Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended
30 June 2018
With Report on Review of
Interim Financial Statements Thereon

Türkiye Halk Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Türkiye Halk Bankası A.Ş.
İstanbul

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Halk Bankası A.Ş. ("the Bank") and its consolidated subsidiaries (together "the Group") as of 30 June 2018, and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with 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

1. The accompanying condensed consolidated interim financial statements as at 30 June 2018, include a general reserve amounting to TRY 107.000 thousand, provided by the Group management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions. If such general provision was not provided, as at 30 June 2018, provisions would decrease by TRY 107.000 thousand, retained earnings would increase by TRY 107.000 and net profit for the period would increase by TRY 90.000 thousand.
2. The Bank reclassified the government bonds amounting to TRY 18.965.006 thousand, which were previously classified under debt and other instruments at fair value through other comprehensive income according to the business model prepared in accordance with International Financial Reporting Standard ("IFRS") 9, into debt and other instruments at amortised cost and reversed the marketable securities revaluation fund accumulated under other comprehensive income or loss to be reclassified through profit or loss amounting to TRY 2.229.977 thousand on 23 May 2018. The reclassification constitutes a departure from IFRS 9. The government bonds reclassified into debt and other instruments at amortised cost as at 30 June 2018 amounted to TRY 18.194.600 thousand. If such classification were not made, total assets and shareholders' equity would be lower by TRY 2.065.277 thousand as at 30 June 2018. Besides, if such classification were not made, the capital adequacy ratio would be lower.

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Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to the following:

As detailed in Note 21, one of the Bank's former directors has been convicted and imprisoned for some of the charges by the court in the United States of America ("USA") of the violation of the USA sanctions involving Iran as of 16 May 2018. The subsequent legal process is not yet completed but ongoing for the defendant former director of the Bank such as appeal and other legal rights following the first phase of the trial.

The Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the Bank. The Bank is also closely following this trial by hiring external legal counsel resident in the USA.

Separate from this trial, there is an uncertainty of any negative decisions by the USA authorities against the Bank affecting its financial position, if any. The Group's management indicated that there are no enforcement or other actions against the Bank at this stage. No provision has been made in the accompanying condensed consolidated interim financial statements related to this matter. Our conclusion is not modified in respect of this matter.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hasan Kılıç
Partner

Istanbul, 16 October 2018

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2018

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

	Notes	**30 June 2018**	**31 December 2017**
Assets			
Cash on hand		2.193.642	2.208.138
Balances with Central Bank	9	11.331.236	17.658.013
Reserve deposits at Central Bank	9	20.477.160	16.815.227
Due from banks		5.176.828	7.602.135
Financial assets at fair value through profit or loss		1.138.683	483.494
- Trading securities		*222.526*	*120.563*
- Derivative financial instruments	*17*	*916.157*	*362.931*
Collaterals of borrowed securities		14.979.483	10.000.429
Loans and advances	10	243.975.675	207.546.927
Insurance premium receivables		1.030.203	731.825
Investment securities:		47.333.223	39.689.350
- Debt and other instruments at FVTOCI	*11*	*2.175.914*	*17.702.251*
- Debt and other instruments at amortised cost	*11*	*45.157.309*	*21.987.099*
Investment in equity-accounted investees		414.949	357.755
Property and equipment		4.258.329	3.746.279
Intangible assets		132.708	145.166
Non-current assets held for sale		4.781	533
Investment property		953.228	910.378
Deferred tax assets		110.453	465.405
Other assets		4.006.338	2.992.980
Total assets		**357.516.919**	**311.354.034**
Liabilities			
Deposits from banks		25.593.926	19.214.698
Deposits from customers		196.320.552	174.038.081
Obligations under repurchase agreements		41.021.407	4.348.200
Loan and advances from banks		22.828.740	22.783.118
Interbank money market borrowings		484.042	30.655.122
Derivative financial instruments	17	388.274	150.673
Debt securities issued		13.956.716	12.008.923
Borrowed securities		14.979.483	10.000.429
Subordinated liabilities		1.001.322	1.004.385
Insurance contract liabilities		3.004.923	2.479.385
Provisions		1.590.445	1.352.531
Income tax payables		35.424	195.638
Deferred tax liability		629.535	574.170
Other liabilities		7.084.534	6.236.132
Total liabilities		**328.919.323**	**285.041.485**
Equity			
Share capital	13	2.578.184	2.578.184
Share premium		39.737	39.737
Reserves	14	4.204.242	3.553.194
Retained earnings		21.547.204	19.931.310
Total equity attributable to equity holders of the Bank		**28.369.367**	**26.102.425**
Non-controlling interests		228.229	210.124
Total equity		**28.597.596**	**26.312.549**
Total liabilities and equity		**357.516.919**	**311.354.034**

The notes on pages 6 to 32 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 2018
(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	**For the six-month period ended 30 June 2018**	**For the six-month period ended 30 June 2017**
Interest income:			
-Interest income on loans		12.311.717	8.481.881
-Interest income on securities		2.310.934	1.989.217
-Interest income on finance leases		124.428	90.730
-Interest income on deposits at banks		286.277	167.697
-Interest income on other money market placements		24.555	23.549
-Other interest income		140.316	95.795
		15.198.227	**10.848.869**
Interest expense:			
-Interest expense on deposits		(7.790.747)	(4.611.381)
-Interest expense on other money market deposits		(1.900.052)	(1.056.489)
-Interest expense on borrowings		(343.375)	(260.868)
-Interest expense on debt securities issued		(564.317)	(390.862)
-Other interest expense		(114.350)	(64.960)
		(10.712.841)	**(6.384.560)**
Net interest income		**4.485.386**	**4.464.309**
Fees and commission income	18	1.218.741	1.246.407
Fees and commission expenses	18	(349.063)	(280.728)
Net fee and commission income		**869.678**	**965.679**
Net trading income from securities		15.487	19.503
Net trading income / (loss) from derivative financial instruments		323.546	(189.887)
Foreign exchange gain / (losses), net		(247.757)	292.646
Net impairment losses on financial assets		(811.588)	(623.810)
Income from insurance operations		798.875	753.499
Cost of insurance operations		(678.435)	(631.937)
Dividend income		12.663	3.467
Other operating income	19	187.868	170.947
Other operating expenses	20	(2.665.675)	(2.177.357)
Operating profit		**2.290.048**	**3.047.059**
Share of profit of equity-accounted investees		13.800	9.934
Profit before income tax		**2.303.848**	**3.056.993**
Income tax expense		(452.389)	(596.470)
Profit for the period		**1.851.459**	**2.460.523**
Other comprehensive income			
Items that will be never classified to profit or loss:			
Re-measurement of employee termination benefits		-	11.355
Revaluation differences of property and equipment		(3.884)	21.777
Related tax		499	(3.360)
Items that may be reclassified subsequently to profit or loss:			
Fair value reserve (Debt and other instruments at FVTOCI):			
Change in fair value		437.210	292.276
Amount transferred to profit or loss		14.225	(18.258)
Foreign currency translation differences		84.812	140.328
Related tax		(90.299)	23.413
Other comprehensive income for the period, net of tax		**442.563**	**467.531**
Total comprehensive income for the period		**2.294.022**	**2.928.054**

The notes on pages 6 to 32 are an integral part of these condensed consolidated interim financial statements.

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

	Notes	For the six-month period ended 30 June 2018	For the six-month period ended 30 June 2017
Profit attributable to:			
Equity holders of the Bank		1.843.816	2.453.812
Non-controlling interests		7.643	6.711
Profit for the period		**1.851.459**	**2.460.523**
Total comprehensive income attributable to:			
Equity holders of the Bank		2.286.379	2.921.150
Non-controlling interests		7.643	6.904
Total comprehensive income for the period		**2.294.022**	**2.928.054**
Basic earnings per share (full TRY per share)	**15**	**1,4751**	**1,9630**

The notes on pages 6 to 32 are an integral part of these condensed consolidated interim financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED IMTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

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

		Total equity attributable to equity holders of the Bank							
				Reserves					
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2017		**2.578.184**	**39.737**	**(724.098)**	**3.711.960**	**16.188.483**	**21.794.266**	**213.158**	**22.007.424**
Total comprehensive income for the period									
Net profit for the period		-	-	-	-	2.453.812	2.453.812	6.711	**2.460.523**
Other comprehensive income, net of tax									
Re-measurements of defined benefit plans, net of tax		-	-	-	-	9.084	9.084	-	**9.084**
Fair value reserve (Available-for-sale financial assets):									
Net change in fair value		-	-	358.461	(42.781)	-	315.680	9	**315.689**
Net amount transferred to profit or loss		-	-	(18.258)	-	-	(18.258)	-	**(18.258)**
Revaluation differences of property and equipment		-	-	-	20.688	-	20.688	-	**20.688**
Foreign currency translation differences		-	-	-	140.144	-	140.144	184	**140.328**
Total other comprehensive income		**-**	**-**	**340.203**	**118.051**	**9.084**	**467.338**	**193**	**467.531**
Total comprehensive income for the period		**-**	**-**	**340.203**	**118.051**	**2.462.896**	**2.921.150**	**6.904**	**2.928.054**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves		-	-	-	169.503	(160.057)	9.446	-	**9.446**
Dividends to equity holders	14	-	-	-	-	(258.742)	(258.742)	-	**(258.742)**
Changes in ownership interests in subsidiaries									
Change in shares without a change in control		-	-	-	(257)	34.895	34.638	1.648	**36.286**
Balances at 30 June 2017		**2.578.184**	**39.737**	**(383.895)**	**3.999.257**	**18.267.475**	**24.500.758**	**221.710**	**24.722.468**
Balances at 1 January 2018		2.578.184	39.737	(612.931)	4.166.125	19.931.310	26.102.425	210.124	**26.312.549**
Impact of adopting IFRS 9 & 15 at 1 January 2018	4	-	-	-	-	(147.427)	(147.427)	4	**(147.423)**
New balances at 1 January 2018		**2.578.184**	**39.737**	**(612.931)**	**4.166.125**	**19.783.883**	**25.954.998**	**210.128**	**26.165.126**
Total comprehensive income for the period									
Net profit for the period		-	-	-	**-**	**1.843.816**	**1.843.816**	**7.643**	**1.851.459**
Other comprehensive income, net of tax									
Fair value reserve (Debt and other instruments at FVTOCI):									
Net change in fair value		-	-	346.911	-	-	346.911	-	**346.911**
Net amount transferred to profit or loss		-	-	14.225	-	-	14.225	-	**14.225**
Revaluation differences of property and equipment		-	-	-	(3.385)	-	(3.385)	-	**(3.385)**
Foreign currency translation differences		-	-	-	84.812	-	84.812	-	**84.812**
Total other comprehensive income		**-**	**-**	**361.136**	**81.427**	**-**	**442.563**	**-**	**442.563**
Total comprehensive income for the period		**-**	**-**	**361.136**	**81.427**	**1.843.816**	**2.286.379**	**7.643**	**2.294.022**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves		-	-	-	85.729	(87.293)	(1.564)	1.564	-
Dividends to equity holders	14	-	-	-	-	-	-	(2.521)	**(2.521)**
Changes in ownership interests in subsidiaries									
Other		-	-	-	122.756	6.798	129.554	11.415	**140.969**
Balances at 30 June 2018		**2.578.184**	**39.737**	**(251.795)**	**4.456.037**	**21.547.204**	**28.369.367**	**228.229**	**28.597.596**

The notes on pages 6 to 32 are an integral part of these condensed consolidated interim financial statements.

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

	Notes	**For the six-month period ended 30 June 2018**	**For the six-month period ended 30 June 2017**
Cash flows from operating activities			
Profit for the period		1.851.459	2.460.523
Adjustments for:			
Depreciation and amortisation		103.884	85.252
Net impairment loss on loans and advances	10	1.099.733	893.904
Net interest income		(4.485.386)	(4.464.309)
Dividend income		(12.663)	(3.467)
Provision for employee termination benefits	20	56.552	60.763
Impairment losses on property and equipment		-	737
Net gain on sale of property and equipment		(50.471)	(49.660)
Share of profit of equity-accounted investees		(13.800)	(9.934)
Income tax expense		452.389	596.470
		(998.303)	**(429.721)**
Change in financial assets at fair value through profit or loss		(102.162)	16.143
Change in due from banks		(12.594)	15.497
Change in loans and advances		(36.432.939)	(22.588.508)
Change in other assets		(10.796.586)	(4.201.575)
Change in deposits from banks		6.429.885	(5.935.607)
Change in deposits from customers		21.835.823	26.952.159
Change in loans and advances from banks		(33.981)	(1.444.895)
Change in other liabilities		10.837.087	9.758.154
Interest received		13.434.215	10.460.340
Dividends received		12.663	3.467
Interest paid		(10.125.215)	(5.716.311)
Income tax paid		(377.188)	(520.041)
Employee termination benefits paid		(11.230)	(13.697)
Net cash used in operating activities		**(6.340.525)**	**6.355.405**
Cash flows from investing activities			
Acquisitions of subsidiaries		(142.652)	-
Acquisitions of available-for-sale investment securities		(6.020.653)	(4.724.069)
Proceeds from sale of available-for-sale investment securities		2.463.655	2.811.559
Acquisitions of held to maturity investment securities		(5.057.204)	(3.810.874)
Proceeds from sale of held to maturity investment securities	11	2.891.448	1.176.467
Acquisitions of property and equipment		(719.796)	(181.960)
Proceeds from sale of property and equipment		134.607	68.337
Other cash (used in)/provided from investing activities		12.746	1.733
Net cash (used in)/provided from investing activities		**(6.437.849)**	**(4.658.807)**
Cash flows from financing activities			
Proceeds from issue of debt securities		2.887.178	3.095.680
Cash used for repayment of debt securities		(1.022.723)	(2.086.358)
Dividends paid	14	(2.521)	(258.742)
Net cash provided from financing activities		**1.861.934**	**750.580**
Net increase/(decrease) in cash and cash equivalents		**(10.916.440)**	**2.447.178**
Cash and cash equivalents at 1 January		27.122.992	15.530.597
Effect of change in currency rate fluctuations on cash held		2.117.726	33.734
Cash and cash equivalents at 30 June		**18.324.278**	**18.011.509**

The notes on pages 6 to 32 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated financial statements:

1. Activities of the Bank and the Group

Türkiye Halk Bankası Anonim Şirketi (the "Bank" or "Halkbank") was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank. As of 30 June 2018, the Bank operates with a total of 978 branches consisting of 972 domestic and 6 foreign branches that are 5 in Turkish Republic of Northern Cyprus ("TRNC") and 1 in Bahrain. Domestic branches include 32 satellite branches. The Bank has also 3 representative offices that are 1 in England, 1 in Singapore and 1 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 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, Halkbank A.D., Beograd, Halk Varlık Kiralama AŞ and Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ.

As per the Higher Council of Privatization decision numbered 2006/69 dated 11 August 2006, the public shares were transferred to the Privatization Administration and 99,9% of the Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 decided to cease the execution of the High Council of Privatization's decision numbered 2006/69 dated 11 August 2006.

The first phase of the privatization process of the Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to trade on Borsa İstanbul (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 BIST.

The shares belonging to the T.C. Prime Ministry Privatization Administration were transferred to the Türkiye Varlık Fonu on 10 March 2017 pursuant to the Decree of the Higher Council for Privatization No. 2017/1 dated 3 February 2017.

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 and Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ ("Halk GYO") 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 real estate investment trusts, 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 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 for 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.

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

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 was a subsidiary of Turkish state bank that operating 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% and as at 31 December 2016 it is 99,03%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Between 1 January – 30 June 2018, The Bank paid TRY 53.864 for 0,14% shares of Halkbank A.D. Skopje increased its shares to 99,17%. 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.

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.

Halk Yatırım Menkul Değerler AŞ (“Halk Yatırım”), was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund.

The Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, accepting deposits, foreign exchange transactions, and payment operation services in the country and abroad and retail banking services. On the date of 24 November 2015 Bank’s share has increased into 82,47% by the increase of its capital. As of 31 December 2017, The Bank paid TL 14.894 for 17,42% shares of Halkbank A.D. Beograd and increased its shareholding 99,89%. Between 1 January - 30 June 2018, The Parent Bank paid TRY 88.413 for 0,10% shares of Halkbank A.D. Beograd increased its shares to 99,99%.

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.

Halk Varlık Kiralama A.Ş. (“Halk Varlık”) was established on 3 October 2017 with the purpose of issuing “Lease Certificate” in accordance with the Capital Markets Board Law No. 6362, the CMB Communiqué and the related regulations of the CMB.

2. Basis of accounting

These condensed consolidated interim financial statements as of 30 June 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for a complete set of IFRS financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2017.

The accompanying condensed consolidated interim financial statements are authorised for issue by the management on 16 October 2018.

3. Use of judgements and 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 expenses. Actual results may differ from these estimates.

The significant judgements made by the 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 2017.

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: 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 are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

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 7 –financial instruments.

4. Changes in accounting policies

There is no change in accounting policies during the period except for the impact of transition to IFRS 9 and IFRS 15 as of 1 January 2018 as explained below.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Disclosures of IFRS 9 Financial Instruments:

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

The Group has applied the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods. In this respect, the explanations of impacts on equity regarding the adoption of IFRS 9 is given in the Note 4.

Classification and measurement of financial assets:

For the determination of which category a financial instrument shall be classified at initial recognition and whether contractual cash flows represent solely payments of principal and interest in accordance with IFRS 9 Standard is tested by the Group. According to the test results and business model of the Group, financial assets are recognized in the financial statements.

Impairment of financial assets:

IFRS 9 has changed the accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. It is formed an impairment model having three stages based on the change in credit quality since initial recognition. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets have been divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

4. Changes in accounting policies (continued)

Impairment of financial assets (continued):

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers stardard provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 Revenue Standard. The Standard is in effect starting from 1 January 2018 and the positive effect of the Group's financial statements, which have been booked to the opening equity amounting to TRY 8.002 dated 1 January 2018 without restating previous period financial statements.

New Standards not effective as of 1 January 2018

IFRS 16 Leases

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The standard will be effective from annual periods beginning on or after 1 January 2019 and the Group's adoption process regarding the mentioned amendments continues as of the reporting date.

Financial Assets

Classification of the category of a financial instrument at initial recognition depends on both the business model for managing the financial asssets and their contractual casf flow characterictics.

Assessment of Business Model

The Group classifies its financial assets in accordance with IFRS 9 through its business model which is used for financial assets management.

The Group's business model is related with how the Group manages its financial assets to generate cash flows. In other terms, the source of cash flows depends on the Group's business model whether the cash flow is generated from contractual terms or through sale of financial asset or both.

Classification of financial assets is made at initial recognition considering the aim of purchase of the financial asset.

The Group's business models are classified in three main categories in accordance with IFRS 9.

4. Changes in accounting policies (continued)

Financial Assets (continued)

Assessment of Business Model (continued)

1. A business model whose objective is to hold assets in order to collect contractual cash flows:

A business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The purpose of the business model does not require to hold to collect the contractual cash flows of the instruments over their life, even the aim of the business model is to hold the instruments up to maturity for the contractual cash flows. Therefore, even when financial asset sales are anticipated or expected to occur in the future, the business model may still be a model that aims to retain financial assets in order to collect contractual cash flows.

The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial assets meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets:

The Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value changes of the financial assets that are held within the scope of this business model are accounted for under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Other Business Models:

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Group makes its decisions on the basis of business model, which is based on the fair value of the assets and manages the assets to obtain their fair value. Therefore, if the financial assets are held for the purpose of obtaining cash flows arising from their sale, the change in fair value are measured at fair value through profit or loss.

Measurement Categories of Financial Assets and Liabilities

As of 1 January 2018, the Group classified all its financial assets based on the business model for managing the financial assets. Accordingly, the financial assets are classified as per IFRS 9 in three main categories listed below:

1. Financial assets measured at amortized cost,
2. Financial assets measured at fair value through other comprehensive income and
3. Financial assets measured at fair value through profit or loss.

IFRS 9, the paragraph 4, explains how financial assets are classified in accordance with methods explained in Article 1 and 2 and other than these financial assets, remaining financial assets are classified in accordance with the method detailed in Article 3.

4. Changes in accounting policies (continued)

Financial Assets (continued)

Measurement Categories of Financial Assets and Liabilities (continued)

1. Financial Assets Measured at Amortised Cost

A financial asset is measured at amortized cost if both of the following conditions are met.

a) Asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

b) Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are loans and receivables and financial assets. Subsequent to the initial recognition, financial investments are accounted for at amortised cost calculated by using the effective interest rate method. Loans are are initially recognized with their cost and carried at their amortized costs calculated using the internal rate of return subsequent to recognition.

2. Financial Assets Measured at Fair Value through other comprehensive income

A financial asset is measured if both of the following conditions are met.

a) Financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

b) Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

3. Financial Assets Measured at Fair Value through profit or loss

According to IFRS 9 paragraph 4.1.4, the financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. However, the Group may irrevocably prefer to apply to the financial assets at fair value through other comprehensive income for reflecting future changes in fair value for certain investments in equity instruments that would normally be measured at fair value through profit or loss at the time of initial inception in the financial statements.

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

4. Changes in accounting policies (continued)

Financial Assets (continued)

Reclassification of Financial Assets in accordance with IFRS 9

Reclassifications and remeasurements during the first time adoption of IFRS 9 Financial Instruments standard and the impairment provision as of 31 December 2017 calculated by the Group and expected loss provision as of 1 January 2018 in accordance with IFRS 9 are reconciled as follows:

	Before IFRS 9 Book Value			**IFRS 9 Book Value**
Assets	**31 December 2017**	**Reclassification Effect**	**Measurement Effect**	**1 January 2018**
Cash on hand	2.208.138	-	-	2.208.138
Balances with Central Bank	17.658.013	-	-	17.658.013
Reserve deposits at Central Bank	16.815.227	-	-	16.815.227
Due from banks	7.602.135	-	-	7.602.135
Financial assets at fair value through profit or loss	483.494	-	-	483.494
- Trading securities	*120.563*	-	-	*120.563*
- Derivative financial instruments	*362.931*	-	-	*362.931*
Securities lending transactions	10.000.429	-	-	10.000.429
Investment securities:	39.689.350	-	-	39.689.350
- Debt and other instruments at FVTOCI	-	*17.702.251*	-	*17.702.251*
- Debt and other instruments at amortised cost	-	*21.987.099*	-	*21.987.099*
- Available-for-sale investment securities	*17.702.251*	*(17.702.251)*	-	-
- Held-to-maturity investment securities	*21.987.099*	*(21.987.099)*	-	-
Expected credit losses on financial assets (-)	-	(23.511)	7.229	(16.282)
Loans and advances, net	**207.546.927**	**-**	**-**	**207.407.784**
Loans and advances, gross	*214.165.162*	-	-	*214.165.162*
Specific allowance for impairment on loans	*(4.887.415)*	*4.887.415*	-	-
Portfolio allowance for impairment on loans	*(1.730.820)*	*1.730.820*	-	-
Expected credit losses on cash loans - Stage 1-2-3 (-)	-	*(6.618.235)*	*(139.143)*	*(6.757.378)*
Insurance premium receivables	731.825	-	-	731.825
Investment in equity-accounted investees	357.755	-	-	357.755
Property and equipment	3.746.279	-	-	3.746.279
Intangible assets	145.166	-	-	145.166
Non-current assets held for sale	533	-	-	533
Investment property	910.378	-	-	910.378
Deferred tax assets	465.405	-	-	465.405
Other assets	2.992.980	-	-	2.992.980
Total assets	**311.354.034**	**(23.511)**	**(131.914)**	**311.198.609**

Effects on Equity with IFRS 9 Transition

The Group reflected the classification, measurement and impairment requirements to opening equity without restating previous period financial statements. In this respect, TRY 155.425 arising between the provision for impairments of the previous period of the Group and the provision for the loan losses that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained earnings".

4. Changes in accounting policies (continued)

Impairment of Financial Assets

As of 1 January 2018, it is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVTOCI, loan commitments and financial guarantee contracts not measured at FVTPL based on IFRS 9 which came into force starting from 1 January 2018. Financial assets measured at fair value are not assessed for impairment.

As of the reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition in accordance with IFRS 9 paragraph 5.5.4. When making the assessment, the Group shall use the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, the Group measures loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The Group calculates the expected credit loss on a collective basis by grouping the financial assets having common credit risk features or on an individual basis.

The Group constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration the change in the risk of a default event occurring over the expected life of the financial instrument.

Calculation of expected credit losses

A credit loss is present value of calculated difference between the total cash flows that will occur based on the contractual terms of financial instruments and the total cash flows, which the Group expecs to collect, with the initial effective interest rate. The Group calculates expected credit losses based on a probability – weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial instruments. The Group estimates cash flows over expected life of a financial instrument with the consideration of contractual terms of the financial instrument, and considers the weighted average of the credit losses as the expected default risk as the expected credit loss.

Probability of Default (PD)

It is defined as the probability that the debtor does not fulfill its obligations to the Group or in other words it can not repay its debts to the Group. This ratio is calculated for each loan based on various statistical assumptions depending on the maturity, internal behavioral model, external behavioral model and financial module data.The probability values take a value between 0 and 1, and as the probability value increases, the likelihood of the credit defaulting increases.

Loss given Default (LGD)

This is the parameter indicates the expected economic loss of the Group if the credit defaults. In the case of the credit defaults and the Group collects the entire amount of the default, LGD is zero, in the case of no collection, LGD is 100% percent. LGD rates are reviewed on a maximum of 1 year basis.

4. Changes in accounting policies (continued)

Impairment of Financial Assets (continued)

Exposure at Default (EAD)

It is the parameter that indicates how much of a loan will default. The default amount for a spot or installment loan is the amount, which is listed on the payment schedule at the time of default. Additionally, the default amount for the credit cards and limit gaps of overdraft accounts and non-cash loans, are calculated with a parameter called credit conversion rate (LCR). The default risk amount in the future is estimated by calculating by the statistical methods with the credit conversion rate, since it is not known at the time of loan origination due to undrawn commitment for limit of credit cards and overdraft accounts.

12 Month Probability of Default

It is the estimated probability of default occurring within the next 12 months following the balance sheet date. According to Article 5.5.5 of IFRS 9 standard, in the case of that there is no significant increase in credit risk of a financial instrument since its first recognition, the Group shall measure at the provision for loss of the related financial instrument as equal as 12 month expected credit losses.

In the case of a customer or a loan that is classified under Standard Loans (Stage I), the provision for loan is calculated on 365 days even if the maturity of the loan is above 1 year. In the case of maturity of the loan is under 1 year, number of days left to maturity (except revolving loans and credit cards) are used in calculations.

Lifetime PD

It is the estimated probability of default occurring over the remaining life of the financial instrument. According to article 5.5.3 of IFRS 9 standard, in case of a significant increase in credit risk for a financial instrument since its initial recognition, the Group shall measure provision for loss of related financial instrument as equal as expected lifetime probability of default amount.

In the case of a customer or loan is classified as Stage 2 and / or Stage 3, the provision for expected credit loss is measured at the lifetime probability of default. Despite the fact that the methods for used calculation for provision of expected credit loss are similar for Stage 2 and Stage 3 loans, the probability of default for Stage 3 credits is accepted as 100%.

IFRS 9 Standard does not include a direct definition of default, but requires a consistent definition of default to be used in credit risk management. The Group is considering qualitative indicators (eg financial commitments), if appropriate, when defining a default according to article B5.5.37 of IFRS 9, for the purpose of determining the risk of business default and adopts a definition of default, consistent with the definition used for in-house credit risk management purposes for the relevant financial instruments. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Debt defaulted if at least one of the following two conditions occurs.

a) Considering that a debtor is unlikely to pay credit obligations to the Parent Bank and to the Parent Bank's consolidated financial subsidiaries without using guarantees

b) Considering that a debt having past due more than 90 days to the Parent Bank or its financial subsidiaries

4. Changes in accounting policies (continued)

Impairment of Financial Assets (continued)

Lifetime PD (continued)

The expected loan loss provision for the loans classified as non-performing loans (Stage 3) is calculated using the estimation of loss given default (LGD). Aforementioned estimation is based on the historical data on a segment basis and determined by the principle loss charge, being the remaining amount after the collection made within the period after each segment has defaulted.

Low Credit Risk

IFRS 9 standard states that in some cases, the credit risk on a financial instrument can be calculated as low if the financial instrument has a low risk of defult when there is no reliable past default data.

According to Article 5.5.20 of IFRS 9, if the entity determines that a financial instrument has a low credit risk as of the reporting date, it assumes that the credit risk on the financial instrument has not increased significantly following its initial recognition in the financial statement. Those transactions in the Group are classified as follows:

a) Central Bank of Republic of Turkey (CBRT) transactions (Currencies held in CBRT and reserve requirements)

b) Securities (Fair value through other comprehensive income and financial assets measured at amortised cost)

a) Treasury Loans (Transactions with Treasury Republic of Turkey)

b) Loans guaranteed by Treasury of Republic of Turkey

The Rules of Significant Increase in Credit Risk

Significant increase in credit risk requires measurement of the Group's provision for expected credit losses at lifetime probability of default instead of 12 month expected credit loss. In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2.

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

5. Basis of consolidation

Subsidiaries

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

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

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

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

Companies where the 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. Unrealized losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 30 June 2018 and 31 December 2017 are as follows:

		Direct ownership		**Indirect ownership**	
	Place of incorporation	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	94,40%	94,33%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,33%	79,33%	79,36%	79,36%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	99,17%	99,03%	99,17%	99,03%
Halk Portföy Yönetimi AŞ	Istanbul	75,00%	75,00%	99,99%	99,99%
Halk Faktoring AŞ	Istanbul	97,50%	97,50%	100,00%	100,00%
Halk Banka A.D. Beograd	Beograd	99,99%	99,89%	99,99%	99,89%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Varlık Kiralama A.Ş.	Istanbul	100,00%	100,00%	100,00%	100,00%

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

5. Basis of consolidation (continued)

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.

Goodwill at the acquisition date for business combinations on or after 1 January 2010 are measured as below:

- The fair value of the acquisition cost; plus
- The recognized amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, the gain on acquisition is recognized 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.

The equity-accounted associates of the Group as of 30 June 2018 and 31 December 2017 are as follows:

		Shareholding interest	
	Place of incorporation	**30 June 2018**	**31 December 2017**
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	Istanbul	16,67%	16,67%

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

6. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at 31 December 2017.

As of 30 June 2018, the capital adequacy standard ratio as per the Turkish banking regulation is calculated according to "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy". The Group's regulatory consolidated capital adequacy ratio is 12,75% (31 December 2017: 13,59%) and the Bank only regulatory capital adequacy ratio is 13,23% (31 December 2017: 14,18%).

(Currency - In thousands of Turkish Lira (“TRY”))

7. Financial instruments

Carrying amounts and fair values

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

	Carrying amount			Fair value			
Financial assets	**Loans and receivables**	**Investments, including derivatives**	**Total**	**Level 1[(1) (2)]**	**Level 2**	**Level 3**	**Total**
30 June 2018							
Due from banks (including central banks)	36.985.224	-	36.985.224	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	*222.526*	*222.526*	*206.783*	-	-	*206.783*
-Derivative financial instruments	-	*916.157*	*916.157*	-	*916.157*	-	*916.157*
Loans and advances	243.975.675	-	243.975.675	-	-	-	-
Investment securities:							
- Debt and other instruments at FVTOCI	-	*2.175.914*	*2.175.914*	*2.067.673*	-	-	*2.067.673*
- Debt and other instruments at amortised cost	-	*45.157.309*	*45.157.309*	-	-	-	-
Insurance premium receivables	1.030.203	-	1.030.203	-	-	-	-
	281.991.102	**48.471.906**	**330.463.008**				
31 December 2017							
Due from banks (including central banks)	42.075.375	-	42.075.375	-	-	-	-
Financial assets at fair value through profit or loss:							-
-Trading securities	-	*120.563*	*120.563*	*109.985*	-	-	*109.985*
-Derivative financial instruments	-	*362.931*	*362.931*	-	*362.931*	-	*362.931*
Loans and advances	207.546.927	-	207.546.927	-	-	-	-
Investment securities:							
-Available-for-sale investment securities	-	*17.702.251*	*17.702.251*	*17.623.152*	-	-	*17.623.152*
-Held-to-maturity investment securities	-	*21.987.099*	*21.987.099*	-	-	-	-
Insurance premium receivables	731.825	-	731.825	-	-	-	-
	250.354.127	**40.172.844**	**290.526.971**				

(1) As of 30 June 2018 share certificates amounting to TRY 108.241 (31 December 2017: TRY 79.099) in debt and other instruments at FVTOCI are not included in the above table, which are measured at cost.

(2) As of 30 June 2018, marketable securities amounting to TRY 15.743 (31 December 2017: TRY 10.578) that are measured at cost, are not included in financial assets at fair value through profit or loss.

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

7. Financial instruments (continued)

Carrying amounts and fair values *(continued)*

	Carrying amount			Fair value			
Financial liabilities	**Loans and borrowings**	**Derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2018							
Deposits from banks	25.593.926	-	25.593.926	-	-	-	-
Deposits from customers	196.320.552	-	196.320.552	-	-	-	-
Obligations under repurchase agreements	41.021.407	-	41.021.407	-	-	-	-
Loans and advances from banks	22.828.740	-	22.828.740	-	-	-	-
Interbank money market borrowings	484.042	-	484.042	-	-	-	-
Derivative financial instruments	-	388.274	388.274	-	388.274	-	388.274
Debt securities issued	13.956.716	-	13.956.716	-	-	-	-
	300.205.383	**388.274**	**300.593.657**				
31 December 2017							
Deposits from banks	19.214.698	-	19.214.698	-	-	-	-
Deposits from customers	174.038.081	-	174.038.081	-	-	-	-
Obligations under repurchase agreements	4.348.200	-	4.348.200	-	-	-	-
Loans and advances from banks	22.783.118	-	22.783.118	-	-	-	-
Interbank money market borrowings	30.655.122	-	30.655.122	-	-	-	-
Derivative financial instruments	-	150.673	150.673	-	150.673	-	150.673
Debt securities issued	12.008.923	-	12.008.923	-	-	-	-
	263.048.142	**150.673**	**263.198.815**				

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

8. Operating segments

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

30 June 2018	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment** [2]	**Other** [1]	**Group**
Interest income	1.500.947	2.188.500	8.636.525	2.595.445	276.810	15.198.227
Interest expense	(829.163)	(500.187)	(5.914.761)	(3.330.788)	(137.942)	(10.712.841)
Net interest income	**671.784**	**1.688.313**	**2.721.764**	**(735.343)**	**138.868**	**4.485.386**
Net fee and commission income	148.552	133.326	460.772	223.766	(96.738)	869.678
Net trading income from securities	-	-	-	15.487	-	15.487
Net trading income from derivative transactions	-	-	(2.978)	326.574	(50)	323.546
Foreign exchange gain/ (losses), net	1.803	4.546	496.629	(760.388)	9.653	(247.757)
Net impairment losses on loans and advances	(41.934)	(67.188)	(351.098)	(346.979)	(4.389)	(811.588)
Income from insurance operations	-	-	-	-	798.875	798.875
Cost of insurance operations	-	-	-	-	(678.435)	(678.435)
Dividend income	-	-	-	12.271	392	12.663
Other operating income & share of profit of equity-accounted investees	32.679	12.748	26.914	24.820	104.507	201.668
Other operating expenses	(13.952)	(32.158)	(823.867)	(1.282.770)	(512.928)	(2.665.675)
Profit before income tax	**798.932**	**1.739.587**	**2.528.136**	**(2.522.562)**	**(240.245)**	**2.303.848**
Income tax expense	-	-	-	(387.738)	(64.651)	(452.389)
Profit for the period	**798.932**	**1.739.587**	**2.528.136**	**(2.910.300)**	**(304.896)**	**1.851.459**

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

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

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

8. Operating segments (continued)

30 June 2017	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment** [2]	**Other** [1]	**Group**
Interest income	967.706	1.437.094	5.988.353	2.259.495	196.221	10.848.869
Interest expense	(644.987)	(270.177)	(3.367.232)	(2.027.169)	(74.995)	(6.384.560)
Net interest income	**322.719**	**1.166.917**	**2.621.121**	**232.326**	**121.226**	**4.464.309**
Net fee and commission income	118.858	233.972	538.695	194.458	(120.304)	965.679
Net trading income from securities	-	-	-	19.503	-	19.503
Net trading loss from derivative transactions	-	-	729	(189.381)	(1.235)	(189.887)
Foreign exchange gain/ (losses), net	(809)	2.685	50.995	224.185	15.590	292.646
Net impairment losses on loans and advances	(6.443)	(240.059)	(260.887)	(114.986)	(1.435)	(623.810)
Income from insurance operations	-	-	-	-	753.499	753.499
Cost of insurance operations	-	-	-	-	(631.937)	(631.937)
Dividend income	-	-	-	3.326	141	3.467
Other operating income & share of profit of equity-accounted investees	33.499	5.106	17.017	9.056	116.203	180.881
Other operating expenses	(12.650)	(27.245)	(707.273)	(1.031.296)	(398.893)	(2.177.357)
Profit before income tax	**455.174**	**1.141.376**	**2.260.397**	**(652.809)**	**(147.145)**	**3.056.993**
Income tax expense	-	-	-	(585.902)	(10.568)	(596.470)
Profit for the period	**455.174**	**1.141.376**	**2.260.397**	**(1.238.711)**	**(157.713)**	**2.460.523**

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

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

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

8. Operating segments (continued)

The segment assets and liabilities as at 30 June 2018 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment [1]	Other[1]	Group
Segment assets	36.344.718	47.405.545	159.367.465	108.436.731	5.547.511	357.101.970
Investment in equity-accounted investees	-	-	-	414.949	-	414.949
Total assets	**36.344.718**	**47.405.545**	**159.367.465**	**108.851.680**	**5.547.511**	**357.516.919**
Segment liabilities	31.352.730	20.722.948	168.168.755	101.759.303	6.915.587	328.919.323
Total liabilities	**31.352.730**	**20.722.948**	**168.168.755**	**101.759.303**	**6.915.587**	**328.919.323**

(1) 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 2017 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[1]	Group
Segment assets	29.828.946	41.531.752	134.732.676	100.168.803	4.734.102	310.996.279
Investment in equity-accounted investees	-	-	-	357.755	-	357.755
Total assets	**29.828.946**	**41.531.752**	**134.732.676**	**100.526.558**	**4.734.102**	**311.354.034**
Segment liabilities	28.203.697	19.278.142	151.864.060	79.597.703	6.097.883	285.041.485
Total liabilities	**28.203.697**	**19.278.142**	**151.864.060**	**79.597.703**	**6.097.883**	**285.041.485**

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

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

9. Balances with Central Bank

As at 30 June 2018, balances with Central Bank include restricted reserve deposits amounting to TRY 20.477.160 (31 December 2017: TRY 16.815.227) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TRY 11.331.236 (31 December 2017: TRY 17.658.013).

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD and/or standard gold at the rates between 4% and 10,5% according to their maturities (31 December 2017: between 4% and 10,5% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 4% and 24% according to their maturities (31 December 2017: between 4% and 24% according to their maturities), as per the Communiqué no.2013/15 "Reserve Deposits" of the Central Bank of Turkey. The interest related to the reserve requirements set as TRY is paid at a rate of 700 basis points as of 1 June 2018.

With the change dated 23 January 2015, it has been decided to apply a charge on daily account balances and two days notice account denominated in Euro, and collected on a monthly basis, on reserve requirements held by banks commencing on 1 February 2015. As of 27 July 2015 commission ratios have been announced on the CBRT website as zero percent.

With the change on 2 May 2015 made by the CBRT, interest is paid on USD denominated reserve requirements, reserve options and free reserves held at Central Bank of the Republic of Turkey. The interest rate is set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 1,5% for the reporting period (announced on 18 December 2017).

With the decision No.872 dated 30 January 2014 of the Turkish Republic of Northern Cyprus, reserve requirement ratio is between 5% and 8% for TRY liabilities and for foreign currency liabilities.

With the Board of Directors decision No. 129 dated 2006 of the Central Bank of Macedonia, reserve requirement ratio is 8% for MKD currency liabilities and 15% for foreign currency liabilities.

According to the Official Gazette of Serbia No. 102/2015 of the Central Bank of Serbia, banks maintain reserve requirement of 5% for short term liabilities with maturities less than two years and 0% for long term liabilities with maturities more than two years, 20% for short term foreign currency liabilities with maturities less than two years and 13% for long term foreign liabilities with maturities more than two years.

10. Loans and advances to customers

As at 30 June 2018 and 31 December 2017, all the loans and advances to customers are at amortized cost.

	30 June 2018	**31 December 2017**
Performing loans	244.564.642	207.868.756
Non-performing loans	7.017.608	6.296.406
Gross amount	**251.582.250**	**214.165.162**
ECL on cash loans - Stage 1 & 2	(2.069.053)	-
ECL on cash loans - Stage 3	(5.537.522)	-
Portfolio allowance for impairment on loans	-	(1.730.820)
Specific allowance for impairment on loans	-	(4.887.415)
Carrying amount	**243.975.675**	**207.546.927**

The movement of loss allowances

	1 January- 30 June 2018	**1 January- 30 June 2017**
Balance on 1 January	(6.618.235)	(5.614.702)
Impact of adopting IFRS 9 at 1 January	(139.143)	-
New balance on 1 January	**(6.757.378)**	**(5.614.702)**
Net impairment loss/reversals for the period:	(849.197)	(591.474)
- Net charge for the period	*(1.099.733)*	*(893.904)*
- Prior years recoveries and reversals	*250.536*	*302.430*
Balance at end of the period	**(7.606.575)**	**(6.206.176)**

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

11. Securities portfolio

Debt and other instruments at FVTOCI

At 30 June 2018 and 31 December 2017, debt and other instruments at FVTOCI portfolio comprised the following:

	30 June 2018	31 December 2017
Treasury bills and government bonds	2.071.965	17.613.370
Equity shares	103.949	88.881
Share certificates not quoted on a stock exchange	125.674	*106.162*
Allowance for impairment on equity shares	*(21.725)*	*(17.281)*
Total	**2.175.914**	**17.702.251**

Debt and other instruments at FVTOCI include securities given as collateral amounting to TRY 473.246 (31 December 2017: TRY 12.097.899). As of 30 June 2018, debt and other instruments at FVTOCI include securities pledged under repurchase agreements amounting to TRY 152.386 (31 December 2017: TRY 4.463.109).

Debt and other instruments at amortised cost

	30 June 2018	31 December 2017
Debt securities:		
Quoted on a stock exchange	44.998.312	21.834.674
Not quoted	165.482	152.425
ECL on amortised cost portfolio	(6.485)	-
Total	**45.157.309**	**21.987.099**

Debt and other instruments at amortised cost comprise the following items:

	30 June 2018	31 December 2017
Government bonds	45.119.826	21.943.704
Other securities	43.968	43.395
ECL on amortised cost portfolio	(6.485)	-
Total	**45.157.309**	**21.987.099**

Debt and other instruments at amortised cost include securities pledged under repurchase agreements and given as collateral amounting to TRY 38.171.462 and TRY 3.680.351 (31 December 2017: TRY 1.204.712 and TRY 20.522.556) respectively.

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

11. Securities portfolio (continued)

The movements of debt and other instruments at amortised cost in the six-month period ended 30 June 2018 and 30 June 2017 are as follows:

	1 January-30 June 2018	**1 January-30 June 2017**
Beginning balance	21.987.099	18.344.626
Foreign currency differences	508.089	26.467
Purchases during the period (1) (2)	25.560.054	3.171.059
Disposals through sales and redemptions	(2.891.448)	(1.176.467)
ECL on amortised cost portfolio	(6.485)	-
Balance at the end of the period / year	**45.157.309**	**20.365.685**

(1) Interest income accrual differences between 30 June 2018 amounting to TRY 4.729.710 and 31 December 2017 amounting to TRY 2.902.480 have been included in purchases during the period row. (Interest income accrual differences between 30 June 2017 amounting to TRY 2.546.082 and 31 December 2016 amounting to TRY 1.907.723 have been included in purchases during the period row.)

(2) The Parent Bank reclassified the government bonds amounting to TRY 18.965.006 thousand, which were previously classified under debt and other instruments at FVTOCI into debt and other instruments at amortised cost on 23 May 2018.

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 22% 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 2018 (30 June 2017: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

The tax rate used in the calculation of deferred tax assets and liabilities is 22% over temporary timing differences expected to reverse in 2018, 2019 and 2020 and 20% over temporary timing differences expected to reverse on and after 2021 (31 December 2017: 20%).

The Group's consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2018 is 19,6% (30 June 2017: 19,5%).

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	**31 December 2017**
TRNC	10%	10%
Bahrain	-	-
Republic of Macedonia	10%	10%
Republic of Serbia	15%	15%

13. Share capital

As at 30 June 2018, the authorized nominal share capital of the Bank amounts to TRY 1.250.000 (31 December 2017: TRY 1.250.000). The Bank's paid-in capital is dividend into 1.250.000.000 shares, each with a nominal value of full TRY 1.

	30 June 2018	**31 December 2017**
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**

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

14. Reserves and dividends paid and proposed

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt and other instruments at amortised cost 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 Bank’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 2018 is TRY 1.801.504 (31 December 2017: TRY 1.758.941).

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 2018 is TRY 84.812 (31 December 2017: TL (4.311)).

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 “Property, Plant and Equipment” (IAS 16). Expertise values determined by independent appraisal companies are reflected to the financial statements. Revaluation differences are recorded in “Revaluation differences of property and equipment” under the shareholders’ equity. The revaluation differences of property and equipment accounted within the current period is TRY (3.385) (31 December 2017: TRY 146.368).

Dividends paid and proposed

As of the reporting date, the Group has paid dividend amounting to TRY 2.521 out of 2017 profit (30 June 2017: TRY 258.742).

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 2018 and 30 June 2017.

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

	30 June 2018	**30 June 2017**
Net profit attributable to ordinary shareholders for basic earnings per share	1.843.816	2.453.812
Weighted average number of ordinary shares for basic earnings per share	1.250.000	1.250.000
Basic earnings per share (full TRY per share)	**1,4751**	**1,9630**

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.

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

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 2018 and 30 June 2017, 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 2018	30 June 2017
Salaries and short-term benefits	15.011	12.518

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

Other related party transactions

Current period	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission Income
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	719	19.865	2	1.475	-
Kredi Kayıt Bürosu A.Ş.	-	-	96	-	2.242	-
Bankalararası Kart Merkezi A.Ş.	-	-	11.000	-	102	-
Total	**-**	**719**	**30.961**	**2**	**3.819**	**-**

Prior period	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission Income
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	1.075	19.480	5	2.474	-
Kredi Kayıt Bürosu A.Ş.	-	-	20.001	-	149	-
Bankalararası Kart Merkezi A.Ş.	-	-	-	-	323	-
Total	**-**	**1.075**	**39.481**	**5**	**2.946**	**-**

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

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:

	30 June 2018	31 December 2017
Letters of guarantee issued	60.725.510	49.660.108
Letters of credit	3.956.730	4.148.121
Acceptance credits	4.295.309	3.693.507
Other	1.769.366	1.285.922
Total non-cash loans	**70.746.915**	**58.787.658**
Credit card limit commitments	12.545.534	11.599.896
Other commitments	12.876.458	11.678.758
Total	**96.168.907**	**82.066.312**

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 2018			31 December 2017		
	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	108.378	45.349	23.279.843	114.410	58.002	6.358.831
Other swap contracts	532.251	194.025	12.988.056	203.836	3.403	10.886.762
Other	275.528	148.900	39.554.758	44.685	89.268	14.606.591
Total	**916.157**	**388.274**	**75.822.657**	**362.931**	**150.673**	**31.852.184**

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

Fiduciary activities

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

The Group transferred all investment funds to Halk Portföy Yönetimi AŞ, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of 34 mutual funds.

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

As of 30 June 2018, according to the general requirements of the BIST, letters of guarantee amounting to USD 50 (31 December 2017: USD 50) was obtained from various local banks and were provided to BIST for bond and stock market transactions and collaterals amounting to USD 2.000 (31 December 2017: USD 2.000) given to liquidity providers for the purpose of performing outright purchases and sales market transactions by the Group.

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

17. Commitments and contingencies (continued)

Litigation

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

Other

656 branch premises of the Bank are lease holder under operational leases. In general, 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.

18. Fee and commission income and expenses

	30 June 2018	30 June 2017
Fee and commission income		
Banking	1.188.167	1.226.036
Brokerage	30.574	20.371
Total	**1.218.741**	**1.246.407**
Fee and commission expenses		
Banking	(347.286)	(279.732)
Brokerage	(1.777)	(996)
Total	**(349.063)**	**(280.728)**

19. Other operating income

	30 June 2018	30 June 2017
Reversal from prior years' provision	65.409	58.992
Gain on sale of property and equipment	50.471	49.660
Rent income	26.950	27.220
Other	45.038	35.075
Total	**187.868**	**170.947**

20. Other operating expenses

	30 June 2018	30 June 2017
Staff costs		
Personnel expenses	*1.282.890*	*1.026.652*
Retirement pay provision	*56.552*	*60.763*
Administrative expenses	516.575	803.979
Saving deposit insurance fund premiums	106.782	93.489
Depreciation and amortisation charges	103.884	85.252
Taxes, duties, charges and premium expenses	108.680	94.857
Provision for lawsuits	1.918	1.669
Other	488.394	10.696
Total	**2.665.675**	**2.177.357**

21. Other matters

One of the Parent Bank’s former directors has been convicted and imprisoned for some of the charges by the court in the United States of America (“USA”) of the violation of the USA sanctions involving Iran as of 16 May 2018. The subsequent legal process is not yet completed but ongoing for the defendant former director of the Parent Bank such as appeal and other legal rights following the first phase of the trial.

The Parent Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the Parent Bank.

The Parent Bank is always sensitive in complying with national and international regulations and puts considerable efforts in improving such compliance policies in line with international standards.

In providing the banking transactions, the Parent Bank is not following the foreign trade applications, mechanisms, methods and systems, other than prevailing banking practices and those adopted by other banks. The foreign trade transactions and money transfers are open and transparent, and easily be monitored by authorities. The Parent Bank will continue to continue to adopt the same policies of transparency and compliance with international regulations.

The Parent Bank placed a high importance on this matter and established a separate “Compliance Department”. The Parent Bank is receiving advisory services from an international expert firm in forming effectiveness of this department’s policies and control procedures and processes.

22. Subsequent events

Within the issue limit for the Tier 2 debt securities, debt securities with a maturity of 10 years, fixed rate, nominal value of TRY 1 billion and 950 million (full TRY) and early redemption option after 5 years from issue date has been completed by the Parent Bank on 3 July 2018.

Pursuant to the TRY 5 billion (full TRY) issue limit for the domestic sales of Tier 2 debt securities to qualified investors which has been approved on 13 August 2018 and numbered 36/952 by Capital Markets Board of Turkey, the sale of the Tier 2 notes (subordinated notes), with a maturity of 10 years (3.640 days), nominal value of TRY 2.979.795.000 (full TRY) and early redemption option after 5 years from issue date has been completed by the Parent Bank on 26 September 2018.

As per the decision made at the annual general assembly of shareholders of the Parent Bank on 13 August 2018, TRY 186.273.075 (full TRY) of the income of 2017 was distributed as dividend to shareholders.

Per decision of the Board of Directors and pursuant to a tender dated 27 September 2018, part of the Bank's receivables which constitute TRY 76.685.144 (full TRY) of the Bank's nonperforming loans portfolio has been assigned and transferred to Birleşim Varlık Yönetim A.Ş. on 5 October 2018 with a sale price of TRY 4.500.000 (full TRY) which was collected in cash.

Between the reporting date as of 30 June 2018 and the date of approval of the financial statements as of 16 October 2018, Turkish Lira depreciated against foreign currencies, primarily the USD. As of reporting date, USD and Euro currency rates and appreciation percentages against Turkish Lira are 5,75, 26% appreciation and 6,6591, 26% appreciation, respectively.