KPMG

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Consolidated Interim Financial Statements
As at 30 June 2012
With Independent Auditors' Review Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

20 September 2012

This report includes "Independent Auditors' Report on Review of Consolidated Interim Financial Statements" comprising 1 page and; "Consolidated Interim Financial Statements Together with their Explanatory Notes" comprising 69 pages.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
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 Consolidated Interim Financial Statements

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

Introduction

We have reviewed the accompanying consolidated statement of financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries (the "Group") as at 30 June 2012, the statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprimising a summary of significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 – *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements 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 statements 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 – *Interim Financial Reporting*.

Istanbul, Turkey
20 September 2012

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Financial Position
At 30 June 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	7,636,697	5,300,750
Financial assets at fair value through profit or loss	8	339,167	361,663
Loans and advances to banks	10	515,209	576,741
Loans and advances to customers	11,12	64,027,234	59,007,202
Investment securities	13	19,105,545	19,511,610
Investment in equity participations accounted for using the equity method	14	13,027	12,045
Property and equipment	15	764,060	780,700
Intangible assets	15	82,135	80,071
Deferred tax assets	22	154,241	177,580
Other assets	16	8,588,482	7,661,520
Total assets		**101,225,797**	**93,469,882**
LIABILITIES AND EQUITY			
Deposits from banks	17	4,210,382	3,504,446
Deposits from customers	18	60,395,494	58,263,128
Obligations under repurchase agreements	9	8,040,780	5,981,675
Funds borrowed	19	8,151,525	8,952,996
Debt securities issued	20	2,822,189	493,000
Other liabilities and provisions	21	6,106,376	5,788,497
Current tax liabilities	22	113,009	22,898
Deferred tax liabilities	22	4,814	3,667
Total liabilities		**89,844,569**	**83,010,307**
Share capital	23	3,300,146	3,300,146
Share premium		724,320	724,320
Fair value reserves of available-for-sale financial assets	23	234,506	(13,977)
Translation reserve		61,341	73,050
Legal reserves	23	752,778	628,383
Retained earnings		5,888,923	5,325,432
Total equity attributable to equity holders of the Bank		**10,962,014**	**10,037,354**
Non-controlling interest	23	**419,214**	**422,221**
Total equity		**11,381,228**	**10,459,575**
Total liabilities and equity		**101,225,797**	**93,469,882**
Commitments and contingencies	28	**63,869,202**	**60,624,496**

The notes on pages 8 to 70 are an integral part of these consolidated interim financial statements.

Consolidated Statement of Comprehensive Income
For the Six-Month Period Ended 30 June 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2012	30 June 2011
Interest income			
Interest on loans and receivables		3,360,180	2,254,228
Interest on securities		872,198	659,176
Interest on deposits at banks		38,180	32,564
Interest on money market placements		1,270	3,560
Other interest income		32,344	37,610
Total interest income		**4,304,172**	**2,987,138**
Interest expense			
Interest on deposits		(2,096,427)	(1,279,427)
Interest on money market deposits		(215,115)	(221,348)
Interest on funds borrowed		(95,402)	(75,018)
Interest on securities issued		(61,032)	-
Other interest expense		(58,582)	(27,196)
Total interest expense		**(2,526,558)**	**(1,602,989)**
Net interest income		**1,777,614**	**1,384,149**
Fee and commission income		297,121	355,432
Fee and commission expense		(131,502)	(85,333)
Net fee and commission income		**165,619**	**270,099**
Income/loss from equity accounted investments		**960**	**(378)**
Other operating income			
Net trading income	8	55,386	51,802
Net foreign exchange gains		65,652	(1,566)
Other income	25	417,644	447,615
Total other operating income		**538,682**	**497,851**
Other operating expense			
Salaries and employee benefits	26	(578,782)	(523,428)
Provision for possible loan losses, net of recoveries		(176,548)	104,329
Depreciation and amortisation	15	(64,815)	(62,180)
Taxes other than on income		(37,819)	(34,658)
Other expenses	27	(736,310)	(668,590)
Total other operating expenses		**(1,594,274)**	**(1,184,527)**
Profit before income tax		**888,601**	**967,194**
Income tax expense	22	(164,779)	(156,095)
Profit for the period		**723,822**	**811,099**

The notes on pages 8 to 70 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Comprehensive Income *(continued)*
For the Six-Month Period Ended 30 June 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2012	30 June 2011
Other comprehensive income, net of income tax			
Foreign currency translation differences for foreign operations		(13,010)	21,164
Change in fair value of available for sale financial assets		284,689	(67,474)
Change in fair value of available for sale financial assets transferred to profit or loss	23	19,696	(101,182)
Income tax on other comprehensive income	22	(55,045)	33,753
Other comprehensive income for the period, net of income		**236,330**	**(113,739)**
Total comprehensive income for the period		**960,152**	**697,360**
Profit attributable to:			
Equity holders of the Bank		724,886	771,949
Non-controlling interest	23	(1,064)	39,150
Profit for the period		**723,822**	**811,099**
Total comprehensive income attributable to:			
Equity holders of the Bank		961,660	647,858
Non-controlling interest		(1,508)	49,502
Total comprehensive income for the period		**960,152**	**697,360**
Earnings per 100 shares on profit for the period (full TL)		0.2895	0.3244
Earnings per 100 shares on total comprehensive income for the period (full TL)		0.3841	0.2789

The notes on pages 8 to 70 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	Attributable to equity holders of the Bank								
	Notes	Share capital	Share premium	Fair value reserves	Revaluation surplus	Translation reserve	Legal reserves	Retained earnings	Non-controlling interest	Total equity
Balances at 1 January 2011		**3,300,146**	**724,320**	**408,813**	**-**	**47,618**	**507,887**	**3,950,127**	**292,164**	**9,231,075**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	**771,949**	**39,150**	**811,099**
Other comprehensive income										
Foreign currency translation differences		-	-	-	-	19,047	-	-	2,117	**21,164**
Net changes in fair value of available for sale financial assets, net of tax	23	-	-	(55,853)	-	-	-	-	8,235	**(47,618)**
Net gains on available for sale financial assets transferred to profit or loss, net of tax	23	-	-	(87,285)	-	-	-	-	**-**	**(87,285)**
Total other comprehensive income		**-**	**-**	**(143,138)**	**-**	**19,047**	**-**	**-**	**10,352**	**(113,739)**
Total comprehensive income for the period		**-**	**-**	**(143,138)**	**-**	**19,047**	**-**	**771,949**	**49,502**	**697,360**
Transactions with owners, recorded directly in equity										
Transfer to reserves		-	-	-	-	-	118,815	(118,815)	-	**-**
Dividends paid		-	-	-	-	-	-	(34,314)	(65)	**(34,379)**
Other		-	-	-	-	-	-	-	(2,589)	**(2,589)**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**118,815**	**(153,129)**	**(2,654)**	**(36,968)**
Balances at 30 June 2011		**3,300,146**	**724,320**	**265,675**	**-**	**66,665**	**626,702**	**4,568,947**	**339,012**	**9,891,467**

The notes on pages 8 to 70 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity *(continued)*
For the Six-Month Period Ended 30 June 2012
(Currency – Thousands of Turkish Lira (TL))

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Revaluation surplus**	**Translation reserve**	**Legal reserves**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2012		**3,300,146**	**724,320**	**(13,977)**	**-**	**73,050**	**628,383**	**5,325,432**	**422,221**	**10,459,575**
Total comprehensive income for the period										
Profit for the period		**-**	**-**	**-**	**-**	**-**	**-**	**724,886**	**(1,064)**	**723,822**
Other comprehensive income										
Foreign currency translation differences		-	-	-	-	(11,709)	-	-	(1,301)	**(13,010)**
Net changes in fair value of available for sale financial assets, net of tax	23	-	-	237,779	-	-	-	-	857	**238,636**
Net gains on available for sale financial assets transferred to profit or loss, net of tax	23	-	-	10,704	-	-	-	-	-	**10,704**
Total other comprehensive income		**-**	**-**	**248,483**	**-**	**(11,709)**	**-**	**-**	**(444)**	**236,330**
Total comprehensive income for the period		**-**	**-**	**248,483**	**-**	**(11,709)**	**-**	**824,886**	**(1,508)**	**960,152**
Transactions with owners, recorded directly in equity										
Transfer to reserves		-	-	-	-	-	124,395	(124,395)	-	-
Dividends paid		-	-	-	-	-	-	(37,000)	(507)	**(37,507)**
Other		-	-	-	-	-	-	-	(992)	**(992)**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**124,395**	**(161,395)**	**(1,499)**	**(38,499)**
Balances at 30 June 2012		**3,300,146**	**724,320**	**234,506**	**-**	**61,341**	**752,778**	**5,888,923**	**419,214**	**11,381,228**

The notes on pages 8 to 70 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Cash Flows
For the Six-Month Period Ended 30 June 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2012	30 June 2011
Cash flows from operating activities:			
Profit for the period		723,822	811,099
Adjustments for:			
Income tax expense	22	164,779	156,095
Provision for possible loan losses, net of recoveries		176,548	(104,329)
Depreciation and amortisation	15	64,815	62,180
Provision for short term employee benefits	26	59,410	52,151
Long term insurance contracts	27	29,692	24,073
Provision for retirement pay liability and unused vacations	26	17,359	13,495
Other provision expenses	27	9,836	8,588
Unearned premium reserve	25	62,638	8,193
Change in provision for outstanding claims	27	365	(7,531)
Net interest income		(1,777,614)	(1,384,149)
Income/loss from associates accounted for using the equity method		(960)	378
Currency translation differences		(13,010)	21,164
Other non-cash adjustments		(412,111)	174,863
Changes in operating assets and liabilities:			
Loans and advances to banks		(614,392)	(269,733)
Reserve deposits		(904,220)	(427,266)
Financial assets at fair value through profit or loss		35,033	3,437
Loans and advances to customers		(5,081,924)	(8,642,565)
Other assets		24,216	(311,194)
Deposits from banks		702,187	1,567,615
Deposits from customers		2,039,355	4,312,194
Obligation under repurchase agreements		2,054,593	4,498,985
Other liabilities and provisions		14,374	341,610
Interest received		4,182,988	3,004,982
Interest paid		(2,377,188)	(1,537,917)
Income taxes paid	22	(105,420)	(169,880)
Cash provided by/(used in) operating activities		**(924,829)**	**2,206,538**
Cash flows from investing activities:			
Dividends received	24	8,390	7,767
Acquisition of property and equipment	15	(42,561)	(59,989)
Proceeds from the sale of property and equipment		17,230	67,579
Acquisition of intangible assets	15	(7,680)	(17,786)
Acquisition of investment securities		(927,872)	3,285,798
Proceeds from sale of investment securities		1,501,910	(3,098,321)
Cash provided by investing activities		**549,417**	**185,048**
Cash flows from financing activities:			
Proceeds from issuance of debt securities		2,784,478	-
Payments of matured debt securities		(496,581)	-
Proceeds from funds borrowed		2,403,051	3,356,089
Repayments of funds borrowed		(2,617,316)	(2,612,363)
Dividends paid		(37,507)	(34,379)
Cash provided by financing activities		**2,036,125**	**709,347**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		2,032	(3,697)
Net increase in cash and cash equivalents		1,662,745	3,098,477
Cash and cash equivalents at the beginning of the period	7	5,006,441	7,143,478
Cash and cash equivalents at the end of the period	7	**6,669,186**	**10,241,955**

The notes on pages 8 to 70 are an integral part of these consolidated interim financial statements.

Notes to the consolidated interim financial statements:

1. Overview of the Bank

(a) Brief History

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") was established under the authorization of special law numbered 6219, called "the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed.
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 687 domestic branches and 3 foreign branches in New York, Bahrain and Erbil (31 December 2011: 677 domestic, 3 foreign, in total 680 branches). Additionally, the Bank owns a bank located in Austria. As at 30 June 2012, the Bank has 13,343 employees (31 December 2011: 12,222). The Bank's head office is located at Levent Mahallesi, Hacı Adil Yolu, Çayır Cimen Sokak, No:21, Levent Beşiktaş, İstanbul.

(b) Ownership

The shareholder having control over the shares of the Bank is the General Directorate of the Foundations having 43.00% of outstanding shares of the Bank. Another organization holding shares in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (the pension fund of the employees of the Bank), having 16.10% of outstanding shares of the Bank.

The 25.18% of the Bank's outstanding shares that are publicly traded in Istanbul Stock Exchange were publicly offered at a price between TL 5.13-5.40 for 100 shares having a nominal value of TL 1 on 18 November 2005.

(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank *(continued)*

(b) Ownership *(continued)*

As at 30 June 2012 and 31 December 2011, The Bank's paid-in capital amounted to TL 2,500,000, divided into 250.000.000.000 shares with a nominal value of 1 Kuruş each (1 TL equals to 100 Kuruş). As at 30 June 2012, the Bank's shareholders' structure was as disclosed below:

Shareholders	Number of Shares (100 units)	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
Foundations represented by the General Directorate of the Foundations (Group A)	1.075.058.640	1,075,059	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402.552.666	402,553	16.10
Appendant foundations (Group B)	386.224.785	386,225	15.45
Other appendant foundations (Group B)	3.162.359	3,162	0.13
Other registered foundations (Group B)	1.448.543	1,448	0.06
Other real persons and legal entities (Group C)	1.560.320	1,560	0.06
Publicly traded (Group D)	629.992.687	629,993	25.20
Total	**2.500.000.000**	**2,500,000**	**100.00**

2. Basis of preparation

(a) Statement of compliance

The Bank and its consolidated subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in TL, the functional currency of the Bank and the related subsidiaries, in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey ("CMBT"), the Republic of Turkey Prime Ministry Undersecretariat of Treasury ("the Turkish Treasury"), the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in US Dollar or in Euro in accordance with the regulations of the countries they operate in.

The accompanying consolidated interim financial statements of the Bank and its subsidiaries (collectively "the Group") are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS 34 – Interim Financial Reporting. The Group adopted all IFRSs, which were mandatory as at 30 June 2012.

The accompanying consolidated interim financial statements were authorized by the Bank management on 20 September 2012.

(b) Basis of measurement

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

(c) Functional currency and presentation currency

These consolidated interim financial statements are presented in TL, which is the Bank's functional currency. Except if indicated, financial information presented in TL has been rounded to the nearest thousand.

2. Basis of preparation *(continued)*

(d) Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. *IAS 29* requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of *IAS 29* is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under *IAS 29* effective from 1 January 2006.

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

- Note 4 – *Financial risk management*
- Note 5 – *Insurance risk management*
- Note 11 – *Loans and advances to customers*
- Note 12 – *Finance lease receivables*
- Note 15 – *Property and equipment and intangible assets*
- Note 21 – *Other liabilities and provisions*
- Note 22 – *Income taxes*

3. Significant accounting policies

(a) Basis of consolidation

The accompanying consolidated interim financial statements include the accounts of the parent company, the Bank, its subsidiaries and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as at the date of these consolidated interim financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Associates

Associates are those entities in which the Bank and its subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries' share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its subsidiaries' share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its subsidiaries has incurred obligations in respect of the associate.

Special purpose entities

Special purpose entities are the entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies *(continued)*

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for World Vakıf UBB Ltd and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at the reporting date with the resulting exchange differences recognised in the consolidated statement of comprehensive income as foreign exchange gains or losses.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

-The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the reporting date.

-The income and expenses of foreign operations are translated to TL using average exchange rates.

-Foreign currency differences arising from the translation of the financial statements of the net investment in foreign operations into TL for consolidation purpose are recognised in other comprehensive income as the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

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

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

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

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

3. Significant accounting policies *(continued)*

(d) Fees and commission

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

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

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

(e) Net trading income

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

(f) Dividends

Dividend income is recognised when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Lease payments made

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

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

(h) Income taxes

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

Corporate tax

Turkey

Statutory income is subject to corporate tax at 20.0%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Corporate tax *(continued)*

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

75% of gains on disposal of equity shares and immovables which were held for at least 2 years within the assets of acquired entities after acquisition are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Foreign subsidiaries

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognised on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated interim financial statements only if the Group has a legal right to present the net value of current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities are income taxes of the same taxable entity.

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

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

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

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Investment incentives

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

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

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

The clause “The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income” which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20. Accordingly, the Group’s subsidiary operating in finance lease sector have taken these effects into account in corporate tax declaration for the year 2011.

3. Significant accounting policies *(continued)*

(i) Financial instruments

Recognition

The Group initially recognises loans and advances and deposits on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

Classification

Financial assets at fair value through profit or loss are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and *derivative financial instruments*. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

Held-to-maturity investment securities are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognised in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Available-for-sale financial assets are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Measurement *(continued)*

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortised cost less impairment losses. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are recognised in the consolidated statement of comprehensive income as interest on securities.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognised in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

Derecognition

A financial asset is derecognised when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity assets and loans and receivables are derecognised on the date they are transferred by the Group.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

See also accounting policies *3(j)* and *(k)*.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Offsetting

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

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

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than 3 months.

Investment securities: Investment securities are the financial assets that are classified as held-to-maturity financial assets and available-for-sale financial assets.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Minimum lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method. Minimum lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortised cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits from banks and customers and funds borrowed: Deposits from banks and customers and funds borrowed are the Group's sources of debt funding. Deposits from banks and customers and funds borrowed are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortised cost using the effective interest method.

Identification and measurement of impairments

At each reporting date the Group assesses whether there is objective evidence that financial assets or group of financial assets is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Identification and measurement of impairments *(continued)*

Loans and receivables are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired, based on regular reviews of outstanding balances, to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of loans and receivables, the estimated future cash flows are discounted to their present value. Increases in the allowance account are recognised in the consolidated statement of comprehensive income. When a loan is known to be uncollectible, after all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the consolidated statement of comprehensive income.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans re-measured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

All impairment losses are recognised in the consolidated statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the consolidated statement of comprehensive income, when the related asset is derecognised.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the consolidated statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(j) Repurchase transactions

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

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

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(k) Securitisations

The Group securitises its diversified payment rights. In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Group's consolidated statement of financial position.

(l) Property and equipment

The cost of the property and equipment purchased before 31 December 2005 is restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to have ended. The inflation adjustment of the property and equipment that is subject to correction for the first time until 31 December 2005 has been calculated on the basis of cost obtained by deducting foreign exchange differences, financing expenses and revaluation increases, if any, from the historical cost. Property and equipment obtained after 31 December 2005 have been recorded at the cost.

Gains/losses arising from the disposal of the property and equipment are recognised in the consolidated statement of comprehensive income and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Assets obtained through finance leases	4-5	20-25

(m) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds investment property as a consequence of the ongoing operations of its consolidated real estate and insurance companies.

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Group measured all investment property based on the cost model in accordance with the cost model for property and equipment (i.e. at cost less accumulated depreciation and less any accumulated impairment losses). Estimated useful lives of investment properties and depreciation rates are 50 years and 2.0%, respectively.

3. Significant accounting policies *(continued)*

(n) Intangible assets

The Group's intangible assets consist of software programmes. Intangible assets are recorded at cost.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortised based on straight line amortisation. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortisation rates applied are within 33.33% and 6.66%.

(o) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for as particular asset or a group of assets, then that asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the consolidated statement of comprehensive income.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(p) Provisions

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

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

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(q) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognised by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	8.0	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 ("Banking Law") as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labour and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

3. Significant accounting policies *(continued)*

(q) Employee benefits *(continued)*

Pension and other post-retirement obligations *(continued)*

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account. On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011; however, it has been extended to 8 May 2013 with the decision of Council of Ministers published in Official Gazette dated 9 April 2011.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial evaluation:

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated February 2012 which is prepared in accordance with IAS 19 – *Employee Benefits*, there is no technical or actual deficit determined which requires provision against.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(r) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

3. Significant accounting policies *(continued)*

(t) Insurance business

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

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

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

(t) Insurance business *(continued)*

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

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

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

Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

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

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

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

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

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

3. Significant accounting policies *(continued)*

(u) Individual pension business

Individual pension system receivables presented under 'other assets' in the accompanying consolidated financial statements consists of 'receivable from pension investment funds for investment management fees', 'entrance fee receivable from participants' and 'receivables from the clearing house on behalf of the participants'. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

'Receivable from pension investment funds for investment management fees' are the fees charged to the pension funds for the administration and portfolio management services provided. 'Receivables from the clearing house on behalf of the participants' are the receivables from the clearing house on pension fund basis against the contributions of the participants. The same amount is also recorded as payables to participants for the funds acquired against their contributions under the 'individual pension system payables'.

In addition to the 'payables to participants' account, mentioned in the previous paragraph, *individual pension system payables* also includes participants' temporary accounts, and payables to individual pension agencies. The temporary account of participants includes the contributions of participants that have not yet been invested. Individual pension system payables are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated statement of comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 8% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognise the entrance fee as revenue.

(v) Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(w) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

3. Significant accounting policies *(continued)*

(x) Segment reporting

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

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are not effective as of 30 June 2012 have not been applied in preparing these financial statements and are as follows:

- IFRS 9 – *Financial Instruments* amendments to supersede IAS 39 – *Financial Instruments: Recognition and Measurement*. Amendments will be effective annual periods beginning on or after 1 January 2015.
- IFRS 10 – *Consolidated Financial Statements* supersedes IAS 27 (2008) and SIC-12 *Consolidation—Special Purpose Entities.* Amendments will be effective for annual periods beginning on or after 1 January 2013.
- IFRS 11 – *Joint Arrangements* supersedes IAS 31 and addresses the rights and obligations of the joint arrangements instead of the legal form. Amendments will be effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 – *Disclosure of Interests in Other Entities* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. Amendments will be effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 – *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Amendments will be effective for annual periods beginning on or after 1 January 2013.
- The amendments to IAS 1 – *Presentation of Items of Other Comprehensive Income* require changes in presentation of other comprehensive income. Amendments bill be effective for annual periods beginning on or after 1 July 2012.
- Amendments to IAS 19 – *Employee Benefits* include changes in the accounting of defined benefit plans. Amendments will be effective for annual periods beginning on or after 1 January 2013.
- The amendments to IAS 27 – *Separate Financial Statements* include explanations regarding the existing accounting and disclosure guidance. Amendments will be effective for annual periods beginning on or after 1 January 2013.
- IAS 28 – *Investments in Associates and Joint Ventures;* include changes related to Joint Ventures. Amendment will be effective annual periods beginning on or after 1 January 2013.
- IAS 32 – *Financial Instruments: Presentation;* include changes related to offsetting of assets and liabilities. Amendment will be effective for annual periods beginning on or after 1 January 2014.

4. Financial risk management

(a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risks,
- operational risks.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 42 of the Regulation on Internal Systems within the Banks, dated 1 November 2006 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in February 2007.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

Exposure to credit risk

	Loans and advances to customers		**Other assets expose to credit risk (inc. financial assets other than loans and advances to customers) (*)**	
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**
Individually impaired	2,330,596	2,220,838	54,298	51,693
Allowance for impairment	(2,183,097)	(2,109,487)	(38,566)	(41,678)
Carrying amount	**147,499**	**111,351**	**15,732**	**10,015**
Past due but not impaired	53,329	103,730	24,421	297,941
Carrying amount	**53,329**	**103,730**	**24,421**	**297,941**
Neither past due nor impaired	63,262,338	58,264,542	43,763,973	39,181,193
Loans with renegotiated terms	564,068	527,579	-	-
Carrying amount	**63,826,406**	**58,792,121**	**43,763,973**	**39,181,193**
Total carrying amount	**64,027,234**	**59,007,202**	**43,804,126**	**39,489,149**

(*) Non-cash loans are also included as converted into loans by using weighting rates as promulgated by BRSA.

As at 30 June 2012 and 31 December 2011, the Group has no allowance for loans and advances to banks and investment securities.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectoral distribution of the performing loans and advances to customers

	30 June 2012	31 December 2011
Consumer loans	20,074,982	19,261,452
Mortgage loans	*9,153,229*	*8,809,987*
General purpose loans	*5,208,189*	*4,565,670*
Overdraft checking accounts	*891,878*	*770,295*
Auto loans	*425,294*	*369,697*
Other consumer loans	*4,396,392*	*4,745,803*
Manufacturing	11,131,400	11,138,086
Wholesale and retail trade	8,547,203	6,895,364
Transportation and telecommunication	4,662,834	3,568,372
Construction	4,337,818	3,716,712
Credit cards	2,594,142	2,015,928
Hotel, food and beverage services	1,314,758	1,324,663
Financial institutions	1,260,053	1,040,703
Agriculture and stockbreeding	1,009,865	833,863
Health and social services	421,013	326,357
Others	8,525,667	8,774,351
Total performing loans and advances to customers	**63,879,735**	**58,895,851**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3 to 5 in the Group's internal credit risk grading system which is also in line with the regulations of BRSA.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Portfolio provisions on loans and advances to customers amounting to TL 184,561 (31 December 2011:51,676) has been presented in other liabilities and provisions account.

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures have been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

30 June 2012	**Loans and advances to customers**		**Other assets**	
	Gross	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	171,981	134,851	1,385	-
Grade 4 : Individually Impaired	299,366	10,016	5,194	4,832
Grade 5 : Individually Impaired	1,859,249	2,632	47,719	10,900
Total	**2,330,596**	**147,499**	**54,298**	**15,732**

31 December 2011	**Loans and advances to customers**		**Other assets**	
	Gross	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	157,613	108,622	25,911	10,015
Grade 4 : Individually Impaired	176,437	-	-	-
Grade 5 : Individually Impaired	1,886,788	2,729	25,782	-
Total	**2,220,838**	**111,351**	**51,693**	**10,015**

(*) Impaired insurance receivables consist of non-rated customers which are presented as "Grade 5" in above table.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2012 and 31 December 2011.

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral are as follows:

Cash loans	**30 June 2012**	**31 December 2011**
Secured loans:	45,677,900	41,319,100
Secured by mortgages	*22,599,967*	*19,668,842*
Secured by cash collateral	*575,462*	*461,264*
Guarantees issued by financial institutions	*287,137*	*386,275*
Secured by government institutions or government securities	*144,473*	*219,080*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*22,070,861*	*20,583,639*
Unsecured loans	18,201,835	17,576,751
Total performing loans and advances to customers	**63,879,735**	**58,895,851**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Non-cash loans	30 June 2012	31 December 2011
Secured loans:	7,491,063	6,492,300
Secured by mortgages	*1,212,256*	*1,067,729*
Secured by cash collateral	*129,174*	*103,222*
Guarantees issued by financial institutions	*13,249*	*7,079*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*6,136,384*	*5,314,270*
Unsecured loans	9,352,936	9,149,499
Total non-cash loans	**16,843,999**	**15,641,799**

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	30 June 2012	31 December 2011
Cash collateral (*)	-	-
Mortgages	697,504	650,387
Promissory notes (*)	172	26,479
Others	1,632,920	1,543,972
Total	**2,330,596**	**2,220,838**

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral amount is shown as zero in the table.

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables is shown below:

Sectoral concentration	30 June 2012	31 December 2011
Consumer loans	486,110	438,956
Construction	278,212	274,988
Textile	270,477	270,657
Food	222,925	214,453
Service sector	98,358	40,802
Agriculture and stockbreeding	50,074	47,727
Metal and metal products	24,022	2,188
Durable consumer goods	10,649	10,554
Financial institutions	9,658	11,581
Others	880,111	908,932
Total non-performing loans and advances to customers	**2,330,596**	**2,220,838**

Geographical concentration	30 June 2012	31 December 2011
Turkey	2,316,492	2,204,486
Austria	14,104	16,208
United States of America	-	144
Total non-performing loans and advances to customers	**2,330,596**	**2,220,838**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries). In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy for the banks.

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

30 June 2012	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and cash equivalents	6,544,733	1,043,706	48,258	-	-	-	7,636,697
Financial assets at fair value through profit or loss	15,169	13,205	38,623	73,793	173,026	25,351	339,167
Loans and advances to banks	-	115,506	225,607	33,243	140,853	-	515,209
Loans and advances to customers	147,499	5,174,527	3,382,501	15,302,624	30,433,028	9,587,055	64,027,234
Investment securities	234,730	44,336	243,342	1,451,918	11,075,387	6,055,832	19,105,545
Other assets	7,005,413	253,624	3,861	8,534	12,307	553	7,284,292
Total assets	**13,947,544**	**6,644,904**	**3,942,192**	**16,870,112**	**41,834,601**	**15,668,791**	**98,908,144**
Deposits from banks	15,863	3,307,644	779,820	107,055	-	-	4,210,382
Deposits from customers	9,524,816	32,243,440	16,259,739	1,865,746	497,107	4,646	60,395,494
Obligations under repurchase agreements	-	5,510,630	1,494,708	1,035,442	-	-	8,040,780
Funds borrowed	-	193,530	1,730,395	2,881,682	2,086,125	1,259,793	8,151,525
Debt securities issued	-	933,064	-	989,113	900,012	-	2,822,189
Current tax liabilities			113,009				113,009
Other liabilities and provisions	1,775,686	1,901,253	87,034	71,585	52,609	82,969	3,971,136
Total liabilities	**11,316,365**	**44,089,561**	**20,464,705**	**6,950,623**	**3,535,853**	**1,347,408**	**87,704,515**
Net	**2,631,179**	**(37,444,657)**	**(16,522,513)**	**9,919,489**	**38,298,748**	**14,321,383**	**11,203,629**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

31 December 2011	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	4,608,340	548,185	144,117	108	-	-	5,300,750
Financial assets at fair value through profit or loss	7,275	77,968	30,431	32,212	193,680	20,097	361,663
Loans and advances to banks	-	162,408	214,808	186,942	12,583	-	576,741
Loans and advances to customers	111,351	3,960,861	2,984,971	13,134,433	29,533,860	9,281,726	59,007,202
Investment securities	189,449	125,525	259,893	834,978	10,643,583	7,458,182	19,511,610
Other assets	4,202,804	580,490	164,197	207,411	1,070,165	2,901	6,227,968
Total assets	**9,119,219**	**5,455,437**	**3,798,417**	**14,396,084**	**41,453,871**	**16,762,906**	**90,985,934**
Deposits from banks	34,116	2,834,197	603,394	32,739	-	-	3,504,446
Deposits from customers	9,149,183	33,341,559	12,506,547	2,866,843	395,629	3,367	58,263,128
Obligations under repurchase agreements	-	3,957,909	1,190,935	832,831	-	-	5,981,675
Funds borrowed	-	322,052	2,050,694	2,726,235	2,166,794	1,687,221	8,952,996
Debt securities issued	-	-	493,000	-	-	-	493,000
Current tax liabilities	-	-	-	22,898	-	-	22,898
Other liabilities and provisions	566,955	1,796,269	264,758	228,046	59,031	936,965	3,852,024
Total liabilities	**9,642,248**	**42,359,992**	**17,109,328**	**6,709,592**	**2,621,454**	**2,627,553**	**81,070,167**
Net	**(523,029)**	**(36,904,555)**	**(13,310,911)**	**7,686,492**	**38,832,417**	**14,135,353**	**9,915,767**

Residual contractual maturities of the financial liabilities

30 June 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	4,210,382	**4,221,037**	15,863	3,309,899	782,931	112,344	-	-
Deposits from customers	60,395,494	**60,829,718**	9,524,816	32,338,293	16,469,940	1,935,480	555,378	5,811
Obligations under repurchase agreements	8,040,780	**8,069,976**	-	5,526,889	1,497,620	1,045,467	-	-
Funds borrowed	8,151,525	**8,824,999**	-	193,970	1,761,219	2,949,608	2,373,241	1,546,961
Debt securities issued	2,822,189	**3,135,043**	-	939,944	-	1,036,349	1,158,750	-
Other financial liabilities	3,971,136	**3,971,136**	1,775,686	1,901,253	87,034	71,585	52,609	82,969
Total	**87,591,506**	**89,051,909**	**11,316,365**	**44,210,248**	**20,598,744**	**7,150,833**	**4,139,978**	**1,635,741**
Non-Cash Loans	16,843,999	**16,843,999**	6,998,479	1,447,284	816,046	4,772,739	2,090,977	718,474

31 December 2011	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	3,504,446	**3,514,388**	34,116	2,836,581	609,606	33,863	222	-
Deposits from customers	58,263,128	**58,689,744**	9,149,183	33,550,194	12,577,355	2,964,562	444,217	4,233
Obligations under repurchase agreements	5,981,675	**5,996,658**	-	3,962,420	1,195,356	838,882	-	-
Funds borrowed	8,952,996	**9,662,628**	-	369,120	2,109,679	2,809,985	2,392,287	1,981,557
Debt securities issued	493,000	**496,581**	-	-	496,581	-	-	-
Other financial liabilities	3,852,024	**3,852,024**	566,955	1,796,269	264,758	228,046	59,031	936,965
Total	**81,047,269**	**82,212,023**	**9,749,046**	**42,513,900**	**17,235,357**	**6,895,208**	**2,895,757**	**2,922,755**
Non-Cash Loans	15,641,799	**15,641,799**	9,552,417	1,027,359	770,703	2,442,300	1,189,150	659,870

The above table shows the undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments may vary significantly from this analysis.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk arising from the trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical simulation and Monte Carlo simulation.

Average, highest and lowest values of consolidated market risks for the six-month period ended 30 June 2012 and year ended 31 December 2011, calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	30 June 2012			**31 December 2011**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	118,166	134,503	101,829	145,713	160,160	138,107
Common share risk	2,469	2,512	2,426	3,079	3,930	2,143
Currency risk	38,266	40,028	36,504	21,190	31,594	15,366
Option risk	198	253	142	690	1,707	40
Total value at risk	**1,988,732**	**2,171,075**	**1,806,388**	**2,133,397**	**2,250,413**	**2,041,100**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

30 June 2012	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	1,527,255	48,258	-	-	-	6,061,184	7,636,697
Loans and advances to banks	115,506	225,607	33,243	140,853	-	-	515,209
Loans and advances to customers	20,014,992	8,057,615	16,824,877	12,615,567	6,366,684	147,499	64,027,234
Investment securities	4,574,881	3,163,024	2,686,928	4,064,292	4,381,690	234,730	19,105,545
Other assets	8,873	424	8,521	33,838	553	7,232,083	7,284,292
Total assets	**26,241,507**	**11,494,928**	**19,553,569**	**16,854,550**	**10,748,927**	**13,675,496**	**98,568,977**
Deposits from banks	3,307,644	779,820	107,055	-	-	15,863	4,210,382
Deposits from customers	32,243,440	16,259,739	1,865,746	497,107	4,646	9,524,816	60,395,494
Obligations under repurchase agreements	5,510,630	1,494,708	1,035,442	-	-	-	8,040,780
Funds borrowed	1,857,551	3,902,248	2,185,759	93,558	112,409	-	8,151,525
Debt securities issued	1,038,239	-	883,938	900,012	-	-	2,822,189
Other liabilities and provisions	138,802	6,389	10,409	27,104	82,969	3,705,463	3,971,136
Total liabilities	**44,096,306**	**22,442,904**	**6,088,349**	**1,517,781**	**200,024**	**13,246,142**	**87,591,506**
Net	**(17,854,799)**	**(10,947,976)**	**13,465,220**	**15,336,769**	**10,548,903**	**429,354**	**10,977,471**

31 December 2011	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	516,075	144,117	108	-	-	4,640,450	5,300,750
Loans and advances to banks	97,956	246,271	232,136	378	-	-	576,741
Loans and advances to customers	16,344,581	8,518,849	15,601,124	12,364,771	6,066,526	111,351	59,007,202
Investment securities	4,610,316	3,018,327	2,713,451	4,250,258	4,729,809	189,449	19,511,610
Other assets	5,718	583	83,905	37,812	870,753	5,229,197	6,227,968
Total assets	**21,574,646**	**11,928,147**	**18,630,724**	**16,653,219**	**11,667,088**	**10,170,447**	**90,624,271**
Deposits from banks	2,834,197	603,394	32,739	-	-	34,116	3,504,446
Deposits from customers	33,341,559	12,506,547	2,866,843	395,629	3,367	9,149,183	58,263,128
Obligations under repurchase agreements	3,957,909	1,247,962	775,804	-	-	-	5,981,675
Funds borrowed	447,889	6,066,528	2,321,113	94,886	22,580	-	8,952,996
Debt securities issued	-	493,000	-	-	-	-	493,000
Other liabilities and provisions	47,609	79,418	148,272	10,303	65,433	3,500,989	3,852,024
Total liabilities	**40,629,163**	**20,996,849**	**6,144,771**	**500,818**	**91,380**	**12,684,288**	**81,047,269**
Net	**(19,054,517)**	**(9,068,702)**	**12,485,953**	**16,152,401**	**11,575,708**	**(2,513,841)**	**9,577,002**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

The following table indicates the average effective interest rates applied to monetary financial instruments by major currencies for the six-month period ended 30 June 2012 and for the year ended 31 December 2011:

30 June 2012	US Dollar %	EUR %	TL %
Cash and cash equivalents	1.00	0.61	11.53
Financial assets at fair value through profit or loss	11.04	6.89	11.26
Loans and advances to banks	1.00	2.84	11.86
Loans and advances to customers	5.23	5.64	15.67
Investment securities	7.17	5.34	9.48
Deposits from banks	1.72	2.61	10.30
Deposits from customers	7.70	6.98	13.57
Obligations under repurchase agreements	1.04	1.56	9.86
Debt securities issued	-	5.75	10.49
Funds borrowed	1.98	2.23	10.35

31 December 2011	US Dollar %	EUR %	TL %
Cash and cash equivalents	0.97	1.29	10.84
Financial assets at fair value through profit or loss	8.50	5.47	10.12
Loans and advances to banks	3.14	-	10.76
Loans and advances to customers	5.62	6,61	14.89
Investment securities	7.15	5.61	9.11
Deposits from banks	1.93	2.56	11.33
Deposits from customers	2.23	3.37	9.62
Obligations under repurchase agreements	1.98	1.60	8.39
Debt securities issued	-	-	8.70
Funds borrowed	3.03	2.89	10.88

Interest rate sensitivity

Interest rate sensitivity of profit or loss is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss held as at 30 June 2012 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 30 June 2012.

Interest rate sensitivity of the other comprehensive income is calculated by considering the effects of the assumed changes in interest rates on the fair values of fixed rate available-for-sale financial assets as at 30 June 2012.

As at 30 June 2012, 100 bp increase in interest rates would have an effect on the total comprehensive income, without tax effects, of the Bank amounting to TL 885 (30 June 2011: TL (80,225)), whereas 100 bp decrease in interest rates would have an effect on the total comprehensive income, without tax effects, of the Bank amounting to TL 11,397 (30 June 2011: TL 91,160)

This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Exposure to interest rate risk – non-trading portfolios

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by the Treasury Department and equity price risk is subject to regular monitoring by the Risk Management Department, but is not currently significant in relation to the overall results and financial position of the Group.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related foreign currencies.

30 June 2012	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and cash equivalents	1,791,864	1,384,713	202,734	3,379,311
Financial assets at fair value through profit or loss	83,471	4,692	-	88,163
Loans and advances to banks	123,329	488	1,157	124,974
Loans and advances to customers	12,279,905	6,649,798	60,656	18,990,359
Investment securities	3,201,210	796,117	-	3,997,327
Other assets	2,477,385	1,819,066	1,050,178	5,346,629
Total foreign currency denominated monetary assets	**19,957,164**	**10,654,874**	**1,314,725**	**31,926,763**
Deposits from banks	1,258,508	348,017	6,439	1,612,964
Deposits from customers	9,493,809	5,617,182	611,924	15,722,915
Obligations under repurchase agreements	3,359,208	491,545	-	3,850,753
Debt securities issued	900,012	-	-	900,012
Funds borrowed	4,023,479	3,765,503	37,300	7,826,282
Other liabilities	692,736	240,869	3,452	937,057
Total foreign currency denominated monetary liabilities	**19,727,752**	**10,463,116**	**659,115**	**30,849,983**
Net statement of financial position	**229,412**	**191,758**	**655,610**	**1,076,780**
Net off balance sheet position	**85,542**	**(116,586)**	**(636,180)**	**(667,224)**
Net long/(short) position	**314,954**	**75,172**	**19,430**	**409,556**

31 December 2011	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and cash equivalents	1,490,484	1,180,094	78,422	2,749,000
Financial assets at fair value through profit or loss	125,882	5,285	523	131,690
Loans and advances to banks	28,793	-	146	28,939
Loans and advances to customers	12,573,509	7,332,054	48,344	19,953,907
Investment securities	3,531,130	848,599	-	4,379,729
Other assets	3,951,079	150,923	534,117	4,636,119
Total foreign currency denominated monetary assets	**21,700,877**	**9,516,955**	**661,552**	**31,879,384**
Deposits from banks	2,269,308	452,461	59,270	2,781,039
Deposits from customers	9,782,405	5,040,834	60,889	14,884,128
Obligations under repurchase agreements	2,415,494	545,610	-	2,961,104
Funds borrowed	4,556,536	3,980,969	36,809	8,574,314
Other liabilities	639,610	157,710	25,405	822,725
Total foreign currency denominated monetary liabilities	**19,663,353**	**10,177,584**	**182,373**	**30,023,310**
Net statement of financial position	**2,037,524**	**(660,629)**	**479,179**	**1,856,074**
Net off balance sheet position	**(2,087,061)**	**435,480**	**147**	**(1,651,434)**
Net long/(short) position	**(49,537)**	**(225,149)**	**479,326**	**204,640**

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the six-month period ended 30 June 2012 and 2011 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	30 June 2012		30 June 2011	
	Profit or loss	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
US Dollar	15,083	31,116	18,736	32,472
EUR	(2,673)	19,917	(26,835)	(8,112)
Other currencies	1,795	1,795	418	418
Total, net	**14,205**	**52,828**	**(7,681)**	**24,778**

10 percent revaluation of the TL against the following currencies as at and for the six-month period ended 30 June 2012 and 2011 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	30 June 2012		30 June 2011	
	Profit or loss	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
US Dollar	(12,713)	(28,746)	(14,830)	(28,566)
EUR	2,673	(19,917)	26,835	8,112
Other currencies	(937)	(937)	370	370
Total, net	**(10,977)**	**(49,600)**	**12,375**	**(20,084)**

This analysis assumes that all other variables, in particular interest rates, remain constant.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of the changes in the levels of equity indices and the value of individual stocks.

The effect on other comprehensive income of the Group as a result of changes in the fair value of equity instruments held as available-for-sale financial assets and equity participations at 30 June 2012 and 2011 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index	**30 June 2012**	**30 June 2011**
ISE – 100 (IMKB100)	10%	9,946	16,093

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of performing loans and advances to customers is TL 64,069,237 (31 December 2011: TL 59,039,961), whereas the carrying amount is TL 64,027,234 (31 December 2011: TL 59,007,202) in the accompanying consolidated statement of financial position as at 30 June 2012.

Fair value of held-to-maturity investment securities is TL 6,144,586 (31 December 2011: TL 6,101,707), whereas the carrying amount is TL 5,866,097 (31 December 2011: TL 5,979,238) in the accompanying consolidated statement of financial position as at 30 June 2012.

Classification of fair value measurement

IFRS 7 – *Financial Instruments: Disclosures* requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritises observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Group. This sort of categorization generally results in the classifications below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within 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: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

30 June 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	114,491	62,811	-	**177,302**
Derivative financial assets held for trading purpose	-	146,694	-	**146,694**
Investment funds	15,101	-	-	**15,101**
Equity securities	43	-	27	**70**
Investment securities – available-for-sale				
Debt securities	11,879,471	1,125,247	-	**13,004,718**
Equity securities	169,460	-	28,797	**198,257**
Total financial assets	**12,178,566**	**1,334,752**	**28,824**	**13,542,142**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(150,715)	-	**(150,715)**
Total financial liabilities	**-**	**(150,715)**	**-**	**(150,715)**

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	151,914	28,336	-	**180,250**
Derivative financial assets held for trading purpose	-	174,138	-	**174,138**
Investment funds	5,144	-	-	**5,144**
Equity securities	2,104	-	27	**2,131**
Investment securities – available-for-sale				
Debt securities	12,061,830	1,281,093	-	**13,342,923**
Equity securities	122,148	-	30,824	**152,972**
Total financial assets	**12,343,140**	**1,483,567**	**30,851**	**13,857,558**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(344,803)	-	**(344,803)**
Total financial liabilities	**-**	**(344,803)**	**-**	**(344,803)**

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy is as follows:

	30 June 2012	31 December 2011
Balance at the beginning of the period	30,851	31,428
Total gains or losses for the period recognised in profit or loss	-	-
Total gains or losses for the period recognised in other comprehensive income	(833)	(577)
Balance at the end of the period	**30,018**	**30,851**

4. Financial risk management *(continued)*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as a whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value of operational risk in accordance with the fourth section regarding the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 June 2007, using gross profit of the last three years 2011, 2010 and 2009. The amount, calculated as TL 688,859 as at 30 June 2012 (31 December 2011: TL 608,713) represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 8,610,738 (31 December 2011: TL 7,608,913) and is calculated as 12.5 times the operational risk.

(f) Capital management – regulatory capital

BRSA, the regulatory body of the banking industry sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 30 June 2012 and 31 December 2011 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period and the previous period.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 30 June 2012 and 31 December 2011 was as follows:

	30 June 2012	31 December 2011
Tier 1 capital	10,202,028	9,542,126
Tier 2 capital	863,666	626,975
Deductions from capital	(286,666)	(273,836)
Total regulatory capital	10,779,028	9,895,265
Risk-weighted assets	71,381,586	65,189,906
Operational risk	8,610,738	7,608,913
Value at market risk	1,806,388	2,041,100
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.18	13.22
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12.47	12.75

5. Insurance risk management

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.

ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.

iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

5 Insurance risk management *(continued)*

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate theses risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

6. Segment reporting

Operating segments

The Group has six reportable segments, as described below, 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. The following summary describes the operations in each of the Group's reportable segments:

Retail banking

Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking

Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking

Includes the Group's trading and corporate finance activities.

This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Insurance

Includes the Group's insurance business.

Leasing

Includes the Group's finance lease business.

Factoring

Includes the Group's factoring business.

Others

Includes combined information about operating segments that do not meet the quantitative thresholds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments

30 June 2012	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	**414,570**	**376,612**	**350,630**	**(125,431)**	**1,016,381**	**(962)**	**5,104**	**6,020**	**6,804**	**1,033,347**	**(18,317)**	**1,015,030**
Profit before income tax	414,570	376,612	350,630	(125,431)	1,016,381	(962)	5,104	6,020	6,804	1,033,347	(18,317)	1,015,030
Income tax expense	(78,565)	(71,372)	(66,448)	23,770	**(192,615)**	4,534	(977)	(1,204)	197	**(190,065)**	-	**(190,065)**
Profit for the period	**336,005**	**305,240**	**284,182**	**(101,661)**	**823,766**	**3,572**	**4,127**	**4,816**	**7,001**	**843,282**	**(18,317)**	**824,965**

30 June 2012	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	22,695,429	40,506,526	26,152,014	8,327,348	**97,681,317**	2,650,072	707,433	381,670	467,525	**101,888,017**	(700,533)	**101,187,484**
Investments in associates and subsidiaries	-	-	738,408	-	**738,408**	123,543	2,281	2,322	13,238	**879,792**	(866,765)	**13,027**
Total assets	**22,695,429**	**40,506,526**	**26,890,422**	**8,327,348**	**98,419,725**	**2,773,615**	**709,714**	**383,992**	**480,763**	**102,767,809**	**(1,567,298)**	**101,200,511**
Segment liabilities	41,768,463	23,253,248	18,654,197	3,409,474	**87,085,382**	2,433,968	605,616	300,939	14,078	**90,439,983**	(721,843)	**89,718,140**
Equity including non-controlling interest	-	-	-	11,334,343	**11,334,343**	339,647	104,098	83,053	466,685	**12,327,826**	(845,455)	**11,482,371**
Total liabilities and equity	**41,768,463**	**23,253,248**	**18,654,197**	**14,743,817**	**98,419,725**	**2,773,615**	**709,714**	**383,992**	**480,763**	**102,767,809**	**(1,567,298)**	**101,200,511**

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments *(continued)*

30 June 2011	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	**458,205**	**339,318**	**307,002**	**(207,818)**	**896,707**	**18,081**	**7,995**	**3,066**	**34,348**	**960,197**	**6,997**	**967,194**
Profit before income tax	458,205	339,318	307,002	(207,818)	896,707	18,081	7,995	3,066	34,348	960,197	6,997	967,194
Income tax expense	(85,786)	(63,528)	(57,477)	38,908	(167,883)	11,236	507	(516)	1,329	(155,327)	(768)	(156,095)
Profit for the year	**372,419**	**275,790**	**249,525**	**(168,910)**	**728,824**	**29,317**	**8,502**	**2,550**	**35,677**	**804,870**	**6,229**	**811,099**

31 December 2011	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	21,480,749	36,697,589	24,541,703	7,388,375	**90,108,416**	2,502,281	598,192	621,827	513,179	**94,343,895**	(886,058)	**93,457,837**
Investments in associates and subsidiaries	-	-	695,261	-	**695,261**	123,452	2,539	2,322	14,037	**837,611**	(825,566)	**12,045**
Total assets	**21,480,749**	**36,697,589**	**25,236,964**	**7,388,375**	**90,803,677**	**2,625,733**	**600,731**	**624,149**	**527,216**	**95,181,506**	**(1,711,624)**	**93,469,882**
Segment liabilities	35,739,379	26,495,786	15,153,698	3,143,652	**80,532,515**	2,279,910	500,321	539,367	62,868	**83,914,981**	(904,674)	**83,010,307**
Equity including non-controlling interest	-	-	-	10,271,162	**10,271,162**	345,823	100,410	84,782	464,348	**11,266,525**	(806,950)	**10,459,575**
Total liabilities and equity	**35,739,379**	**26,495,786**	**15,153,698**	**13,414,814**	**90,803,677**	**2,625,733**	**600,731**	**624,149**	**527,216**	**95,181,506**	**(1,711,624)**	**93,469,882**

(Currency – Thousands of Turkish Lira (TL))

7. Cash and cash equivalents

As at 30 June 2012 and 31 December 2011, cash and cash equivalents as presented in the consolidated statement of financial position and cash flows are as follows:

	30 June 2012	31 December 2011
Cash on hand	767,514	716,036
Balances with the Central Bank excluding reserve deposits	4,828,144	2,155,100
Receivables from repurchase agreements *(Note 9)*	62	190,127
Loans and advances to banks with original maturity less than three months	1,964,428	2,238,008
Others	76,549	1,479
Total cash and cash equivalents in the consolidated statement of financial position	**7,636,697**	**5,300,750**
Accruals on cash and cash equivalents	(612)	(3,334)
Blocked bank deposits	(966,899)	(290,975)
Total cash and cash equivalents in the consolidated statement of cash flows	**6,669,186**	**5,006,441**

As at 30 June 2012, TL 810,000 of TL 966,899 blocked bank deposits (31 December 2011: TL 290,975) comprises the additional reserve requirements of CBT as explained below. Remaining TL 156,899 blocked bank deposits consists of TL 100,344 held against the "Diversified Payment Rights" securitizations and TL 56,555 held against insurance liabilities of the Group in favour of the Turkish Treasury, respectively.

The Bank and CBT had disagreement about the reserve requirements deposited at CBT regarding the syndication loans obtained by foreign branches of the Bank. Subsequent to the decision, CBT required the Bank to provide reserve requirement for loans obtained by foreign branches, the Bank filed a claim in Ankara 15th Administrative Court for the suspension of execution and cancellation of the decision. As at 15 June 2011, the court decided on refusal of the claim with the right to appeal on State Council. CBT requested the Bank to provide additional reserves amounting to USD 384 million in average for 3.5 years period with the 4 May 2011 dated communiqué. In this context, the Bank has begun to provide additional reserve requirements at 27 May 2011.

As at 30 June 2012, loans and advances to banks includes credit card receivables of insurance subsidiaries blocked by the banks for 28 days amounting to TL 24,837 (31 December 2011: 15,945) which is presented as cash in the consolidated statement of cash flows, since these amounts are convertible to cash if required.

(Currency – Thousands of Turkish Lira (TL))

8. Financial assets at fair value through profit or loss *(continued)*

As at 30 June 2012 and 31 December 2011, financial assets at fair value through profit or loss are as follows:

	30 June 2012		31 December 2011	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt instruments held at fair value:				
Government bonds in TL	119,860	125,632	132,237	137,726
Bonds issued by banks	-	-	25,091	24,781
Eurobonds issued by the Turkish Government	11,211	13,777	11,109	14,188
Corporate bonds in TL	39,034	37,893	2,580	2,724
Asset-backed securities	-	-	900	831
		177,302		**180,250**
Equity and other non-fixed income instruments:				
Derivative financial instruments held for trading purposes		146,694		174,138
Investment funds		15,101		5,144
Equity shares		70		2,131
		161,865		**181,413**
Total financial assets at fair value through profit or loss		**339,167**		**361,663**

Gains and losses arising on valuation of debt instruments held at fair value are reflected in the consolidated statement of comprehensive income as interest on securities.

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the six-month period ended 30 June 2012, net income from trading of financial assets (including investment securities) amounting to TL 55,386 (30 June 2011: TL 51,802) is included in "trading income, (net)".

The following table summarizes securities that were deposited as collateral with respect to various banking transactions:

	30 June 2012		31 December 2011	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	79,984	85,122	77,751	82,825
Deposited at Istanbul Stock Exchange for repurchase transactions	2,361	2,269	3,239	3,098
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	93	100	91
		87,484		**86,014**

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlyings, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used include currency forwards, interest rate swaps, currency options and credit default swaps.

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual 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 contractual amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

(Currency – Thousands of Turkish Lira (TL))

8. Financial assets at fair value through profit or loss *(continued)*

Derivative financial instruments held for trading purposes *(continued)*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	30 June 2012					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	1,743,090	1,030,375	932,474	64,506	-	**3,770,445**
Sales	1,740,035	997,993	887,812	64,363	-	**3,690,203**
Currency forwards:						
Purchases	1,329,564	212,252	80,739	-	-	**1,622,555**
Sales	1,329,305	212,205	80,711	-	-	**1,622,221**
Cross currency interest rate swaps:						
Purchases	-	-	153,000	843,205	27,000	**1,023,205**
Sales	-	-	129,240	786,648	27,150	**943,038**
Interest rate swaps:						
Purchases	-	-	-	180,000	1,178,304	**1,358,304**
Sales	-	-	-	180,000	1,178,304	**1,358,304**
Currency options:						
Purchases	139,183	27,442	-	-	-	**166,625**
Sales	139,182	27,442	-	-	-	**166,624**
Total of purchases	**3,211,837**	**1,270,069**	**1,166,213**	**1,087,711**	**1,205,304**	**7,941,134**
Total of sales	**3,208,522**	**1,237,640**	**1,097,763**	**1,031,011**	**1,205,454**	**7,780,390**
Total of transactions	**6,420,359**	**2,507,709**	**2,263,976**	**2,118,722**	**2,410,758**	**15,721,524**

	31 December 2011					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	1,643,418	1,024,415	1,656,806	-	-	**4,324,639**
Sales	1,102,384	1,085,944	1,692,000	-	-	**3,880,328**
Currency forwards:						
Purchases	912,635	112,920	276,913	-	-	**1,302,468**
Sales	906,597	112,889	276,865	-	-	**1,296,351**
Cross currency interest rate swaps:						
Purchases	-	94,000	75,200	696,758	-	**865,958**
Sales	-	77,100	52,830	587,510	-	**717,440**
Interest rate swaps:						
Purchases	-	-	20,176	141,000	675,847	**837,023**
Sales	-	-	8,246	141,000	675,847	**825,093**
Currency options:						
Purchases	123,616	-	-	-	-	**123,616**
Sales	123,616	-	-	-	-	**123,616**
Other:						
Purchases	-	-	-	-	-	-
Sales	531,155	-	-	-	-	**531,155**
Total of purchases	**2,679,669**	**1,231,335**	**2,029,095**	**837,758**	**675,847**	**7,453,704**
Total of sales	**2,663,752**	**1,275,933**	**2,029,941**	**728,510**	**675,847**	**7,373,983**
Total of transactions	**5,343,421**	**2,507,268**	**4,059,036**	**1,566,268**	**1,351,694**	**14,827,687**

(Currency – Thousands of Turkish Lira (TL))

9. Repurchase agreements

The Group lends its extra fund as a result of daily operations to other financial institutions through repurchase agreements. Assets purchased under repurchase agreements comprise the following:

	30 June 2012		31 December 2011	
	Fair value of underlying assets	**Carrying Value of corresponding assets**	**Fair value of underlying assets**	**Carrying Value of corresponding assets**
Reverse repurchase agreements	64	62	198,931	190,127
	64	**62**	**198,931**	**190,127**

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

	30 June 2012		31 December 2011	
	Fair value of underlying assets	**Carrying Value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying Value of corresponding liabilities**
Financial assets at fair value through profit or loss	2,269	2,203	3,098	2,998
Investment securities- Available for sale portfolio	3,332,498	2,586,206	3,423,082	2,803,882
Investment securities- Held to maturity portfolio	5,976,456	5,452,371	3,449,497	3,174,795
	9,311,223	**8,040,780**	**6,875,677**	**5,981,675**

Accrued interest on obligations under repurchase agreements amounted to TL 21,574 (31 December 2011: TL 17,138) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

10. Loans and advances to banks

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 30 June 2012 and 31 December 2011:

	30 June 2012			31 December 2011		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	249,382	92,580	341,962	303,254	201,118	504,372
Foreign banks	-	173,247	173,247	-	72,369	72,369
Total	**249,382**	**265,827**	**515,209**	**303,254**	**273,487**	**576,741**

As at 30 June 2012, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL 197,083 (31 December 2011: TL 203,359) held against the insurance liabilities of the Group in favour of the Turkish Treasury.

(Currency – Thousands of Turkish Lira (TL))

11. Loans and advances to customers

As at 30 June 2012 and 31 December 2011, outstanding loans and advances to customers comprise the followings:

	30 June 2012	31 December 2011
Corporate loans	38,993,908	35,538,099
Consumer loans	20,074,982	19,261,452
Credit cards	2,594,142	2,015,928
Loans to financial institutions	1,252,799	959,127
Total performing loans	**62,915,831**	**57,774,606**
Non-performing loans	2,272,042	2,182,642
Total gross loans	**65,187,873**	**59,957,248**
Finance lease receivables, net of unearned income *(Note 12)*	661,661	535,260
Factoring receivables	360,797	624,181
Allowance for possible loan losses from loans and receivables, finance lease receivables, and factoring receivables *(Note 4)*	(2,183,097)	(2,109,487)
Loans and advances to customers, net	**64,027,234**	**59,007,202**

The specific allowance for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

Movements in the specific allowance for possible loan losses:

	30 June 2012	31 December 2011
Reserve at the beginning of the year	2,109,487	2,330,316
Adjustment for currency translation	(728)	2,119
Reserve for possible loan losses provided during the year	290,878	355,550
Recoveries	(216,539)	(574,404)
Provision, net of recoveries	2,183,098	2,113,581
Loans written off during the year	(1)	(4,094)
Reserve at the end of the year	**2,183,097**	**2,109,487**

Portfolio provisions on loans and advances to customers amounting to TL 184,561 (31 December 2011:51,676) has been presented in other liabilities and provisions account.

12. Finance lease receivables

The finance leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following finance lease receivables:

	30 June 2012	31 December 2011
Finance lease receivables, net of unearned incomes	617,569	503,441
Add: non-performing lease receivables	44,092	31,819
Total finance lease receivables *(Note 11)*	661,661	535,260
Less: allowance for possible losses on lease receivables	(32,791)	(31,819)
Finance lease receivables, net	**628,870**	**503,441**

(Currency – Thousands of Turkish Lira (TL))

12. Finance lease receivables *(continued)*

	30 June 2012	31 December 2011
Due within one year	257,788	194,465
Due between 1 and 5 years	450,569	377,295
More than five years	4,968	3,655
Finance lease receivables, gross	713,325	575,415
Unearned income	(84,455)	(71,974)
Finance lease receivables, net	**628,870**	**503,441**
Due within one year	214,903	161,629
Due between 1 and 5 years	409,261	338,307
More than five years	4,706	3,505
Finance lease receivables, net	**628,870**	**503,441**

13. Investment securities

As at 30 June 2012 and 31 December 2011, investment securities comprised the following:

	30 June 2012	31 December 2011
Available-for-sale financial assets	13,239,448	13,532,372
Held-to-maturity investment securities	5,866,097	5,979,238
Total investment securities	**19,105,545**	**19,511,610**

Available-for-sale financial assets:

	30 June 2012		31 December 2011	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in TL	9,872,408	10,384,894	10,161,160	10,401,357
Eurobonds issued by the Turkish Government	2,089,313	2,418,572	2,330,223	2,575,113
Bonds issued by banks	105,056	105,541	182,295	184,382
Government bonds in foreign currencies	58,191	63,373	29,701	30,630
Treasury bills in TL	26,600	27,428	26,502	24,737
Corporate bonds	4,979	4,910	180,290	126,704
		13,004,718		**13,342,923**
Equity and other non-fixed income instruments:				
Equity shares		234,730		189,449
		234,730		**189,449**
Total available-for-sale financial assets		**13,239,448**		**13,532,372**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

As at 30 June 2012 and 31 December 2011, equity shares comprised the following:

	30 June 2012	31 December 2011
Quoted investments:		
T. Sınai Kalkınma Bankası AŞ	168,266	122,148
Unquoted investments:		
Güney Ege Enerji Ltd Şti	209,738	209,738
Vakıf Pazarlama Sanayi ve Ticaret AŞ	102,797	102,797
Bayek Tedavi ve Sağlık Hizmetleri AŞ	33,954	33,954
Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş.	16,922	17,785
İMKB Takas ve Saklama Bankası AŞ	9,600	9,600
Vakıf İnşaat Restorasyon AŞ	8,504	8,504
Roketsan Roket Sanayi ve Ticaret AŞ	7,593	7,593
Mastercard Incorporated	6,562	6,562
İzmir Enternasyonel AŞ	6,178	6,178
Visa Inc.	4,188	4,188
Others	11,663	11,545
	585,965	540,592
Impairment	(351,235)	(351,143)
Total investment securities	**234,730**	**189,449**

The following table summarizes available-for-sale financial assets that were deposited as collaterals with respect to various banking transactions:

	30 June 2012		31 December 2011	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	2,925,232	3,162,094	2,547,822	2,765,431
Deposited at Central Bank of Turkey for repurchase transactions	632,500	682,426	551,308	592,550
Deposited at other institutions for repurchase transactions	266,412	271,399	753,507	754,443
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	220,110	230,649	270,113	283,371
Deposited at Central Bank of Turkey for interbank transactions	5,000	5,332	5,000	5,300
Deposited at Clearing Banks	150	157	11,395	11,954
Deposited at Central Bank of Turkey for foreign currency money market transactions	-	-	7,520	7,601
Deposited at Turkish Derivative Exchange	37	37	37	37
Others	151,981	160,521	162,144	165,931
		4,512,615		**4,586,618**

Held-to-maturity investment securities:

	30 June 2012			31 December 2011		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
Debt instruments:						
Government bonds in TL	4,074,475	4,310,365	4,329,489	4,267,176	4,343,224	4,241,991
Eurobonds issued by the Turkish Government	1,439,210	1,503,470	1,762,897	1,508,090	1,581,438	1,805,196
Certificate of deposits	52,200	52,262	52,200	54,520	54,576	54,520
Government bonds in foreign currencies	-	-	-	-	-	-
Bonds issued by foreign banks	-	-	-	-	-	-
Total held-to-maturity investment securities		**5,866,097**	**6,144,886**		**5,979,238**	**6,101,707**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

In 2011 the Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 1,690,000 to its held-to-maturity investment securities portfolio at their fair values of TL 1,764,346 as at their reclassification dates. The fair value change of these securities amounting to TL (2,497) has been recorded under equity and will be amortized through the statement of income until their maturities.

The following table summarizes held-to-maturity investment securities that were deposited as collaterals with respect to various banking transactions:

	30 June 2012		31 December 2011	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Central Bank of Turkey for repurchase transactions	2,533,307	2,722,209	2,089,082	2,235,861
Deposited at financial institutions for repurchase transactions	2,870,964	2,977,962	1,032,207	1,040,178
Deposited at other institutions for repurchase transactions	-	-	54,002	56,845
Others	52,200	52,262	54,520	54,576
		5,752,433		**3,387,460**

14. Investment in equity participations accounted for using the equity method

As at 30 June 2012 and 31 December 2011 investments in equity participations accounted for using the equity method are as follows:

	30 June 2012	31 December 2011
Unquoted investments:		
Kıbrıs Vakıflar Bankası Ltd.	9,905	9,074
Quoted investments:		
Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ	3,122	2,971
	13,027	**12,045**

15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 30 June 2012 and 1 January to 31 December 2011 are as follows:

Property and equipment	1 January 2012	Currency translation difference	Additions	Disposals	30 June 2012
Cost:					
Land and buildings	770,273	(288)	10,503	(6,799)	773,689
Motor vehicles	57,386	(2)	1,380	(1,419)	57,345
Furniture, office equipment and leasehold improvements	530,732	(129)	12,172	(1,348)	541,427
Other tangibles	284,631	-	22,093	(1,708)	305,016
	1,643,022	**(419)**	**46,148**	**(11,274)**	**1,677,477**
Accumulated depreciation:					
Land and buildings	266,247	(180)	14,395	(5,198)	275,264
Motor vehicles	30,160	(2)	3,928	(970)	33,116
Furniture, office equipment and leasehold improvements	403,078	(105)	25,184	(1,204)	426,953
Other tangibles	162,837	-	15,694	(447)	178,084
	862,322	**(287)**	**59,201**	**(7,819)**	**913,417**
Net book value	**780,700**				**764,060**

(Currency – Thousands of Turkish Lira (TL))

15. Property and equipment and intangible assets *(continued)*

Intangible assets	1 January 2012	Currency translation difference	Additions	Disposals	30 June 2012
Cost:					
Software programmes	117,046	(69)	7,680	(8)	124,649
	117,046	**(69)**	**7,680**	**(8)**	**124,649**
Accumulated amortisation:					
Software programmes	36,975	(67)	5,614	(8)	42,514
	36,975	**(67)**	**5,614**	**(8)**	**42,514**
Net book value	**80,071**				**82,135**

Property and equipment	1 January 2011	Currency translation difference	Additions	Disposals	31 December 2011
Cost:					
Land and buildings	843,129	605	14,020	(87,481)	770,273
Motor vehicles	34,736	6	24,124	(1,480)	57,386
Furniture, office equipment and leasehold improvements	499,676	295	44,121	(13,360)	530,732
Other tangibles	250,842	-	38,352	(4,563)	284,631
	1,628,383	**906**	**120,617**	**(106,884)**	**1,643,022**
Accumulated depreciation:					
Land and buildings	276,110	409	21,367	(31,639)	266,247
Motor vehicles	24,597	6	6,866	(1,309)	30,160
Furniture, office equipment and leasehold improvements	358,726	230	56,412	(12,290)	403,078
Other tangibles	138,652	-	28,537	(4,352)	162,837
	798,085	**645**	**113,182**	**(49,590)**	**862,322**
Net book value	**830,298**				**780,700**

Intangible assets	1 January 2011	Currency translation difference	Additions	Disposals	31 December 2011
Cost:					
Software programmes	84,873	165	32,008	-	117,046
	84,873	**165**	**32,008**	**-**	**117,046**
Accumulated amortisation:					
Software programmes	27,280	161	9,534	-	36,975
	27,280	**161**	**9,534**	**-**	**36,975**
Net book value	**57,593**				**80,071**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

(Currency – Thousands of Turkish Lira (TL))

16. Other assets

	30 June 2012	31 December 2011
Reserve deposit at Central Bank of Turkey	5,173,947	4,269,727
Individual pension system receivables	1,050,937	868,063
Assets held for resale	599,813	550,578
Prepaid expenses	428,582	399,629
Receivables from reinsurance activities	393,761	446,440
Receivables from credit card payments	249,570	392,479
Receivables from insurance activities	244,983	265,018
Investment properties	158,911	159,708
Deferred acquisition costs for insurance contracts, gross	82,545	79,501
Receivables from derivative financial instruments	73,600	20,177
Receivables from term sales of fixed assets	46,854	103,778
Prepaid taxes other than income tax and funds to be refunded	20,803	24,036
Prepaid income taxes	835	125
Others	63,341	82,261
Total other assets	**8,588,482**	**7,661,520**

At 30 June 2012, reserve deposits at the Central Bank of Turkey ("CBT") were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBT.

In accordance with "Announcement on Reserve Deposits" of CBT numbered 2005/1, all banks operating in Turkey shall provide a reserve rate of 11% for demand deposits, and the rates decrease to 5% as maturities get longer (31 December 2011: 11% for demand deposits, and the rates decrease to 5% as maturities get longer). For foreign currency liabilities, all banks shall provide a reserve rate of 11% in US Dollar or Euro for demand and upto 1 year maturity deposits and rates decrease to 6% as maturities get longer (31 December 2011: 11% in US Dollar or Euro for demand and upto 1 year maturity deposits and rates decrease to 6% as maturities get longer).

As at 30 June 2012, TL 599,813 (31 December 2011: TL 550,578) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the six-month period ended 30 June 2012 and year ended 31 December 2011 the movement of deferred acquisition cost is as follows:

	30 June 2012	31 December 2011
Deferred acquisition cost at the beginning of the period	79,501	65,016
Expenses deferred during the period	74,660	139,234
Amortisation	(71,616)	(124,749)
Deferred acquisition cost at the end of the period	**82,545**	**79,501**

17. Deposits from banks

As at 30 June 2012 and 31 December 2011, deposits from banks comprise the following:

	30 June 2012	31 December 2011
Payable on demand	15,863	34,116
Time deposits	4,194,519	3,470,330
Total deposits from banks	**4,210,382**	**3,504,446**

(Currency – Thousands of Turkish Lira (TL))

18. Deposits from customers

As at 30 June 2012 and 31 December 2011, deposits from customers comprise the following:

	30 June 2012		31 December 2011	
	Demand Deposit	**Time Deposit**	**Demand Deposit**	**Time Deposit**
Saving deposits	1,923,314	14,318,199	1,671,682	13,358,867
Foreign currency deposits	1,504,496	14,959,012	1,593,129	14,428,898
Residents in Turkey	*1,280,969*	*13,460,054*	*1,393,567*	*13,155,139*
Residents in abroad	*223,527*	*1,498,958*	*199,562*	*1,273,759*
Commercial deposits	1,112,004	9,786,055	1,186,966	8,798,522
Public sector deposits	2,406,960	7,839,676	2,766,392	7,629,741
Others	2,578,042	3,967,736	1,931,014	4,897,917
Total deposits from customers	**9,524,816**	**50,870,678**	**9,149,183**	**49,113,945**

19. Funds borrowed

As at 30 June 2012 and 31 December 2011, funds borrowed comprise the followings in accordance with their original maturities:

	30 June 2012		31 December 2011	
	TL	**Foreign Currency**	**TL**	**Foreign Currency**
Short-term funds	*245,583*	*2,601,890*	*330,796*	*2,902,725*
Short-term portion of long term funds	*48,938*	*23,472*	*8,911*	*1,600,786*
Total short-term funds	294,521	2,625,362	339,707	4,503,511
Medium/long term funds	30,722	5,200,920	51,767	4,058,011
Total funds borrowed	**325,243**	**7,826,282**	**391,474**	**8,561,522**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 9.07% (31 December 2011: 10.79%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

On 1 September 2010, the Bank obtained a syndication loan at the amount of US Dollar 135 million with interest rate of Libor + 1.30% and Euro 408 million with interest rate of Euribor + 1.30% at 1 year maturity; and syndication loan at the amount of US Dollar 10 million with interest rate of Libor + 1.75% and Euro 45 million with interest rates of Euribor + 1.75% at 2 years maturity with the participation of 32 banks under the coordination of West LB AG. The Bank has repaid the part of the loan with one year maturity on 6 September 2011. This loan has been renewed with a syndicated loan at the amount of US Dollar 145 million and Euro 433 million with interest rates of US Libor + 1.00 % and Euribor + 1.00 % at a maturity of one year, with the participation of 26 banks under the coordination of ING Bank NV on 7 September 2011.

On 28 March 2011, the Bank has obtained syndication loan of USD 192.5 million and Euro 573.5 million with one year maturity at the cost of Libor + 1.10% and Euribor + 1.10%, with the participation of 34 banks under the coordination of West LB AG, the the loan was repaid on 29 March 2011.

This loan has been renewed with a syndicated loan at the amount of US Dollar 152 million and Euro 586.7 million with interest rates of US Libor + 1.45 % and Euribor + 1.45 % at a maturity of one year, with the participation of 41 banks under the coordination of Wells Fargo Bank NA on 10 April 2012.

(Currency – Thousands of Turkish Lira (TL))

20. Debt securities issued

On 8 August 2011, the Bank has issued discounted bonds with a nominal value of TL 500,000 and 176 days maturity. The bond has matured as at 31 January 2012.

On 31 January 2012, the Bank has issued discounted bonds with a nominal value of TL 1,000,000 and 178 days maturity. The carrying value of these bonds amounts to TL 933,064 as at 30 June 2012.

On 1 June 2012, the Bank has issued discounted bonds with a nominal value of TL 926,838 and 179 days maturity. As at 30 June 2012, the carrying amount of the related bonds is TL 883,938.

On 1 June 2012, the Bank has issued floating-rate bonds with monthly coupon payment with a nominal value of TL 105,055 and 374 days maturity. As at 30 June 2012, the carrying amount of the related bonds is TL 105,175.

On 24 April 2012, the Bank has issued the bond with nominal value of USD 500 million and with maturity date of 24 April 2017. 36% of the bond has been sold in Europe, 27% in the United States, 27% in England, 10% in Asia and the Middle East. Furthermore, with respect to purchaser parties 64% of the bond was purchased by fund managers, 18% was purchased by banks, 14% by private banks and 4% by insurance and pension funds. As of 30 June 2012, the carrying amount of the bond is TL 900,012.

21. Other liabilities and provisions

The principal components of other liabilities and accrued expenses are as follows:

	30 June 2012	31 December 2011
Accounts against expenditures of credit card holders	1,709,089	1,670,263
Individual pension system payables	1,050,937	868,063
Reserve for unearned insurance premiums	469,104	434,717
Import letter of credit	449,957	395,447
Reserve for outstanding claims for insurance contracts	365,921	395,821
Reserve for employee severance indemnity	202,188	186,920
Miscellaneous payables	198,263	119,364
Portfolio provisions for loans and advances to customers	184,561	51,676
Investment contract liabilities	170,993	170,589
Taxes payable other than income tax	158,853	128,045
Unearned income	157,930	76,436
Derivative financial instruments held for trading purposes	150,715	344,803
Long term insurance contracts	140,116	120,575
Reserve for short term employee benefits	107,685	152,319
Payables to suppliers relating to finance lease activities	105,476	53,558
Payables due to derivative financial instruments	68,518	59,783
Provision for unused vacations	67,554	66,273
Payables due to insurance activities	66,548	126,451
Provision for non-cash loans	65,712	67,937
Other provisions	59,793	86,248
Blocked accounts	43,051	50,343
Clearing account	37,183	69,974
Deferred commission income for insurance contracts	36,773	34,242
Other liabilities	39,456	58,650
Total other liabilities and provisions	**6,106,376**	**5,788,497**

(Currency – Thousands of Turkish Lira (TL))

21. Other liabilities and provisions *(continued)*

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	**30 June 2012**	**31 December 2011**
Reserve for unearned insurance premiums, net	270,885	208,247
Reserve for unearned insurance premiums, reinsurer share	198,219	226,470
Reserve for unearned insurance premiums, gross	**469,104**	**434,717**

Reserve for unearned insurance premiums (net)	**30 June 2012**	**31 December 2011**
At the beginning of the period	208,247	243,661
Premiums written during the period *(Note 25)*	298,887	498,289
Premiums earned during the period *(Note 25)*	(236,249)	(533,703)
At the end of the period	**270,885**	**208,247**

Provision for outstanding claims	**30 June 2012**	**31 December 2011**
Provision for outstanding claims, net	185,486	185,121
Provision for outstanding claims, reinsurer share	180,435	210,700
Provision for outstanding claims, gross	**365,921**	**395,821**

Provision for outstanding claims (net)	**30 June 2012**	**31 December 2011**
At the beginning of the period	185,121	218,984
Cash paid for claims settled during the period *(Note 27)*	(186,844)	(360,987)
Increase during the period *(Note 27)*	187,209	327,124
At the end of the period	185,486	**185,121**

Long term insurance contracts	**30 June 2012**	**31 December 2011**
At the beginning of the period	291,164	282,861
Entrance during the period	25,039	107,315
Withdrawals during the period	(7,757)	(87,130)
Change in fair value of investments held for investment contracts	2,663	(11,882)
At the end of the period	**311,109**	**291,164**
Long term insurance contracts	*140,116*	*120,575*
Investment contract liabilities	*170,993*	*170,589*

Movement in the reserve for employee severance indemnity is as follows:

Reserve for employee severance indemnity	**30 June 2012**	**31 December 2011**
At the beginning of the period	186,920	165,230
Currency translation difference	(15)	13
Interest cost	16,025	14,373
Service cost	10,832	9,487
Payment during the period	(11,090)	(19,742)
Actuarial difference	264	17,559
At the end of the period	**202,936**	**186,920**

(Currency – Thousands of Turkish Lira (TL))

22. Income taxes

Components of income tax expense in the consolidated statement of comprehensive income are as follows:

	30 June 2012	30 June 2011
Income tax recognised in profit for the period		
Current income tax related to income from operations	(164,536)	(181,423)
Deferred income tax related to income from operations	(243)	25,328
	(167,779)	**(156,095)**
Income tax recognised in other comprehensive income		
Current income tax recognised in other comprehensive income	(30,160)	27,761
Deferred income tax recognised in other comprehensive income	(24,885)	5,992
	(55,045)	**33,753**
Income tax expense recognised in the consolidated statement of comprehensive income	**(219,824)**	**(122,342)**

The movement of current tax liabilities is as follows:

	30 June 2012	31 December 2011
At the beginning of the year	22,898	115,062
Current income tax charge	164,536	387,387
Current income tax recognised under equity	30,160	(73,378)
Taxes paid during the period	(104,585)	(406,173)
Current tax liabilities	**113,009**	**22,898**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the six-month period ended 30 June 2012 and 2011 is as follows:

	30 June 2012	Tax rate (%)	30 June 2011	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**888,601**		**967,194**	
Taxes on income per statutory tax rate	(177,720)	(20.00)	(193,439)	(20.00)
Income not subject to tax	9,827	1.11	14,195	1.47
Unrecognised deferred tax assets on temporary differences	3,617	0.41	17,490	1.81
Disallowable expenses	(1,325)	(0.15)	(1,125)	(0.12)
Investment incentives	(876)	(0.10)	1,509	0.16
Unrecognised deferred tax assets on carried forward tax losses	-	-	(567)	(0.06)
Others, net	1,698	0.19	5,842	0.60
Income tax expense	**(164,779)**	**(18.54)**	**(156,095)**	**(16.14)**

(Currency – Thousands of Turkish Lira (TL))

22. Income taxes *(continued)*

Deferred tax assets and liabilities at 30 June 2012 and 31 December 2011 are attributable to the items below:

	30 June 2012	31 December 2011
Other provisions	65,819	41,627
Provision for employee severance indemnity and unused vacations	53,481	50,539
Investment incentive	26,474	28,436
Valuation difference for property and equipment	18,111	16,972
Valuation differences of financial assets and liabilities	22,912	76,986
Tax losses carried forward	12,412	7,029
Other temporary differences	2,564	1,606
Deferred tax assets	**201,773**	**223,195**
Net-off of the deferred tax assets and liabilities from the same entity	(47,532)	(45,615)
Deferred tax assets, (net)	**154,241**	**177,580**
Valuation differences of financial assets and liabilities	46,836	41,243
Other temporary differences	5,510	8,039
Deferred tax liabilities	**52,346**	**49,282**
Net-off of the deferred tax assets and liabilities from the same entity	(47,532)	(45,615)
Deferred tax liabilities, (net)	**4,814**	**3,667**

23. Equity

Share capital

As at 30 June 2012, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2011: TL 2,500,000). The Bank's paid-in capital is divided into 250.000.000.000 shares, each with a nominal value of 1 Kuruş. As at 30 June 2012, share capital presented in equity amounts to TL 3,300,146 (31 December 2011: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 30 June 2011 (31 December 2011: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005.

Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

- Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

(Currency – Thousands of Turkish Lira (TL))

23. Equity *(continued)*

Based on the resolution of the 58th Annual General Assembly held on 30 March 2012, the Bank's statutory profit for the year ended 31 December 2011 amounting to TL 1,226,785 has been transferred to legal reserves in the amount of TL 120,126 and to other reserves in the amount of TL 1,069,659; and the remaining profit amounting to TL 37,000 has been decided to be distributed as dividends to equity holders of the Bank.

As at 30 June 2012, legal reserves amounts to TL 752,778 (31 December 2011: TL 628,383).

Non-controlling interest

As at 30 June 2012, non-controlling interest is analysed as follows:

	30 June 2012	31 December 2011
Capital and other reserves	440,814	435,396
Legal reserves	22,538	20,792
Retained earnings	(43,074)	(98,572)
Profit for the period	(1,064)	64,605
Total non-controlling interest	**419,214**	**422,221**

Fair value reserves of available-for-sale financial assets

As at 30 June 2012, fair value reserves of available-for-sale financial assets is analysed as follows:

	30 June 2012	30 June 2011
Balance at the beginning of the period	(13,977)	408,813
Net gains/(losses) from changes in fair values	283,832	(75,709)
Related deferred and current income taxes	(46,053)	19,856
Net losses/(gains) transferred to profit or loss on disposal	19,696	(101,182)
Related deferred and current income taxes	(8,992)	13,897
Balance at the end of the period	**234,506**	**265,675**

24. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. For the purpose of these consolidated financial statements, shareholders and Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted some business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into, with related parties:

Outstanding balances

	30 June 2012	31 December 2011
Cash loans	7,748	4,443
Non-cash loans	572,863	594,618
Deposits taken	1,798,019	1,538,218

Transactions entered into

	30 June 2012	30 June 2011
Interest income	122	246
Interest expense	(38,057)	(27,068)
Commission income	162	115
Other operating income	1,829	892
Other operating expense	(4,784)	(20,224)

(Currency – Thousands of Turkish Lira (TL))

24. Related parties *(continued)*

No guarantees have been taken for the receivables from related parties.

There are no non-performing loans granted to related parties.

Directors' Remuneration

As at and for the six-month period ended 30 June 2012, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 10,306 (30 June 2011: TL 8,615).

25. Other income

As at and for the six-month period ended 30 June 2012 and 2011, other income comprised the followings:

	30 June 2012	30 June 2011
Earned premiums *(Note 21)*	236,249	273,142
Written premiums (Note 21)	*298,887*	*281,335*
Change in reserve for unearned premiums (Note 21)	*(62,638)*	*(8,193)*
Fee charged to customers for communication expenses	37,883	40,223
Income from sale of fixed assets and investment properties	17,293	64,116
Individual pension business income	16,054	12,623
Rent income	15,519	4,895
Dividend income from equity shares	8,390	7,767
Others	86,256	44,849
Total	**417,644**	**447,615**

26. Salaries and employee benefits

As at and for the six-month period ended 30 June 2012 and 2011, salaries and employee benefits comprised the following:

	30 June 2012	30 June 2011
Wages and salaries	(238,624)	(222,162)
Other fringe benefits	(193,774)	(175,987)
Employer's share of social security premiums	(69,615)	(59,633)
Provision for short term employee benefits	(59,410)	(52,151)
Provision for employee termination benefits *(Note 21)*	(16,031)	(8,041)
Provision for liability for unused vacations	(1,328)	(5,454)
Total	**(578,782)**	**(523,428)**

The average number of employees of the Group during the period is:

	30 June 2012	30 June 2011
The Bank	12,408	11,743
Subsidiaries	1,942	1,759
Total	**14,350**	**13,502**

(Currency – Thousands of Turkish Lira (TL))

26. Salaries and employee benefits *(continued)*

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 2,917 and TL (full TL) 2,732 as at 30 June 2012 and 31 December 2011, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012	31 December 2011
Discount rate	3.78%	3.78%
Expected rate of salary/limit increase	5.00%	5.00%
Turnover rate to estimate the probability of retirement	1.61%	1.61%

The above rate for salary/limit increase was determined based on the Turkish Government's future targets for annual inflation.

27. Other expenses

As at and for the six-month period ended 30 June 2011 and 2010, other expenses comprised the following:

	30 June 2012	30 June 2011
Incurred insurance claims *(Note 21)*	(187,209)	(163,517)
Insurance claims paid	*(186,844)*	*(171,048)*
Change in provision for outstanding claims	*(365)*	*7,531*
Banking services promotion expenses	(182,777)	(163,492)
Rent expenses and operating lease charges	(70,540)	(60,084)
Advertising expenses	(36,273)	(14,679)
Communication expenses	(36,162)	(32,000)
Change in long term insurance contracts	(29,692)	(24,073)
Saving Deposit Insurance Fund premiums	(28,200)	(28,650)
Cleaning service expenses	(20,807)	(18,766)
Energy expenses	(13,051)	(11,787)
Other provision expenses	(9,836)	(8,588)
Maintenance expenses	(9,126)	(6,880)
BRSA participation fee	(8,918)	(11,203)
Office supplies	(8,486)	(6,683)
Transportation expenses	(6,748)	(6,452)
Computer usage expenses	(6,371)	(6,079)
Consultancy expenses	(4,348)	(4,632)
Hosting expenses	(3,348)	(4,192)
Individual pension business expenses	(1,665)	(1,118)
Credit card promotion expenses	(183)	(1,122)
Loss on sale of assets	(63)	(2,646)
Other various administrative expenses	(72,507)	(91,947)
Total	**(736,310)**	**(668,590)**

(Currency – Thousands of Turkish Lira (TL))

28. 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 consolidated financial statements including:

	30 June 2012	31 December 2011
Letters of guarantee	11,884,020	11,050,526
Letters of credit	4,086,714	4,099,400
Acceptance credits	867,832	483,594
Other guarantees	5,433	8,279
Total non-cash loans	**16,843,999**	**15,641,799**
Credit card limit commitments	4,719,799	4,322,604
Loan granting commitments	4,485,733	4,598,065
Commitments for cheque payments	1,096,044	829,640
Commitments for credit card and banking operations promotions	209,346	246,030
Total	**27,354,921**	**25,638,138**

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

Litigation

There are various legal cases against the Group for which TL 17,790 (31 December 2011: TL 17,056) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favour of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

(Currency – Thousands of Turkish Lira (TL))

29. Subsidiaries and associates

The table below sets out the subsidiaries, associates and shows their shareholding structure as at 30 June 2012:

	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Güneş Sigorta AŞ	36.35	36.35
Vakıf Emeklilik AŞ	53.90	75.30
Vakıf Enerji ve Madencilik AŞ	65.50	84.96
Taksim Otelcilik AŞ	51.00	51.52
Vakıf Finans Factoring Hizmetleri AŞ	78.39	86.99
Vakıf Finansal Kiralama AŞ	58.71	64.40
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.44
Vakıf Portföy Yönetimi AŞ	99.99	99.99
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	27.63	29.49
World Vakıf UBB Ltd. (*)	82.00	85.25
VB Diversified Payment Rights Finance Company (**)	-	-
Associates:		
Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ	11.75	21.77
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00

(*) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd which was subject to consolidation in previous periods, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. Therefore, the financial statements of the company have not been consolidated as at 31 December 2010, but its equity until the liquidation decision date has been included in the accompanying consolidated financial statements.

(*) VB Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions. The Bank or any of its subsidiaries does not have any shareholding interest in this company.

Güneş Sigorta AŞ, was established under the leadership of the Bank and Soil Products Office in 1957. The Company provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection, and loan insurance. Its head office is in Istanbul.

Vakıf Emeklilik AŞ, was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the Company has taken conversion permission from Treasury and started to operate both in corporate and retail individual pension business. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik AŞ, was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

29. Subsidiaries and associates *(continued)*

Taksim Otelcilik AŞ, was established under the Turkish Commercial Code in 1966. The main activity of the Company is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

As per 17 June 2010 dated resolution of the Bank's Board of Directors, it is decided to sell 51% shares of the Bank in Taksim Otelcilik to domestic or foreign investors and to execute necessary procedures including assignment of a consultant. The Board of Directors of the Bank decided to terminate the block sales of Taksim Otelcilik AŞ to be realized in the forecoming periods.

Vakıf Finans Factoring Hizmetleri AŞ, was established in 1998 to perform factoring transactions and any kind of financing transactions. Factoring, the main operation of the Company, is a financing method that allows the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ, was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ, was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi AŞ, operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıf International AG, was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ, was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The Company's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in Ankara.

Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ, was established in 1991 in Istanbul. The main activity of the Company is to invest a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Kıbrıs Vakıflar Bankası Ltd. Şti., was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

30. Subsequent events

- The Bank's bill with the ISIN code TRQVKFB71212 with TL 1,000,000,000 nominal value and 178 days maturity public offered on 25-26-27 January 2012 has matured on 27 July 2012.

- On 27 July 2012, the Bank has issued two discounted bills; first with the ISIN code TRQVKFB11317, nominal value of TL 724,565, and 175 days maturity; second with the ISIN code TRQVKFB61312, nominal value of TL 98,070, and 318 days maturity.

- As risk weight of the Eurobonds issued by Turkish Treasury is increased from 0% to 100% per BASEL II, the Bank reclassified all Eurobonds from held-to-maturity investment securities portfolio to available-for-sale investment securities portfolio on 31 July 2012. Total face values of these securities are EUR 2 and USD 766,011 and costs are EUR 2 and USD 973,324.

- The Bank has applied for the register by the Capital Market Board of Turkey and the authorization from the BRSA to issue either Eurobond or bill having the provisions of subordinated debt with at least 2-year term, at a maximum amount of US Dollar 2 billion equivalent of US Dollar, Euro, Swiss Franc and/ or other high liquid currencies in international bond and money markets. The registration of the Bank has been approved by CMBT on 13 September 2012.

- Subsequent to the completion of parallel implementation of BASEL II calculations by BRSA as at 30 June 2012, "consistent" application of BASEL II is initiated as at 1 July 2012. Regulations about BASEL II applications are published in the Official Gazette numbered 28337 dated 28 June 2012."

- On 18 September 2012, the Bank obtained a syndication loan at the amount of US Dollar 151 million with interest rate of Libor + 1.35% and Euro 444.5 million with interest rate of Euribor + 1.35% at 1 year maturity with the participation of 24 banks under the coordination of ING Bank NV.

- The Bank has issued two bills; first with the ISIN code TRQVKFBA1217 nominal value of TL 204,276 and 91 days maturity, second with the ISIN code TRQVKFB31315, nominal value of TL 181,606 and 175 days maturity. The bonds shall be traded on Istanbul Stock Exchange starting from 24 September 2012.