



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

**Condensed Consolidated Interim Financial Statements  
For the Six-Month Period Ended  
30 June 2014**

**With Independent Auditors' Report on Review of  
Interim Financial Statements Thereon**

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**Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik  
Anonim Şirketi**

**8 August 2014**

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

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

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**Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik A.Ş.**

Kavacık Rüzgarlı Bahçe Mah.  
Kavak Sok. No: 29  
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
Internet www.kpmg.com.tr

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

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

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Halk Bankası Anonim Şirketi ("the Bank") and its subsidiaries ("the Group") as at 30 June 2014, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

*Scope of review*

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

*Basis for Qualified Conclusion*

The accompanying condensed consolidated statement of financial position as of 30 June 2014 includes a general reserve amounting to net TL 132.231 thousands which were recorded 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.

*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 condensed consolidated interim financial information as at 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Istanbul, Turkey  
8 August 2014

*KPMG Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.*

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

**Condensed Consolidated Statement of Financial Position**

**As of 30 June 2014**

*(Currency-In thousands of Turkish Lira)*

	<i>Notes</i>	30 June 2014	31 December 2013
<b>Assets</b>			
Cash on hand		769.457	816.367
Balances with Central Bank	8	2.014.054	3.734.361
Reserve deposits at Central Bank	8	14.678.988	15.470.667
Due from banks		1.538.091	2.139.861
Financial assets at fair value through profit or loss		136.563	186.965
- <i>Trading securities</i>		47.438	46.650
- <i>Derivative financial instruments</i>	17	89.125	140.315
Loans and advances	9	92.309.359	84.889.760
Insurance premium receivables		246.847	203.433
Investment securities:		28.211.935	28.802.559
- <i>Available-for-sale investment securities</i>	10	9.481.051	9.828.961
- <i>Held-to-maturity investment securities</i>	10	18.730.884	18.973.598
Investment in equity-accounted investees		220.586	220.732
Finance lease receivables		1.736.040	1.633.695
Property and equipment	11	1.525.428	1.445.562
Intangible assets		70.927	67.785
Non-current assets held for sale		5.593	6.714
Investment property		22.103	36.344
Deferred tax assets		281.450	104.692
Other assets		1.785.000	1.540.938
<b>Total assets</b>		<b>145.552.421</b>	<b>141.300.435</b>
<b>Liabilities</b>			
Deposits from banks		12.585.467	10.017.304
Deposits from customers		81.092.497	90.366.851
Obligations under repurchase agreements		9.622.001	779.532
Loan and advances from banks		15.245.469	16.574.894
Interbank money market borrowings		406.530	481.944
Derivative financial instruments	17	69.245	53.492
Debt securities issued		5.154.228	4.147.749
Insurance contract liabilities		840.227	715.670
Provisions		886.166	862.987
Income tax payables		360.245	62.701
Deferred tax liability		3.356	3.339
Other liabilities		3.905.522	3.142.435
<b>Total liabilities</b>		<b>130.170.953</b>	<b>127.208.898</b>
<b>Equity</b>			
Share capital	13	2.578.184	2.578.184
Share premium		39.009	39.009
Reserves	14	1.466.027	862.009
Retained earnings		11.129.701	10.449.279
<b>Total equity attributable to equity holders of the Bank</b>		<b>15.212.921</b>	<b>13.928.481</b>
Non-controlling interest		168.547	163.056
<b>Total equity</b>		<b>15.381.468</b>	<b>14.091.537</b>
<b>Total liabilities and equity</b>		<b>145.552.421</b>	<b>141.300.435</b>

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

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income**  
**For the Six-Month Period Ended 30 June 2014**

(Currency-In thousands of Turkish Lira)

<i>Notes</i>	<b>For the six-month period ended 30 June 2014</b>	<b>For the six-month period ended 30 June 2013</b>
<b>Interest income:</b>		
-Interest income on loans	4.188.395	3.458.598
-Interest income on securities	1.492.503	951.177
-Interest income on finance leases	60.256	46.345
-Interest income on deposits at banks	15.689	8.491
-Interest income on other money market placements	238	1.315
-Other interest income	36.045	8.794
	<b>5.793.126</b>	<b>4.474.720</b>
<b>Interest expense:</b>		
-Interest expense on deposits	(2.700.909)	(1.708.446)
-Interest expense on other money market deposits	(271.445)	(22.379)
-Interest expense on borrowings	(168.650)	(113.704)
-Interest expense on debt securities issued	(116.085)	(81.084)
-Other interest expense	(34.936)	(29.340)
	<b>(3.292.025)</b>	<b>(1.954.953)</b>
<b>Net interest income</b>	<b>2.501.101</b>	<b>2.519.767</b>
Fees and commission income	18 666.324	537.056
Fees and commission expenses	18 (225.334)	(129.723)
<b>Net fee and commission income</b>	<b>440.990</b>	<b>407.333</b>
Net trading income from securities	165.037	272.285
Net trading income / (loss) from derivative financial instruments	(360.853)	124.265
Foreign exchange gain / (losses), net	223.944	(80.645)
Net impairment losses on financial assets	(273.670)	(151.616)
Income from insurance operations	262.559	307.807
Cost of insurance operations	(202.058)	(204.852)
Dividend income	3.969	3.111
Other operating income	19 100.433	86.938
Other operating expenses	20 (1.448.824)	(1.366.629)
<b>Operating profit</b>	<b>1.412.628</b>	<b>1.917.764</b>
Share of profit of equity-accounted investees	4.475	8.799
<b>Profit before income tax</b>	<b>1.417.103</b>	<b>1.926.563</b>
Income tax expense	(278.272)	(349.654)
<b>Profit for the period</b>	<b>1.138.831</b>	<b>1.576.909</b>
<b>Other comprehensive income</b>		
<b>Items that will be never classified to profit or loss:</b>		
Remeasurement of employee termination benefits	236	--
Related tax	(47)	--
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
<b>Fair value reserve (available-for-sale financial assets):</b>		
Net change in fair value	674.381	(387.267)
Net amount transferred to profit or loss	(170.497)	(256.092)
Foreign currency translation differences	(6.494)	19.054
Related tax	(70.487)	109.038
<b>Other comprehensive income for the period, net of tax</b>	<b>427.092</b>	<b>(515.267)</b>
<b>Total comprehensive income for the period</b>	<b>1.565.923</b>	<b>1.061.642</b>

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

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income**  
**(continued)**  
**For the Six-Month Period Ended 30 June 2014**  
*(Currency-In thousands of Turkish Lira)*

	<i>Notes</i>	<b>For the six-month period ended 30 June 2014</b>	<b>For the six-month period ended 30 June 2013</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		1.133.440	1.573.113
Non-controlling interest		5.391	3.796
<b>Profit for the period</b>		<b>1.138.831</b>	<b>1.576.909</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		1.560.432	1.057.806
Non-controlling interest		5.491	3.836
<b>Total comprehensive income for the period</b>		<b>1.565.923</b>	<b>1.061.642</b>
<b>Basic and diluted earnings per share (full TL per share)</b>	<i>15</i>	<b>0,9068</b>	<b>1,2585</b>

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

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**For the Six-Month Period Ended 30 June 2014**  
*(Currency in thousands of Turkish Lira)*

	Share capital	Share premium	Reserves			Retained earnings	Total	Non-controlling interest	Total equity
			Fair value reserve	Other reserves					
<b>Balances at 1 January 2013</b>	2.578.184	--	406.863	934.651	8.312.761	12.232.459	4.831	12.237.290	
<b>Total comprehensive income for the period</b>									
Net profit of the period	--	--	--	--	1.573.113	1.573.113	3.796	1.576.909	
Other comprehensive income, net of tax	--	--	--	--	--	--	--	--	
Remeasurments of defined benefit plans, net of tax	--	--	--	--	--	--	--	--	
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	
<b>Total other comprehensive income</b>	--	--	(534.307)	19.000	--	(515.307)	40	(515.267)	
<b>Total comprehensive income for the period</b>	--	--	(534.307)	19.000	1.573.113	1.057.806	3.836	1.061.642	
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves	--	--	--	172.349	(172.349)	--	--	--	
Dividends to equity holders	--	--	--	--	(552.793)	(552.793)	--	(552.793)	
<b>Changes in ownership interests in subsidiaries</b>									
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	--	--	--	
<b>Balances at 30 June 2013</b>	2.578.184	36.384	(127.444)	1.114.511	9.161.409	12.763.044	196.922	12.959.966	
<b>Balances at 1 January 2014</b>	2.578.184	39.009	(301.399)	1.163.408	10.449.279	13.928.481	163.056	14.091.537	
<b>Total comprehensive income for the period</b>									
Net profit of the period	--	--	--	--	1.133.440	1.133.440	5.391	1.138.831	
Other comprehensive income, net of tax	--	--	--	--	--	--	--	--	
Remeasurments of defined benefit plans, net of tax	--	--	--	--	--	--	--	--	
Fair value reserve (available-for-sale financial assets):									
Net change in fair value	--	--	--	--	172	172	17	189	
Net amount transferred to profit or loss	--	--	603.770	--	--	603.770	124	603.894	
Foreign currency translation differences	--	--	(170.497)	--	--	(170.497)	--	(170.497)	
<b>Total other comprehensive income</b>	--	--	433.273	(6.453)	--	(6.453)	(41)	(6.494)	
<b>Total comprehensive income for the period</b>	--	--	433.273	(6.453)	172	426.992	100	427.092	
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves	--	--	--	177.198	(177.198)	--	--	--	
Dividends to equity holders	--	--	--	--	(275.992)	(275.992)	--	(275.992)	
<b>Balances at 30 June 2014</b>	2.578.184	39.009	131.874	1.334.153	11.129.701	15.212.921	168.547	15.381.468	

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

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Statement of Cash Flows**  
**For the Six-Month Period Ended 30 June 2014**  
*(Currency-In thousands of Turkish Lira)*

<i>Notes</i>	<b>For the six-month period ended 30 June 2014</b>	<b>For the six-month period ended 30 June 2013</b>
<b>Cash flows from operating activities</b>		
Profit for the period	1.138.831	1.576.909
<b>Adjustments for:</b>		
Depreciation and amortisation	59.627	58.995
Net impairment loss on loans and advances	9 324.627	245.246
Net interest income	(2.501.101)	(2.519.767)
Dividend income	(3.969)	(3.111)
Provision for employee termination benefits	40.270	35.840
Impairment losses on property and equipment	(861)	1.680
Net gain on sale of property and equipment	11 (35.313)	(35.502)
Share of profit of equity-accounted investees	(4.475)	(8.799)
Income tax expense	278.272	349.654
	<b>(704.092)</b>	<b>(298.855)</b>
Change in financial assets at fair value through profit or loss	(1.661)	(66.589)
Change in due from banks	3.137	(12.513)
Change in loans and advances	(7.140.195)	(8.054.310)
Change in other assets	(244.062)	(3.330.723)
Change in deposits from banks	2.588.877	1.329.911
Change in deposits from customers	(9.365.203)	688.523
Change in loans and advances from banks	(1.349.636)	3.833.409
Change in other liabilities	9.454.890	1.232.293
Interest received	5.664.705	4.270.376
Dividends received	3.969	3.111
Interest paid	(3.160.963)	(1.678.416)
Income tax paid	(262.934)	(719.651)
Employee termination benefits paid	(11.651)	(10.773)
<b>Net cash provided from operating activities</b>	<b>(4.524.819)</b>	<b>(2.814.207)</b>
<b>Cash flows from investing activities</b>		
Acquisitions of available-for-sale investment securities	(2.726.909)	(5.052.598)
Proceeds from sale of available-for-sale investment securities	3.889.722	6.405.802
Acquisitions of held to maturity investment securities	(2.510.761)	(1.488.775)
Proceeds from sale of held to maturity investment securities	3.008.347	1.856.070
Acquisitions of investments in equity participations	--	--
Acquisitions of property and equipment	11 (237.317)	(137.974)
Proceeds from sale of property and equipment	11 71.849	157.325
Acquisitions of intangible assets	(5.489)	(6.675)
<b>Net cash used in investing activities</b>	<b>1.489.442</b>	<b>1.733.175</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of debt securities	1.963.659	2.037.860
Cash used for repayment of debt securities	(1.000.000)	(750.000)
Dividends paid	(275.992)	(552.793)
Other	--	30.954
<b>Net cash used in financing activities</b>	<b>687.667</b>	<b>766.021</b>
<b>Net increase in cash and cash equivalents</b>	<b>(2.347.710)</b>	<b>(315.101)</b>
Cash and cash equivalents at 1 January	6.519.983	5.254.694
Effect of change in currency rate fluctuations on cash held	(28.748)	373.441
<b>Cash and cash equivalents at 30 June</b>	<b>4.143.525</b>	<b>5.313.034</b>

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



# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

As of and For the Six-Month Period Ended 30 June 2014

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

### 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 2014, the Parent Bank operates with a total of 885 branches consisting of 880 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 35 satellite branches and 2 financial services branches. The Parent Bank has also 2 representative offices in England and Iran. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consist of banking, securities, financial leasing, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ and Bileşim Alternatif Dağıtım Kanalları AŞ.

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

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

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

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

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

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

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

# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

As of and For the Six-Month Period Ended 30 June 2014

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

### 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.

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

### 2. Basis of accounting

These condensed consolidated interim financial statements as of 30 June 2014 have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for a complete set of IFRS financial statement, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2013.

The accompanying condensed consolidated interim financial statements are authorised for issue by the management on 8 August 2014.

### 3. Use of judgements estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

#### *Measurement of fair values*

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

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

Significant valuation issues are reported to the Audit Committee.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

### Notes to the Condensed Consolidated Interim Financial Statements

As of and For the Six-Month Period Ended 30 June 2014

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

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

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

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

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

#### 4. Basis of consolidation

##### *Subsidiaries*

The consolidated 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 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.

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

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

# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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### 4. Basis of consolidation (continued)

#### *Subsidiaries* (continued)

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 30 June 2014 and 31 December 2013 are as follows:

	Place of incorporation	Direct ownership		Indirect ownership	
		30 June 2014	31 December 2013	30 June 2013	31 December 2013
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	93,49%	92,45%
Halk Hayat ve Emeklilik AŞ	Istanbul	94,40%	94,40%	99,67%	99,62%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,94%	99,94%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	77,99%	72,74%	78,10%	72,85%
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%	99,68%	99,63%
Halk Faktoring AŞ	Istanbul	95,00%	95,00%	99,91%	99,90%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%

#### *Business combinations*

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

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the 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.

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

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

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

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

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

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

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### 4. Basis of consolidation (continued)

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

The equity-accounted associates of the Group as of 30 June 2014 and 31 December 2013 are as follows:

	Place of incorporation	Shareholding interest	
		30 June 2014	31 December 2013
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%

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.

### 5. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at 31 December 2013.

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**6. Financial instrument**

**Carrying amounts and fair values**

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

	Carrying amount				Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	Total	
<b>Financial assets</b>								
<b>30 June 2014</b>								
Due from banks (including central banks)	18.231.133	--	18.231.133	--	--	--	--	
Financial assets at fair value through profit or loss:								
-Trading securities	--	47.438	47.438	47.438	--	--	47.438	
-Derivative financial instruments	--	89.125	89.125	--	89.125	--	89.125	
Loans and advances	92.309.359	--	92.309.359	--	--	--	--	
Investment securities:								
-Available-for-sale investment securities <sup>(1)</sup>	--	9.481.051	9.481.051	9.460.546	--	--	9.460.546	
-Held-to-maturity investment securities	--	18.730.884	18.730.884	--	--	--	--	
Finance lease receivables	1.736.040	--	1.736.040	--	--	--	--	
Insurance premium receivables	246.847	--	246.847	--	--	--	--	
	<b>112.523.379</b>	<b>28.348.498</b>	<b>140.871.877</b>					
<b>31 December 2013</b>								
Due from banks (including central banks)	21.344.889	--	21.344.889	--	--	--	--	
Financial assets at fair value through profit or loss:								
-Trading securities <sup>(2)</sup>	--	46.650	46.650	42.978	--	--	42.978	
-Derivative financial instruments	--	140.315	140.315	--	140.315	--	140.315	
Loans and advances	84.889.760	--	84.889.760	--	--	--	--	
Investment securities:								
-Available-for-sale investment securities <sup>(1)</sup>	--	9.828.961	9,828,961	9,811,340	--	--	9,811,340	
-Held-to-maturity investment securities	--	18,973,598	18,973,598	--	--	--	--	
Finance lease receivables	1,633,695	--	1,633,695	--	--	--	--	
Insurance premium receivables	203,433	--	203,433	--	--	--	--	
	<b>108,071,777</b>	<b>28,989,524</b>	<b>137,061,301</b>					

<sup>(1)</sup>As of 30 June 2014 share certificates amounting to TL 20,505 (31 December 2013: TL 17,621) in available for sale financial assets are not included in the above table, which are measured at cost.

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**6. Financial instrument (continued)**

*Carrying amounts and fair values (continued)*

Financial liabilities	Carrying amount			Fair value			
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3	Total
<b>30 June 2014</b>							
Deposits from banks	12.585.467	--	12.585.467	--	--	--	--
Deposits from customers	81.092.497	--	81.092.497	--	--	--	--
Obligations under repurchase agreements	9.622.001	--	9.622.001	--	--	--	--
Loans and advances from banks	15.245.469	--	15.245.469	--	--	--	--
Interbank money market borrowings	406.530	--	406.530	--	--	--	--
Derivative financial instruments	--	69.245	69.245	--	69.245	--	69.245
Debt securities issued	5.154.608	--	5.154.608	--	--	--	--
	<b>124.106.572</b>	<b>69.245</b>	<b>124.175.817</b>				
<b>31 December 2013</b>							
Deposits from banks	10.017.304	--	10.017.304	--	--	--	--
Deposits from customers	90.366.851	--	90.366.851	--	--	--	--
Obligations under repurchase agreements	779.532	--	779.532	--	--	--	--
Loans and advances from banks	16.574.894	--	16.574.894	--	--	--	--
Interbank money market borrowings	481.944	--	481.944	--	--	--	--
Derivative financial instruments	--	53.492	53.492	--	53.492	--	53.492
Debt securities issued	4.147.749	--	4.147.749	--	--	--	--
	<b>122.368.274</b>	<b>53.492</b>	<b>122.421.766</b>				

## TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

### Notes to the Condensed Consolidated Interim Financial Statements

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#### 7. 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 2014	Corporate	Commercial	Entrepreneur	Treasury /Investment <sup>(2)</sup>	Other <sup>(1)</sup>	Eliminations	Group
Interest income	882.157	619.983	5.588.796	4.508.179	110.518	(5.916.507)	5.793.126
Interest expense	(556.977)	(353.343)	(4.452.952)	(3.803.968)	(41.292)	5.916.507	(3.292.025)
Net interest income	325.180	266.640	1.135.844	704.211	69.226	--	2.501.101
Net fee and commission income	80.692	47.637	283.283	41.778	(12.400)	--	440.990
Net trading income from securities	--	--	--	164.852	185	--	165.037
Net trading income from derivative transactions	--	--	--	(372.576)	11.723	--	(360.853)
Foreign exchange gain/(losses), net	--	--	--	228.246	(4.302)	--	223.944
Net impairment losses on loans and advances	(34.591)	(55.966)	(113.665)	(38.912)	(30.536)	--	(273.670)
Income from insurance operations	--	--	--	--	262.559	--	262.559
Cost of insurance operations	--	--	--	--	(202.058)	--	(202.058)
Dividend income	--	--	--	3.036	933	--	3.969
Other income	2.942	7.110	20.728	7.010	67.118	--	104.908
Other expenses	(7.490)	(27.256)	(570.893)	(690.579)	(152.606)	--	(1.448.824)
Profit before income tax	366.733	238.165	755.297	47.066	9.842	--	1.417.103
Income tax expense	--	--	--	(270.940)	(7.332)	--	(278.272)
Profit for the period	366.733	238.165	755.297	(223.874)	2.510	--	1.138.831

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

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



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**7. Operating segments (continued)**

30 June 2013	Corporate	Commercial	Entrepreneur	Treasury /Investment <sup>(2)</sup>	Other <sup>(1)</sup>	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)
<b>Net interest income</b>	<b>256.190</b>	<b>194.844</b>	<b>930.757</b>	<b>1.095.349</b>	<b>42.627</b>	--	<b>2.519.767</b>
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 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)
<b>Profit before income tax</b>	<b>340.020</b>	<b>221.675</b>	<b>599.963</b>	<b>661.212</b>	<b>103.693</b>	--	<b>1.926.563</b>
Income tax expense	--	--	--	(330.202)	(19.452)	--	(349.654)
<b>Profit for the period</b>	<b>340.020</b>	<b>221.675</b>	<b>599.963</b>	<b>331.010</b>	<b>84.241</b>	--	<b>1.576.909</b>

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

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

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**7. Operating segments (continued)**

The segment assets and liabilities as at 30 June 2014 are as follows:

<b>Assets and liabilities</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment<sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	14.473.834	14.071.238	56.386.104	57.590.400	2.810.259	145.331.835
Investment in equity- accounted investees	--	--	--	220.586	--	220.586
<b>Total assets</b>	<b>14.473.834</b>	<b>14.071.238</b>	<b>56.386.104</b>	<b>57.810.986</b>	<b>2.810.259</b>	<b>145.552.421</b>
Segment liabilities	10.613.016	3.949.553	67.899.370	44.570.099	3.138.915	130.170.953
<b>Total liabilities</b>	<b>10.613.016</b>	<b>3.949.553</b>	<b>67.899.370</b>	<b>44.570.099</b>	<b>3.138.915</b>	<b>130.170.953</b>

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

The segment assets and liabilities as at 31 December 2013 are as follows:

<b>Assets and liabilities</b>	<b>Corporate</b>	<b>Commercial</b>	<b>Entrepreneur</b>	<b>Treasury /Investment<sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	13.131.995	12.791.413	52.248.327	60.354.468	2.553.500	141.079.703
Investment in equity- accounted investees	--	--	--	220.732	--	220.732
<b>Total assets</b>	<b>13.131.995</b>	<b>12.791.413</b>	<b>52.248.327</b>	<b>60.575.200</b>	<b>2.553.500</b>	<b>141.300.435</b>
Segment liabilities	12.909.956	5.056.247	70.647.925	35.719.208	2.875.562	127.208.898
<b>Total liabilities</b>	<b>12.909.956</b>	<b>5.056.247</b>	<b>70.647.925</b>	<b>35.719.208</b>	<b>2.875.562</b>	<b>127.208.898</b>

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

**8. Balances with Central Bank**

As at 30 June 2014 Balances with Central Bank include restricted reserve deposits amounting to TL 14.678.988 (31 December 2013: TL 15.470.667) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 2.014.054 (31 December 2013: TL 3.734.361).

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD, EUR and/or standard gold at the rates between 5% and 11,5% according to their maturities (31 December 2013: between 5% and 11,5% 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 2013: between 6% and 13% according to their maturities), as per the Communiqué no.2013/15 “Reserve Deposits” of the Central Bank of Turkey.

With the Board of Minutes No.827 dated 30 January 2014 of TRNC Central Bank’s, required reserve ratio is between 5% and 8% for foreign currency liabilities.

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

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

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**9. Loans and advances to customers**

As at 30 June 2014 and 31 December 2013, all the loans and advances to customers are at amortized cost.

	30 June 2014	31 December 2013
Performing loans	92.222.382	84.857.579
Non-performing loans	2.512.623	2.264.208
<b>Gross amount</b>	<b>94.735.005</b>	<b>87.121.787</b>
Specific allowance for impairment on loans	(2.051.344)	(1.887.856)
Portfolio allowance for impairment on loans	(374.302)	(344.171)
<b>Carrying amount</b>	<b>92.309.359</b>	<b>84.889.760</b>

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

	30 June 2014	30 June 2013
Balance on 1 January	(2.232.027)	(1.852.053)
Net impairment loss/reversals for the period:		
- Charge for the period	(193.619)	(111.009)
- Recoveries and reversals	(324.627)	(245.246)
	131.008	134.237
<b>Balance at end of the period</b>	<b>(2.425.646)</b>	<b>(1.963.062)</b>

**10. Securities portfolio**

*Available-for-sale investment securities*

At 30 June 2014 and 31 December 2013, available for sale securities portfolio comprised the following:

	30 June 2014	31 December 2013
Treasury bills and government bonds	9.460.546	9.811.340
Equity shares	20.505	17.621
<i>Share certificates not quoted on a stock exchange</i>	39.361	36.528
<i>Allowance for impairment on equity shares</i>	(18.856)	(18.907)
<b>Total of available for sale securities</b>	<b>9.481.051</b>	<b>9.828.961</b>

Available-for-sale securities include securities given as collateral amounting to TL 991.758 (31 December 2013: TL 1.029.922). The Group has no securities subject to repurchase agreements as at 30 June 2014 (31 December 2013: TL 4.638).

*Held to maturity investment securities*

	30 June 2014	31 December 2013
<b>Debt securities:</b>		
Quoted on a stock exchange	17.390.577	17.745.799
Not quoted	1.340.307	1.227.799
<b>Total</b>	<b>18.730.884</b>	<b>18.973.598</b>

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### 10. Securities portfolio (continued)

#### Held to maturity investment securities (continued)

Held to maturity investments comprised the following items:

	30 June 2014	31 December 2013
Government bonds	18.724.095	18.966.304
Other securities	6.789	7.294
<b>Total</b>	<b>18.730.884</b>	<b>18.973.598</b>

Held to maturity investment securities include securities given as collateral amounting to TL 4.002.043 (31 December 2013: TL 3.210.176) and securities subject to repurchase agreements amounting to TL 7.619.597 (31 December 2013: TL 764.916).

The movements of held to maturity investment securities in the six-month periods ended 30 June 2014 and 30 June 2013 are as follows:

	30 June 2014	30 June 2013
Beginning balance	18.973.598	13.643.091
Foreign currency differences	(7.500)	(30)
Purchases during the period <sup>(1),(3)</sup>	2.782.161	1.550.196
Disposals through sales and redemptions <sup>(2)</sup>	(3.008.347)	(3.074.944)
Impairment provision (-)	9.028	--
<b>Balance at the of the period / year</b>	<b>18.730.884</b>	<b>12.118.313</b>

<sup>(1)</sup> Interest income accrual difference between 30 June 2014 amounting to TRY 1.404.497 and 31 December 2013 amounting to TRY 1.133.097 has been included in purchases row.

<sup>(2)</sup> In accordance with the tainting rules defined in IAS 39-Financial Instruments: Recognition and Measurement as of 31 December 2013, the Bank reclassified EUR 264.347 (TRY 606.491) and USD 342.113 (TRY 612.382) 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.

<sup>(3)</sup> In accordance with the rules defined in IAS 39-Financial Instruments: Recognition and Measurement as of 31 December 2013, the Bank reclassified TRY 4.039.794 thousands and USD 502.575 (TRY 982.535) thousands of financial assets from available for sales portfolio to held to maturity investments portfolio. Related amount was presented in “Purchases during the year” row.

### 11. Property and equipment

During the six-month period ended 30 June 2014, the Group acquired property and equipment with a cost of TL 237.317 (six-month period ended 30 June 2013: TL 137.974).

Property and equipment with a carrying amount of TL 71.849 were disposed of during six-month period ended 30 June 2014 (six-month period ended 30 June 2013: TL 157.325), resulting in a net gain on disposal of TL 35.313 (six-month period ended 30 June 2013: net gain of TL 35.502), which is included in other income. Properties with a carrying amount of TL 3.573 were transferred to non-current asset held for sale (six-month period ended 30 June 2013: TL 3.257).

### 12. Income taxes

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2014 (31 December 2013: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group’s results for the period.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****Notes to the Condensed Consolidated Interim Financial Statements****As of and For the Six-Month Period Ended 30 June 2014***(Currency – In thousands of Turkish lira ("TL"))***12. Income taxes (continued)**

The Group's consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2014 is 19,6% (30 June 2013: 18,2%).

***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 2014 and 31 December 2013 are as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
TRNC	10%	10%
Bahrain	--	--
Republic of Macedonia	10%	10%

**13. Share capital**

	<b>30 June 2014</b>	<b>31 December 2013</b>
TL 1 (in full TL), par value	1.250.000.000	1.250.000.000
<b>Total number of shares</b>	<b>1.250.000.000</b>	<b>1.250.000.000</b>
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
<b>Shared capital issued</b>	<b>2.578.184</b>	<b>2.578.184</b>

**14. 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 2014 is TL 1.253.144 (31 December 2013: TL 1.075.946).

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 2014 is TL 81.009 (31 December 2013: TL 87.462).

**Dividends paid and proposed**

As of the reporting date, the Bank has paid dividend amounting to TL 275.992 out of 2013 profit.

# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

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### 15. 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 2014 and 30 June 2013.

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

	30 June 2014	30 June 2013
Net profit attributable to ordinary shareholders for basic earnings per share	1.133.440	1.573.113
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
<b>Basic earnings per share (full TL per share)</b>	<b>0,9068</b>	<b>1,2585</b>

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

### 16. Related parties

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

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

#### *Transactions with key management personnel*

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

As of 30 June 2014 and 30 June 2013 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 2014	30 June 2013
Salaries and short-term benefits	9.485	8.245

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.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

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**As of and For the Six-Month Period Ended 30 June 2014**

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

**16. Related parties (continued)**

**Other related party transactions**

<b>Current period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	421	21.557	--	1.107	1
Kredi Kayıt Bürosu AŞ	--	--	--	--	--	--
Bankalararası Kart Merkezi A.Ş.	--	--	--	--	56	--
<b>Total</b>	<b>--</b>	<b>421</b>	<b>21.557</b>	<b>--</b>	<b>1.163</b>	<b>1</b>

<b>Prior period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission Income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	1.119	21.624	--	811	5
Kredi Kayıt Bürosu AŞ	--	--	3	--	4	--
Bankalar Arası Kart Merkezi AŞ	--	--	2.000	--	--	--
<b>Total</b>	<b>--</b>	<b>1.119</b>	<b>23.627</b>	<b>--</b>	<b>815</b>	<b>5</b>

**17. Commitments and contingencies**

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
Letters of guarantee issued	20.923.739	20.393.936
Letters of credit	3.555.130	3.825.259
Acceptance credits	3.018.016	1.944.803
Other	828.419	956.431
<b>Total non-cash loans</b>	<b>28.325.304</b>	<b>27.120.429</b>
Credit card limit commitments	10.024.329	9.896.720
Other commitments	8.514.871	8.005.135
<b>Total</b>	<b>46.864.504</b>	<b>45.022.284</b>

# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

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

### 17. Commitments and contingencies (continued)

#### Derivative financial instruments

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

	30 June 2014			31 December 2013		
	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	55.306	36.114	17.838.087	107.836	21.094	17.384.112
Other swap contracts	4.365	372	1.344.000	5.064	929	1.362.673
Other	29.454	32.759	4.593.410	27.415	31.469	3.765.822
<b>Total</b>	<b>89.125</b>	<b>69.245</b>	<b>23.775.497</b>	<b>140.315</b>	<b>53.492</b>	<b>22.512.607</b>

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

#### Fiduciary activities

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

The Group also manages six 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 fund. 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.

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

As of 30 June 2014, according to the general requirements of the BIST, letters of guarantee amounting to TL 250.000 (31 December 2013: TL 327.800) was obtained from various local banks and were provided to BIST 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

562 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.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****Notes to the Condensed Consolidated Interim Financial Statements****As of and For the Six-Month Period Ended 30 June 2014***(Currency – In thousands of Turkish lira (“TL”))***18. Fees and commission income and expenses**

	<b>30 June 2014</b>	<b>30 June 2013</b>
<b>Fees and commission income</b>		
Banking	661.178	529.484
Brokerage	5.146	7.572
<b>Total</b>	<b>666.324</b>	<b>537.056</b>
<b>Fees and commission expenses</b>		
Banking	(224.976)	(129.548)
Brokerage	(358)	(175)
<b>Total</b>	<b>(225.334)</b>	<b>(129.723)</b>

**19. Other operating income**

	<b>30 June 2014</b>	<b>30 June 2013</b>
Gain on sale of property and equipment	35.313	35.502
Reversal from prior years' provision	12.890	11.629
Rent income	4.290	4.040
Other	47.940	35.767
<b>Total</b>	<b>100.433</b>	<b>86.938</b>

**20. Other operating expense**

	<b>30 June 2014</b>	<b>30 June 2013</b>
<b>Staff costs</b>		
Personnel expenses	682.298	575.698
Retirement pay provision	40.270	35.840
Administrative expenses	513.895	536.237
Depreciation and amortisation expense	59.627	58.995
Taxes, duties, charges and premium expenses	57.113	57.252
Saving deposit insurance fund expenses	73.074	56.693
Provision expense for lawsuits	2.986	2.539
Other	19.561	43.375
<b>Total</b>	<b>1.448.824</b>	<b>1.366.629</b>

## TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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#### 21. Subsequent events

The Board of Directors has authorized the Head Office to obtain required permissions from the related regulatory institutions to open a Representative Office in Singapore in order to improve the relations with the International Corporate Investors and Corresponding Banks in Asia-Pacific Region.

The General Management of the Bank has been authorized by the Board of Directors to manage and finalize the process for the partial or complete sales of the shares which are owned directly or indirectly in the equity of subsidiaries Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş. through T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı according to Law Regarding the Implementation of Privatization numbered 4046.

The Board of Directors of the Parent Bank has resolved to purchase the shares of subsidiaries that are owned by and are in the partnership portfolio of Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş. (both which are subsidiaries of the Parent Bank). These are the shares of Halk Hayat ve Emeklilik A.Ş., Halk Portföy Yönetimi A.Ş., Halk Faktoring A.Ş., Halk Gayrimenkul Yatırım Ortaklığı A.Ş., Halk Yatırım Menkul Değerler A.Ş., and Halk Finansal Kiralama A.Ş. (which are in the partnership portfolio of Halk Sigorta A.Ş.) and the shares of Halk Portföy Yönetimi A.Ş., Halk Faktoring A.Ş., Halk Gayrimenkul Yatırım Ortaklığı A.Ş., Halk Finansal Kiralama A.Ş. and Halk Yatırım Menkul Değerler A.Ş. (which are in the partnership portfolio of Halk Hayat ve Emeklilik A.Ş.). These shall be purchased based on the current values as shown in the legal records of these companies.