of Capital Adequacy Of The Banks” published in Official Gazette numbered 28337 on 28 June 2012.

The Bank’s Board of Directors set the risk limits by taking into account the Group’s main risk factors and those limits are periodically revised in accordance with the market conditions and the Group’s strategies. Furthermore, the Board of Directors ensure that, the necessary measures to be taken by risk management department and all other executives in respect of defining, measuring, monitoring and managing the risks exposed by the Group. The Value at Risk (“VaR”) based limits that are determined by the Board of Directors and the denominated interest rate risk of the Group is limited to certain percentage of the shareholders’ equity.

In accordance with “Regulation on Measurement and Evaluation of Capital Adequacy of the Banks”, the Group’s possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method.

The Value at Risk (VaR) that is calculated by using internal model methods besides standard method is validated by scenario analysis and stress tests. The VaR is calculated daily by using historical simulation and parametric approach and the results are reported the executives of the Bank.

The Group’s average market risk calculated as of the end of months in the related periods is as follows:

	30 June 2013			**31 December 2012**		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest Rate Risk	185.638	198.005	173.270	135.091	220.685	89.537
Share Risk	9.563	12.970	6.156	4.468	6.506	2.966
Currency Risk	24.888	28.321	21.455	22.079	30.026	16.833
Commodity Risk	--	--	--	--	--	--
Settlement Risk	--	--	--	--	--	--
Options Risk	707	1.313	101	182	264	91
Counterparty Credit Risk	2.187	2.280	2.093	2.190	2.415	1.964
Amount Subject to Total Risk	**222.983**	**242.889**	**203.075**	**164.010**	**259.896**	**111.391**

Currency risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Currency risk (continued)

The Group's exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. In rare circumstances, when deemed necessary, foreign currency swap transactions are made with the banks.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

Change in currency rate		Effect on profit / loss		Effect on equity	
		2013	2012	2013	2012
USD	10% increase	(3.213)	(2.881)	(3.213)	(2.881)
EUR	10% increase	(10.942)	(42.297)	(10.942)	(42.297)
Other	10% increase	9.141	47.498	9.141	47.498

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	EUR	USD	Other FC	Total
30 June 2013				
Assets				
Cash on hand	63.272	49.523	18.423	131.218
Balances with Central Bank	--	1.101.671	--	1.101.671
Reserve deposits at Central Bank	5.963.586	4.033.803	2.068.915	12.066.304
Due from banks	1.742.229	148.390	151.192	2.041.811
Financial assets at fair value through profit or loss	3.876	54.157	524	58.557
Loans and advances	7.734.263	13.228.225	270.672	21.233.160
Investment securities	783.671	1.249.346	149.542	2.182.559
Investment in equity- accounted investees	171.011	--	--	171.011
Property and equipment	--	--	31.447	31.447
Other assets	579.450	617.128	40.771	1.237.349
Total assets	**17.041.358**	**20.482.243**	**2.731.486**	**40.255.087**
Liabilities				
Deposits from banks	3.790.671	747.461	333.298	4.871.430
Deposits from customers	12.385.603	7.547.924	2.376.031	22.309.558
Obligations under repurchase agreements	--	39.917	--	39.917
Loan and advances from banks	5.140.345	5.568.938	34.562	10.743.845
Other liabilities	87.360	3.061.334	48.118	3.196.812
Total liabilities	**21.403.979**	**16.965.574**	**2.792.009**	**41.161.562**
Net on balance sheet position	**(4.362.621)**	**3.516.669**	**(60.523)**	**(906.475)**
Net off balance sheet position	**4.253.201**	**(3.548.795)**	**151.935**	**856.341**
Derivative financial assets	4.607.437	878.396	375.608	5.861.441
Derivative financial liabilities	354.236	4.427.191	223.673	5.005.100
Non-cash loans[1]	3.549.639	7.540.555	296.971	11.387.165

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

(Currency – In thousands of Turkish lira ("TL"))

36. **Financial risk management** (continued)

Currency risk (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are (continued):

	EUR	USD	Other FC	Total
31 December 2012				
Assets				
Cash on hand	80.649	69.516	19.831	169.996
Balances with Central Bank	876.801	--	--	876.801
Reserve deposits at Central Bank	3.808.805	4.053.257	2.001.378	9.863.440
Due from banks	717.244	136.531	1.528.922	2.382.697
Financial assets at fair value through profit or loss	4.457	39.347	73	43.877
Loans and advances	6.847.668	10.947.843	189.646	17.985.157
Investment securities	1.272.985	875.265	188.907	2.337.157
Investment in equity- accounted investees	155.676	--	--	155.676
Property and equipment	--	--	29.053	29.053
Other assets	509.798	466.305	35.893	1.011.996
Total assets	**14.274.083**	**16.588.064**	**3.993.703**	**34.855.850**
Liabilities				
Deposits from banks	3.898.676	724.069	1.303.641	5.926.386
Deposits from customers	9.111.060	8.833.703	2.295.527	20.240.290
Obligations under repurchase agreements	--	310.222	--	310.222
Loan and advances from banks	4.432.992	2.973.731	39.294	7.446.017
Other liabilities	114.654	1.516.974	14.866	1.646.494
Total liabilities	**17.557.382**	**14.358.699**	**3.653.328**	**35.569.409**
Net on balance sheet position	**(3.283.299)**	**2.229.365**	**340.375**	**(713.559)**
Net off balance sheet position	**2.860.331**	**(2.258.173)**	**134.601**	**736.759**
Derivative financial assets	3.033.396	1.159.250	420.616	4.613.262
Derivative financial liabilities	173.065	3.417.423	286.015	3.876.503
Non-cash loans(1)	3.354.802	6.378.215	266.590	9.999.607

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

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Interest rate risk

The Group's standard interest rate shock methods are being used on a daily basis in respect of measuring the risk arising from repricing mismatch of asset and liability items. The duration within the limits set by Banking Regulation and Supervision Agency that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

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

During the maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and repricing dates are taken into account for flexible interest instruments. The net amounts of non-performing loans are placed to the relevant maturity periods longer than six months and except demand time interval under other receivables with considering their estimated collection durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

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

Interest rate sensitivity:

The impact on financial statements as of 30 June 2013 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/ Shareholders' Equity
1	TL	500	(1.232.789)	(9%)
		(400)	1.257.655	9%
2	EURO	200	331.214	2%
		(200)	(358.593)	(3%)
3	USD	200	233.880	2%
		(200)	(262.602)	(2%)
	Total (For negative shocks)		**636.460**	**5%**
	Total (For positive shocks)		**(667.695)**	**(5%)**

The impact on financial statements as of 31 December 2012 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/ Shareholders' Equity
1	TL	500	(1.261.829)	(10%)
		(400)	1.282.128	10%
2	EURO	200	303.520	2%
		(200)	(266.543)	(2%)
3	USD	200	4.701	0%
		(200)	12.343	0%
	Total (For negative shocks)		**1.027.928**	**8%**
	Total (For positive shocks)		**(953.608)**	**(7%)**

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates:

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
30 June 2013							
Assets							
Cash on hand	--	--	--	--	--	560.476	560.476
Balances with and reserve deposits at Central Bank	39.368	--	--	--	--	14.659.968	14.699.336
Due from banks	1.838.160	205.226	12.513	--	--	237.510	2.293.409
Financial assets at fair value through profit or loss	11.514	99.707	20.396	59.997	30.374	519	222.507
Loans and advances(1)	30.686.077	8.534.668	13.640.972	16.527.786	2.831.695	1.316.122	73.537.320
Investment securities	4.291.969	5.954.172	4.668.297	3.691.823	2.694.080	22.459	21.322.800
Other assets	133.016	373.716	453.008	857.273	103.018	3.329.324	5.249.355
Total assets	**37.000.104**	**15.167.489**	**18.795.186**	**21.136.879**	**5.659.167**	**20.126.378**	**117.885.203**
Liabilities and equity							
Deposits from banks	3.786.867	241.028	562.399	--	--	4.134.297	8.724.591
Deposits from customers	39.043.672	14.566.491	6.075.742	54.182	69.763	13.324.253	73.134.103
Obligations under repurchase agreements	1.613.926	59.010	--	--	--	--	1.672.936
Loans and advances from banks	3.054.966	3.042.894	5.133.112	1.493.572	587.801	8.370	13.320.715
Interbank money market borrowings	--	424.939	--	--	--	--	424.939
Debt securities issued	678.757	--	--	1.502.018	1.421.896	--	3.602.671
Other liabilities(2)	2.704.909	235.797	199.423	13.207	--	13.851.912	17.005.248
Total liabilities and equity	**50.883.097**	**18.570.159**	**11.970.676**	**3.062.979**	**2.079.460**	**31.318.832**	**117.885.203**
On balance sheet interest sensitivity gap-Long	--	--	6.824.510	18.073.900	3.579.707	--	28.478.117
On balance sheet interest sensitivity gap-Short	(13.882.993)	(3.402.670)	--	--	--	(11.192.454)	(28.478.117)
Off balance sheet interest sensitivity gap-Long	15.160	137.875	83.277	--	--	--	236.312
Off balance sheet interest sensitivity gap-Short	(15.160)	(101.475)	(83.280)	--	--	--	(199.915)
Total position	**(13.882.993)**	**(3.366.270)**	**6.824.507**	**18.073.900**	**3.579.707**	**(11.192.454)**	**36.397**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "non-interest bearing" column.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates (continued):

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2012							
Assets							
Cash on hand	--	--	--	--	--	693.330	693.330
Balances with and reserve deposits at Central Bank	33.026	--	--	--	--	11.790.722	11.823.748
Due from banks	1.133.904	2.003	--	--	--	1.615.064	2.750.971
Financial assets at fair value through profit or loss	37.774	33.139	67.874	13.281	--	1.435	153.503
Loans and advances[(1)]	27.348.206	11.026.850	10.893.353	12.810.027	2.477.136	1.018.626	65.574.198
Investment securities	6.068.901	5.164.838	5.346.195	4.811.516	1.891.284	20.548	23.303.282
Other assets	116.902	59.363	260.312	634.961	201.925	3.378.886	4.652.349
Total assets	**34.738.713**	**16.286.193**	**16.567.734**	**18.269.785**	**4.570.345**	**18.518.611**	**108.951.381**
Liabilities and equity							
Deposits from banks	2.990.561	273.257	356.116	--	--	3.800.718	7.420.652
Deposits from customers	38.121.142	17.250.278	4.610.986	100.902	170	12.295.393	72.378.871
Obligations under repurchase agreements	162.193	255.226	--	--	--	--	417.419
Loans and advances from banks	1.998.476	2.816.733	2.505.087	1.008.198	565.036	545.427	9.438.957
Interbank money market borrowings	--	297.857	--	--	--	--	297.857
Debt securities issued	710.741	--	31.423	1.376.815	--	--	2.118.979
Other liabilities[(2)]	1.570.354	740.462	349.713	--	--	14.218.117	16.878.646
Total liabilities and equity	**45.553.467**	**21.633.813**	**7.853.325**	**2.485.915**	**565.206**	**30.859.655**	**108.951.381**
On balance sheet interest sensitivity gap-Long	--	--	8.714.409	15.783.870	4.005.139	--	28.503.418
On balance sheet interest sensitivity gap-Short	(10.814.754)	(5.347.620)	--	--	--	(12.341.044)	(28.503.418)
Off balance sheet interest sensitivity gap-Long	20.368	113.612	11.125	--	--	--	145.105
Off balance sheet interest sensitivity gap-Short	(20.368)	(25.362)	(70.225)	--	--	--	(115.955)
Total position	**(10.814.754)**	**(5.259.370)**	**8.655.309**	**15.783.870**	**4.005.139**	**(12.341.044)**	**29.150**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "non-interest bearing" column.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank operates in offshore markets. As of 30 June 2013 and 31 December 2012, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 30 June 2013 and 31 December 2012 was as follows:

	30 June 2013	31 December 2012
Tier 1 capital	12.393.422	11.284.942
Tier 2 capital	1.033.457	1.159.534
Deductions from capital	(245.606)	(208.937)
Total regulatory capital	**13.181.273**	**12.235.539**
Risk-weighted assets	81.489.900	70.376.761
Value at market risk	2.641.750	1.680.650
Operational risk	9.358.597	7.795.467
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14,10%	15,32%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13,26%	14,13%

Fair value of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities are as follows:

	Carrying amount		Fair value	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
Financial assets				
Due from banks	2.293.409	2.750.971	2.293.409	2.750.971
Financial assets at fair value through profit or loss				
-Trading securities	*133.129*	*66.935*	*133.129*	*66.935*
-Derivative financial instruments	*89.378*	*86.568*	*89.378*	*86.568*
Loans and advances	73.658.886	65.696.218	69.453.483	62.164.197
Investment securities				
-Available-for-sale investment securities	*9.204.487*	*9.660.191*	*9.204.487*	*9.660.191*
-Held-to-maturity investment securities	*12.118.313*	*13.643.091*	*11.492.929*	*13.524.153*
Finance lease receivables	1.111.009	999.644	1.111.009	1.014.465
	98.608.611	**92.903.618**	**93.777.824**	**89.267.480**
Financial liabilities				
Deposits from banks	8.724.591	7.420.652	8.724.591	7.420.652
Deposits from customers	73.134.103	72.378.871	72.835.124	72.491.030
Obligations under repurchase agreements	1.672.936	417.419	1.672.936	417.419
Loans and advances from banks	13.320.715	9.348.957	13.202.248	9.082.442
Interbank money market borrowings	424.939	297.857	424.939	297.857
Derivative financial instruments	32.391	50.282	32.391	50.282
Debt securities issued	3.602.671	2.118.979	3.602.671	2.118.979
	100.912.346	**92.033.017**	**100.494.900**	**91.878.661**

36. Financial risk management (continued)

Fair value of financial instruments (continued)

Fair values of financial assets such as financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, loans and advances from banks and deposits. These financial assets and liabilities include due from banks, obligations under repurchase agreements, interbank money market borrowings and debt securities issued that are of a contractual nature. The Bank management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, finance lease receivables, deposits and derivative financial instruments; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Classification of fair value measurement

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

•Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

•Level 2: The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

•Level 3: The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(Currency – In thousands of Turkish lira ("TL"))

36. Financial risk management (continued)

Classification of fair value measurement (continued)

Classification requires using observable market data if possible.

30 June 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets at fair value through profit or loss	130.526	89.378	--	219.904
Debt securities	*111.826*	--	--	*111.826*
Derivative financial assets held for trading purpose	--	*89.378*	--	*89.378*
Bonds	*519*	--	--	*519*
Other Securities[(2)]	*18.181*	--	--	*18.181*
Available-for-sale financial assets[(1)]	9.182.028	--	--	9.182.028
Debt securities	*9.173.992*	--	--	*9.173.992*
Other Securities	*8.036*	--	--	*8.036*
Total Financial Assets	**9.312.554**	**89.378**	**--**	**9.401.932**
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	**--**	32.391	--	32.391
Total Financial Liabilities	**--**	**32.391**	**--**	**32.391**

[(1)]As of 30 June 2013 share certificates amounting to TL 22.459 in available for sale financial assets are not included in the above table, which are measured at cost.

[(2)] As of 30 June 2013, marketable securities amounting to TL 2.603 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets at fair value through profit or loss	64.332	86.568	--	150.900
Debt securities	*51.600*	--	--	*51.600*
Derivative financial assets held for trading purpose	--	*86.568*	--	*86.568*
Bonds	*1.435*	--	--	*1.435*
Other Securities[(2)]	*11.297*	--	--	*11.297*
Available-for-sale financial assets[(1)]	9.639.643	--	--	9.639.643
Debt securities	*9.633.569*	--	--	*9.633.569*
Other Securities	*6.074*	--	--	*6.074*
Total Financial Assets	**9.703.975**	**86.568**	**--**	**9.790.543**
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	**--**	50.282	--	50.282
Total Financial Liabilities	**--**	**50.282**	**--**	**50.282**

[((1)]As of 31 December 2012 share certificates amounting to TL 20.548 in available for sale financial assets are not included in the above table, which are measured at cost.

[(2)] As of 31 December 2012, marketable securities amounting to TL 2.603 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

37. Subsequent events

The Bank made an application to Capital Market Board (CMB) regarding the issuance of bank bond and/or bills up to TL 3.000.000 with different maturities on 7 December 2012. The Capital Market Board approved the application on 4 January 2013. Bond issuance amounting to a nominal value of TL 750.000 with the maturity of 175 days was carried out by the Bank on 5 July 2013.

As per the decision has been taken by the Board of Directors on 27 May 2013 numbered 22, the Bank decided to purchase the 76% (61% from T.C. Ziraat Bank A.Ş., 15% from Ziraat Finansal Kiralama A.Ş.) of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. ("Bileşim"), which is the associate of the Bank, from Ziraat Group. The Bank has appealed to the Competition Authority on 5 June 2013 for the approval. As per the decision has been taken by the Competition Authority on 18 July 2013 numbered 13-46/593-262, the transaction has been approved within Law no 4054. The Bank completed the purchase process of the shares of Bileşim on 22 July 2013 and Bileşim became the subsidiary of the Bank.