

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
and Its Subsidiaries**

Consolidated Interim Financial Statements
As at 30 June 2011
With Independent Auditors' Review Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ
31 October 2011

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 74 pages.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

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Independent Auditors' Report on Review of Consolidated Interim Financial Information

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 2011 and related statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes ("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 consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements does not present fairly, in all material respects, the financial position of the Group as at 30 June 2011, 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
31 October 2011

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Financial Position
At 30 June 2011
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	10,519,547	7,449,409
Financial assets at fair value through profit or loss	8	194,963	218,109
Loans and advances to banks	10	510,087	222,289
Loans and advances to customers	11,12	54,056,196	45,242,582
Investment securities	13	18,666,177	18,488,755
Investment in equity participations accounted for using the equity method	14	11,910	12,288
Property and equipment	15	809,153	830,298
Intangible assets	15	70,638	57,593
Deferred tax assets	21	143,749	109,391
Other assets	16	4,995,275	4,226,281
Total assets		89,977,695	76,856,995
LIABILITIES AND EQUITY			
Deposits from banks	17	3,568,235	1,990,343
Deposits from customers	18	50,335,353	45,975,514
Obligations under repurchase agreements	9	12,708,020	8,213,632
Funds borrowed	19	8,366,859	6,748,206
Other liabilities and provisions	20	5,005,299	4,579,227
Current tax liabilities	21	98,844	115,062
Deferred tax liabilities	21	3,618	3,936
Total liabilities		80,086,228	67,625,920
Share capital	22	3,300,146	3,300,146
Share premium		724,320	724,320
Fair value reserves of available-for-sale financial assets	22	265,675	408,813
Translation reserve		66,665	47,618
Legal reserves	22	626,702	507,887
Retained earnings		4,568,947	3,950,127
Total equity attributable to equity holders of the Bank		9,552,455	8,938,911
Non-controlling interest	22	339,012	292,164
Total equity		9,891,467	9,231,075
Total liabilities and equity		89,977,695	76,856,995
Commitments and contingencies	27	25,054,140	21,866,711

The notes on pages 8 to 74 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Comprehensive Income
For the Six-Month Period Ended 30 June 2011
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2011	30 June 2010
Interest income			
Interest on loans and receivables		2,254,228	2,023,991
Interest on securities		659,176	843,378
Interest on deposits at banks		32,564	71,781
Interest on money market placements		3,560	51,026
Other interest income		37,610	57,050
Total interest income		2,987,138	3,047,226
Interest expense			
Interest on deposits		(1,279,427)	(1,323,114)
Interest on money market deposits		(221,348)	(202,965)
Interest on funds borrowed		(75,018)	(46,662)
Other interest expense		(27,196)	(38,015)
Total interest expense		(1,602,989)	(1,610,756)
Net interest income		1,384,149	1,436,470
Fee and commission income		355,432	290,820
Fee and commission expense		(85,333)	(95,874)
Net fee and commission income		270,099	194,946
Other operating income			
Net trading income	8	51,802	139,726
Net foreign exchange gains		(1,566)	(4,560)
Other income	24	447,615	373,605
Total other operating income		497,851	508,771
Other operating expense			
Salaries and employee benefits	25	(523,428)	(425,203)
Provision for possible loan losses, net of recoveries		104,329	(312,329)
Depreciation and amortisation	15	(62,180)	(59,856)
Taxes other than on income		(34,658)	(32,883)
Other expenses	26	(668,968)	(630,334)
Total other operating expenses		(1,184,905)	(1,460,605)
Profit before income tax		967,194	679,582
Income tax expense	21	(156,095)	(144,411)
Profit for the period		811,099	535,171

The notes on pages 8 to 74 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 2011
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2011	30 June 2010
Other comprehensive income, net of income tax			
Foreign currency translation differences for foreign operations		21,164	(10,888)
Revaluation of property, plant and equipment		-	(24,232)
Change in fair value of available for sale financial assets		(67,474)	(27,844)
Change in fair value of available for sale financial assets transferred to profit or loss	22	(101,182)	(106,045)
Income tax on other comprehensive income	22	33,75	35,133
Other comprehensive income for the period, net of income		(113,739)	(133,876)
Total comprehensive income for the period		697,36	401,295
Profit attributable to:			
Equity holders of the Bank		771,94	558,504
Non-controlling interest	22	39,15	(23,333)
Profit for the period		811,099	535,171
Total comprehensive income attributable to:			
Equity holders of the Bank		647,85	422,475
Non-controlling interest		49,50	(21,180)
Total comprehensive income for the period		697,360	401,295
Earnings per share on profit for the period (full TL)		0.3244	0.2141
Earnings per share on total comprehensive income for the period (full TL)		0.2789	0.1605

The notes on pages 8 to 74 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 2011
(Currency – Thousands of Turkish Lira (TL))

	Attributable to equity holders of the Bank							Non-controlling interest	Total equity	
	Notes	Share capital	Share premium	Fair value reserves	Revaluation surplus	Translation reserve	Legal reserves			Retained earnings
Balances at 1 January 2010		3,300,146	724,320	388,238	14,282	46,759	384,414	2,862,909	303,34	8,024,41
<i>Total comprehensive income for the period</i>										
Profit for the period		-	-	-	-	-	-	558,504	(23,33)	535,17
Other comprehensive income		-	-	-	-	-	-	-	-	-
Net change in restricted funds		-	-	-	(14,282)	-	-	-	(9,95)	(24,23)
Foreign currency translation differences		-	-	-	-	(9,758)	-	-	(1,13)	(10,88)
Net changes in fair value of available for sale financial assets, net of tax	22	-	-	(12,802)	-	-	-	-	2,82	(9,97)
Net gains on available for sale financial assets transferred to profit or loss, net of tax	22	-	-	(99,187)	-	-	-	-	10,41	(88,77)
Total other comprehensive income		-	-	(111,989)	(14,282)	(9,758)	-	-	2,15	(133,87)
Total comprehensive income for the period		-	-	(111,989)	(14,282)	(9,758)	-	558,504	(21,18)	401,29
<i>Transactions with owners, recorded directly in equity</i>										
Transfer to reserves		-	-	-	-	-	123,473	(123,473)	-	-
Dividends paid		-	-	-	-	-	-	(120,765)	(329)	(121,09)
Other		-	-	-	-	-	-	-	4,62	4,620
Total contributions by and distributions to owners		-	-	-	-	-	123,473	(244,238)	4,29	(116,474)
Total transactions with owners		-	-	-	-	-	123,473	(244,238)	4,29	(116,474)
Balances at 30 June 2010		3,300,146	724,320	276,249	-	37,001	507,887	3,177,175	286,456	8,309,234

The notes on pages 8 to 74 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 2011
(Currency – Thousands of Turkish Lira (TL))

	Attributable to equity holders of the Bank							Non-controlling interest	Total equity	
	Notes	Share capital	Share premium	Fair value reserves	Revaluation surplus	Translation reserve	Legal reserves			Retained earnings
Balances at 1 January 2011		3,300,146	724,320	408,813	-	47,618	507,887	3,950,127	292,166	9,231,007
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	771,949	39,156	811,099
Other comprehensive income										
Net change in restricted funds		-	-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	19,047	-	-	2,111	21,164
Net changes in fair value of available for sale financial assets, net of tax	22	-	-	(55,853)	-	-	-	-	8,231	(47,618)
Net gains on available for sale financial assets transferred to profit or loss, net of tax	22	-	-	(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	49,508	697,360
Transactions with owners, recorded directly in equity										
Share capital increase		-	-	-	-	-	-	-	(2,506)	(2,506)
Transfer to reserves		-	-	-	-	-	118,815	(118,815)	-	-
Dividends paid		-	-	-	-	-	-	(34,314)	(65)	(34,379)
Other		-	-	-	-	-	-	-	(81)	(81)
Total contributions by and distributions to owners		-	-	-	-	-	118,815	(153,129)	(2,652)	(36,968)
Total transactions with owners		-	-	-	-	-	118,815	(153,129)	(2,652)	(36,968)
Balances at 30 June 2011		3,300,146	724,320	265,675	-	66,665	626,702	4,568,947	339,011	9,891,461

The notes on pages 8 to 74 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 2011
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2011	30 June 2010
Cash flows from operating activities:			
Profit for the period		811,099	535,171
<i>Adjustments for:</i>			
Income tax expense	21	156,095	144,411
Provision for possible loan losses, net of recoveries		(104,329)	312,329
Depreciation and amortisation	15	62,180	59,856
Provision for short term employee benefits	25	52,151	36,800
Long term insurance contracts	26	24,073	14,563
Provision for retirement pay liability and unused vacations	25	13,495	9,313
Other provision expenses	26	8,588	19,889
Unearned premium reserve	24	8,193	17,538
Change in provision for outstanding claims	26	(7,531)	15,386
Net interest income		(1,384,149)	(1,436,470)
Income/loss from associates accounted for using the equity method	24	378	(907)
Currency translation differences		21,164	(10,888)
Other non-cash adjustments		174,863	(39,632)
<i>Changes in operating assets and liabilities:</i>			
Loans and advances to banks		(269,733)	(47,659)
Reserve deposits		(427,266)	(193,327)
Financial assets at fair value through profit or loss		3,437	(114,173)
Loans and advances to customers		(8,642,565)	(5,358,571)
Other assets		(311,194)	(120,733)
Deposits from banks		1,567,615	823,977
Deposits from customers		4,312,194	3,788,458
Obligation under repurchase agreements		4,498,985	74,123
Other liabilities and provisions		341,610	279,317
Interest received		3,004,982	3,106,480
Interest paid		(1,537,917)	(1,653,546)
Income taxes paid		(169,880)	(170,507)
Cash provided by operating activities		2,206,538	91,198
Cash flows from investing activities:			
Dividends received	24	7,767	5,947
Acquisition of property and equipment	15	(59,989)	(29,225)
Proceeds from the sale of property and equipment		67,579	42,275
Acquisition of intangible assets	15	(17,786)	(8,470)
Acquisition of investment securities		3,285,798	(7,810,125)
Proceeds from sale of investment securities		(3,098,321)	6,903,609
Cash (used in)/provided by investing activities		185,048	(895,989)
Cash flows from financing activities:			
Repayments of funds borrowed		(2,612,363)	(690,341)
Proceeds from funds borrowed		3,356,089	1,884,164
Dividends paid		(34,379)	(121,094)
Cash (used in)/provided by financing activities		709,347	1,072,729
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(2,456)	(3,697)
Net increase in cash and cash equivalents		3,098,477	264,241
Cash and cash equivalents at the beginning of the period	7	7,143,478	8,774,294
Cash and cash equivalents at the end of the period	7	10,241,955	9,038,535

The notes on pages 8 to 74 are an integral part of these consolidated interim financial statements.

Notes to the consolidated interim financial statements:

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Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements As at and For the Six-Month Period Ended 30 June 2011

(Currency – Thousands of Turkish Lira (TL))

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 668 domestic branches and 3 foreign branches in New York, Bahrain and Erbil (31 December 2010: 634 domestic, 2 foreign, in total 636 branches). Additionally, the Bank owns a bank located in Austria. As at 30 June 2011, the Bank has 12,446 (31 December 2010: 11,077) employees. 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 each share having a nominal value of TL 1 on 18 November 2005.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (continued)

(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank (continued)

(b) Ownership (continued)

As at 30 June 2011 and 31 December 2010, 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 2011 and, the Bank's shareholders' structure was as disclosed below:

Shareholders	Number of the Shares	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)	1.563.813	1,564	0.06
Publicly traded (Group D)	629.989.194	629,989	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 International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group adopted all IFRSs, which were mandatory as at 30 June 2011.

The accompanying consolidated interim financial statements were authorized by the Bank management on 31 October 2011.

(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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

2. Basis of preparation (*continued*)

(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.

(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 20 – *Other liabilities and provisions*
- Note 21 – *Income taxes*

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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 associate World Vakıf UBB Ltd. and foreign subsidiary 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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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 associate in the Turkish Republic of Northern Cyprus has been determined as 2.0% and this associate is exempted from stamp duty tax.

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.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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.

Because withholding tax rate on the investment incentives acquired due to certificates obtained prior to 24 April 2003 is expected to be applied as 19.8%, the benefit to the Group of using the investment incentive is computed as 0.2% which is the difference between the existing tax rate and the withholding tax rate. Accordingly, as at 30 June 2011, TL 247 (31 December 2010: TL 242) deferred tax asset is calculated over TL 123,661 (31 December 2010: TL 120,834) which is deductible from future taxable income.

The total investment incentive qualifying after 24 April 2003 amounted to TL 80,738 which is indexed by the growth rate of the producer price index and calculated as TL 126,381 (31 December 2010: TL 118,995) as at 30 June 2011. Since the Group will be able to deduct this amount from its future taxable income, deferred tax assets amounted TL 25,222 (31 December 2010: TL 23,799) is recognised based on investment incentives qualifying after 24 April 2003.

The total investment incentive qualifying in between 1 January - 8 April 2006 amounted to TL 4,923 which is indexed by the growth rate of the producer price index and calculated as TL 6,906 as at 30 June 2011. Since the Group will be able to deduct this amount from its future taxable income, deferred tax assets amounted TL 1,382 is recognised.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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).

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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.

Investments: Investments held for the purpose of short-term profit-taking are classified as trading instruments. Debt investments that the Bank and its subsidiaries have the intent and ability to hold to maturity are classified as held-to-maturity 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.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

3. Significant accounting policies (*continued*)

(i) Financial instruments (*continued*)

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.

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.

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”.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (continued)

(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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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 a 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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*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. The actual date of the transfer has not been specified yet.

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.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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 2011 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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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

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

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

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

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated 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 recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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 recognised 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 year by the weighted average number of shares outstanding during the year 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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(Currency – Thousands of Turkish Lira (TL))

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 2011 have not been applied in preparing these financial statements and are as follows:

- **IFRS 1– *First Time Adoption of International Financial Reporting Standards*:** The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. Amendment will be effective annual periods beginning on or after 1 July 2011.
- **IFRS 7 – *Financial Instruments: Disclosures*:** The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. Amendment will be effective annual periods beginning on or after 1 July 2011.
- **IFRS 9 – *Financial Instruments*** which was published by International Accounting Standards Board in October 2009 as a part of a wider project that aims to bring new regulations to replace IAS 39 – *Financial Instruments: Recognition and Measurement*.

The objective of *IFRS 9*, being the first phase of the project, is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of amounts, timing and uncertainty of the entity's future cash flows. With *IFRS 9* an entity shall classify financial assets as subsequently measured at either amortized cost or fair value on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristic of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

An entity shall apply IFRS 9 for annually periods beginning on or after 1 January 2013. An earlier application is permitted. If an entity adopts this IFRS in its financial statements for a period beginning before 1 January 2013, then prior periods are not needed to be restated.

- **IFRS 10 – *Consolidated Financial Statements*:** IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: it is exposed or has rights to variable returns from its involvement with that investee; it has the ability to affect those returns through its power over that investee; and there is a link between power and returns. Control is reassessed as facts and circumstances change. IFRS 10 supersedes IAS 27 and SIC-12 *Consolidation—Special Purpose Entities*. Amendment will be effective annual periods beginning on or after 1 January 2013.
- **IFRS 11 – *Joint Arrangements*:** IFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It distinguishes joint arrangements between joint operations and joint ventures; and always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. IFRS 11 supersedes IAS 31 and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. Amendment will be effective annual periods beginning on or after 1 January 2013.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies (*continued*)

(y) New standards and interpretations not yet adopted (*continued*)

- **IFRS 12 – Disclosure of Interests in Other Entities:** IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. Amendment will be effective annual periods beginning on or after 1 January 2013.
- **IFRS 13 – Fair value measurement:** IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. Amendment will be effective annual periods beginning on or after 1 January 2013.
- **IAS 1 – Presentation of Financial Statements:** The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; do not change the existing option to present profit or loss and other comprehensive income in two statements; and change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. Amendment will be effective annual periods beginning on or after 1 July 2012.
- **IAS 12 – Income Taxes:** The amendments introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. Amendment will be effective annual periods beginning on or after 1 January 2012.
- **IAS 19 – Employee Benefits:** The amended IAS 19 includes the following requirements: actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. Amendment will be effective annual periods beginning on or after 1 January 2013.
- **IAS 27 – Separate Financial Statements (2011):** IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. Amendment will be effective annual periods beginning on or after 1 January 2013.
- **IAS 28 – Investments in Associates and Joint Ventures (2011):** IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments: IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale and, on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. Amendment will be effective annual periods beginning on or after 1 January 2013.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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.

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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 2011	31 December 2010	30 June 2011	31 December 2010
Individually impaired	2,264,472	2,427,742	51,573	44,143
Allowance for impairment	(2,208,005)	(2,330,316)	(42,290)	(37,566)
Carrying amount	56,467	97,426	9,283	6,577
Past due but not impaired	290,261	291,582	226,533	-
Carrying amount	290,261	291,582	226,533	-
Neither past due nor impaired	53,104,723	44,248,685	39,344,236	33,401,218
Loans with renegotiated terms	604,745	604,889	-	-
Carrying amount	53,709,468	44,853,574	39,344,236	33,401,218
Total carrying amount	54,056,196	45,242,582	39,580,052	33,407,795

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

As at 30 June 2011 and 31 December 2010, the Group has no allowance for loans and advances to banks and investment securities.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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 2011	31 December 2010
Consumer loans	17,488,077	13,511,159
<i>Mortgage loans</i>	8,028,145	5,938,552
<i>General purpose loans</i>	4,572,425	3,268,153
<i>Overdraft checking accounts</i>	633,087	588,656
<i>Auto loans</i>	268,867	205,619
<i>Other consumer loans</i>	3,985,553	3,510,179
Manufacturing	12,264,495	10,934,176
Wholesale and retail trade	5,876,748	5,244,282
Transportation and telecommunication	3,569,914	2,261,472
Construction	2,964,886	2,378,879
Financial institutions	2,238,155	2,675,655
Credit cards	1,675,304	1,436,783
Hotel, food and beverage services	1,089,321	1,008,777
Agriculture and stockbreeding	881,983	391,284
Health and social services	253,454	314,452
Others	5,697,392	4,988,237
Total performing loans and advances to customers	53,999,729	45,145,156

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.

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.

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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 2011	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Grade 3 : Individually Impaired	67,785	53,696	25,959	9,275
Grade 4 : Individually Impaired	144,541	-	-	-
Grade 5 : Individually Impaired	2,052,146	2,771	25,614	8
Total	2,264,472	56,467	51,573	9,283

31 December 2010	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Grade 3 : Individually Impaired	117,335	93,333	19,262	6,577
Grade 4 : Individually Impaired	224,627	1,447	-	-
Grade 5 : Individually Impaired	2,085,780	2,646	24,881	-
Total	2,427,742	97,426	44,143	6,577

(*) 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 2011 and 31 December 2010.

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

Cash loans	30 June 2011	31 December 2010
Secured loans:	36,756,449	29,202,427
<i>Secured by mortgages</i>	<i>16,420,411</i>	<i>12,514,232</i>
<i>Guarantees issued by financial institutions</i>	<i>285,664</i>	<i>326,086</i>
<i>Secured by government institutions or government securities</i>	<i>179,559</i>	<i>100,028</i>
<i>Secured by cash collateral</i>	<i>81,832</i>	<i>79,628</i>
<i>Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)</i>	<i>19,788,983</i>	<i>16,182,453</i>
Unsecured loans	17,243,280	15,942,729
Total performing loans and advances to customers	53,999,729	45,145,156

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Non-cash loans	30 June 2011	31 December 2010
Secured loans:	5,447,725	5,137,199
<i>Secured by mortgages</i>	1,147,522	868,285
<i>Secured by cash collateral</i>	129,071	123,136
<i>Guarantees issued by financial institutions</i>	98,840	374,391
<i>Secured by government institutions or government securities</i>	-	-
<i>Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)</i>	4,072,292	3,771,387
Unsecured loans	6,987,774	6,222,629
Total non-cash loans	12,435,499	11,359,828

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

	30 June 2011	31 December 2010
Mortgages	769,144	827,538
Promissory notes (*)	28,409	28,654
Cash collateral (*)	-	-
Others	1,396,159	1,513,568
Total	2,193,712	2,369,760

(*) 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 2011	31 December 2010
Consumer loans	391,937	403,412
Textile	282,600	310,393
Construction	261,558	378,814
Food	261,336	238,153
Durable consumer goods	88,172	95,544
Service sector	49,115	55,500
Metal and metal products	46,465	43,476
Agriculture and stockbreeding	45,280	46,768
Financial institutions	11,163	11,206
Others	826,846	844,476
Total non-performing loans and advances to customers	2,264,472	2,427,742
Geographical concentration	30 June 2011	31 December 2010
Turkey	2,249,810	2,413,570
Austria	14,662	14,172
Total non-performing loans and advances to customers	2,264,472	2,427,742

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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 2011	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and cash equivalents	9,222,070	1,173,319	120,124	4,034	-	-	10,519,547
Financial assets at fair value through profit or loss	15,510	2,644	3,003	31,897	131,538	10,371	194,963
Loans and advances to banks	-	124,461	248,310	127,470	9,846	-	510,087
Loans and advances to customers	56,467	6,922,520	2,967,241	11,588,714	25,664,919	6,856,335	54,056,196
Investment securities	247,810	32,602	581,773	513,370	9,427,696	7,862,926	18,666,177
Other assets	2,842,163	622,394	148,133	96,745	115,125	1,803	3,826,363
Total assets	12,384,020	8,877,940	4,068,584	12,362,230	35,349,124	14,731,435	87,773,333
Deposits from banks	983,313	1,981,006	540,528	47,837	15,551	-	3,568,235
Deposits from customers	8,494,366	28,039,832	10,687,346	2,807,796	305,030	983	50,335,353
Obligations under repurchase agreements	-	10,380,921	627,406	1,650,560	49,133	-	12,708,020
Funds borrowed	14,051	265,829	1,567,992	3,008,179	1,976,756	1,534,052	8,366,859
Current tax liabilities	-	-	98,844	-	-	-	98,844
Other liabilities and provisions	527,420	1,875,700	263,800	247,244	326,165	7,144	3,247,473
Total liabilities	10,019,150	42,543,288	13,785,916	7,761,616	2,672,635	1,542,179	78,324,784
Net	2,364,870	(33,665,348)	(9,717,332)	4,600,614	32,676,489	13,189,256	9,448,549

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

31 December 2010	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	4,023,093	3,034,382	391,255	679	-	-	7,449,409
Financial assets at fair value through profit or loss	1,110	16,139	24,333	37,635	128,579	10,313	218,109
Loans and advances to banks	-	12,642	30,447	170,215	8,985	-	222,289
Loans and advances to customers	97,426	7,191,855	2,324,582	8,700,281	21,278,244	5,650,194	45,242,582
Investment securities	224,558	920,214	651,652	3,017,583	7,163,897	6,510,851	18,488,755
Other assets	2,578,936	394,384	84,628	83,129	112,103	239	3,253,419
Total assets	6,925,123	11,569,616	3,506,897	12,009,522	28,691,808	12,171,597	74,874,563
Deposits from banks	12,578	1,398,393	157,811	421,561	-	-	1,990,343
Deposits from customers	7,252,799	25,472,933	10,252,498	2,633,710	363,335	239	45,975,514
Obligations under repurchase agreements	-	5,706,906	1,114,151	1,228,184	164,391	-	8,213,632
Funds borrowed	13,429	195,164	1,635,791	1,892,150	1,917,666	1,094,006	6,748,206
Current tax liabilities	-	-	115,062	-	-	-	115,062
Other liabilities and provisions	411,908	1,332,865	478,017	330,715	207,853	3,726	2,765,084
Total liabilities	7,690,714	34,106,261	13,753,330	6,506,320	2,653,245	1,097,971	65,807,841
Net	(765,591)	(22,536,645)	(10,246,433)	5,503,202	26,038,563	11,073,626	9,066,722

Residual contractual maturities of the financial liabilities

30 June 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	3,568,235	3,580,015	983,313	1,985,540	547,774	47,837	15,551	-
Deposits from customers	50,335,353	50,657,435	8,494,366	28,248,983	10,764,609	2,827,680	320,586	1,211
Obligations under repurchase agreements	12,708,020	12,790,243	-	10,387,849	629,573	1,706,932	65,889	-
Funds borrowed	8,366,859	9,004,884	14,051	345,764	1,589,164	2,971,517	2,281,776	1,802,612
Other financial liabilities	3,247,473	3,247,473	527,420	1,875,700	263,800	247,244	326,165	7,144
Total	78,225,940	79,280,050	10,019,150	42,843,836	13,794,920	7,801,210	3,009,967	1,810,967

Non-Cash Loans	12,435,499	12,435,499	6,557,862	501,208	734,631	3,222,502	1,330,147	89,149
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31 December 2010	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	1,990,343	2,008,538	12,578	1,400,222	159,431	436,307	-	-
Deposits from customers	45,975,514	46,288,749	7,252,799	25,654,793	10,327,736	2,662,113	390,976	332
Obligations under repurchase agreements	8,213,632	11,411,592	-	8,343,563	1,662,648	1,235,014	170,367	-
Funds borrowed	6,748,206	7,054,239	13,429	201,843	1,664,412	1,924,647	1,998,393	1,251,515
Other financial liabilities	2,765,084	2,765,084	411,908	1,332,865	478,017	330,715	207,853	3,726
Total	65,692,779	69,528,202	7,690,714	36,933,286	14,292,244	6,588,796	2,767,589	1,255,573

Non-Cash Loans	11,359,828	11,359,828	6,993,322	598,232	820,728	1,699,003	1,168,428	80,115
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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.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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 2011 and year ended 31 December 2010, 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 2011			31 December 2010		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	151,289	160,160	142,418	136,443	151,077	122,119
Common share risk	3,656	3,930	3,382	4,222	6,956	3,201
Currency risk	15,571	15,775	15,366	15,482	24,322	6,847
Option risk	1,212	1,707	716	510	1,259	144
Total value at risk	2,146,588	2,250,413	2,042,763	1,958,216	2,113,213	1,853,063

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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 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	1,548,538	120,124	4,034	-	-	8,846,851	10,519,547
Loans and advances to banks	192,206	204,169	113,307	405	-	-	510,087
Loans and advances to customers	15,633,468	7,355,122	14,172,005	11,532,197	5,306,937	56,467	54,056,196
Investment securities	4,613,708	3,243,219	2,285,826	3,688,212	4,587,402	247,810	18,666,177
Other assets	5,483	6,262	21,867	97,809	296	3,694,646	3,826,363
Total assets	21,993,403	10,928,896	16,597,039	15,318,623	9,894,635	12,845,774	87,578,370
Deposits from banks	2,026,390	555,543	2,544	445	-	983,313	3,568,235
Deposits from customers	28,039,832	10,687,346	2,807,796	305,030	983	8,494,366	50,335,353
Obligations under repurchase agreements	10,423,079	752,498	1,532,443	-	-	-	12,708,020
Funds borrowed	356,942	4,081,948	3,745,813	138,408	29,697	14,051	8,366,859
Other liabilities and provisions	33,150	9,792	59,499	8,601	3,698	3,132,733	3,247,473
Total liabilities	40,879,393	16,087,127	8,148,095	452,484	34,378	12,624,463	78,225,940
Net	(18,885,990)	(5,158,231)	8,448,944	14,866,139	9,860,257	221,311	9,352,430

31 December 2010	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	3,511,022	391,255	679	-	-	3,546,453	7,449,409
Loans and advances to banks	26,192	96,872	98,579	646	-	-	222,289
Loans and advances to customers	14,367,548	9,451,845	8,350,548	9,383,692	3,591,523	97,426	45,242,582
Investment securities	5,019,976	3,732,935	4,021,038	1,675,040	3,815,208	224,558	18,488,755
Other assets	3,804	1,300	8,500	111,894	239	3,127,682	3,253,419
Total assets	22,928,542	13,674,207	12,479,344	11,171,272	7,406,970	6,996,119	74,656,454
Deposits from banks	1,398,393	157,811	421,561	-	-	12,578	1,990,343
Deposits from customers	25,473,110	10,252,498	2,633,533	363,335	239	7,252,799	45,975,514
Obligations under repurchase agreements	5,824,706	1,238,335	1,150,591	-	-	-	8,213,632
Funds borrowed	206,412	4,864,935	1,399,137	250,093	14,200	13,429	6,748,206
Other liabilities and provisions	11,103	5,144	45,879	67,649	3,726	2,631,583	2,765,084
Total liabilities	32,913,724	16,518,723	5,650,701	681,077	18,165	9,910,389	65,692,779
Net	(9,985,182)	(2,844,516)	6,828,643	10,490,195	7,388,805	(2,914,270)	8,963,675

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)*(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 2011 and for the year ended 31 December 2010:

30 June 2011	US Dollar %	EUR %	TL %
Cash and cash equivalents	0.50 - 3.25	0.60 - 2.90	5.60 - 14.25
Loans and advances to banks	2.00 - 5.42	0.65 - 5.36	5.50 - 7.20
Loans and advances to customers	2.00 - 8.75	2.97 - 9.00	6.25 - 17.83
Investment securities	5.65 - 12.00	4.23 - 9.15	6.00 - 11.86
Deposits from banks	0.25 - 3.32	1.10 - 5.75	4.75 - 10.50
Deposits from customers	1.88 - 3.90	2.02 - 3.95	3.41 - 12.90
Obligations under repurchase agreements	0.85 - 2.02	0.55 - 2.10	3.75 - 15.25
Funds borrowed	0.65 - 4.90	0.93 - 2.40	4.30 - 9.98

31 December 2010	US Dollar %	EUR %	TL %
Cash and cash equivalents	0.70 - 3.70	0.38 - 2.50	4.40 - 13.95
Loans and advances to banks	2.02 - 5.50	-	5.87 - 7.28
Loans and advances to customers	2.15 - 9.05	3.82 - 9.29	6.55 - 18.79
Investment securities	5.00 - 11.88	5.00 - 9.50	7.00 - 11.00
Deposits from banks	0.20 - 2.10	0.45 - 5.75	4.58 - 11.27
Deposits from customers	1.70 - 3.63	1.68 - 3.73	3.30 - 12.70
Obligations under repurchase agreements	0.69 - 1.87	0.50 - 1.98	4.37 - 16.22
Funds borrowed	0.45 - 4.53	0.70 - 2.26	4.42 - 10.18

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

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 2011 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 30 June 2011.

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 2011.

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

This analysis is performed on the same basis for 30 June 2010.

	Profit or loss		Total comprehensive income	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	30 June 2011			
Financial assets at fair value through profit or loss	31,567	(34,432)	31,567	(34,432)
Available-for-sale financial assets	28,122	(29,396)	(216,725)	230,525
Floating rate financial assets	149,476	(149,476)	149,476	(149,476)
Floating rate financial liabilities	(44,543)	44,543	(44,543)	44,543
Total, net	164,622	(168,761)	(80,225)	91,160

	Profit or loss		Total comprehensive income	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	30 June 2010			
Financial assets at fair value through profit or loss	20,430	(18,492)	20,430	(18,492)
Available-for-sale financial assets	26,708	(27,352)	(220,577)	238,350
Floating rate financial assets	122,475	(122,475)	122,475	(122,475)
Floating rate financial liabilities	(36,997)	36,997	(36,997)	36,997
Total, net	132,616	(131,322)	(114,669)	134,380

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.

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(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.

30 June 2011	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	1,525,321	746,598	54,788	2,326,707
Financial assets at fair value through profit or loss	42,088	5,380	-	47,468
Loans and advances to banks	91,201	266	4	91,471
Loans and advances to customers	10,005,130	6,976,443	58,170	17,039,743
Investment securities	3,104,866	796,100	-	3,900,966
Other assets	2,358,271	212,303	3,755	2,574,329
Total foreign currency denominated monetary assets	17,126,877	8,737,090	116,717	25,980,684
Deposits from banks	1,406,190	122,197	49	1,528,436
Deposits from customers	7,297,588	4,380,823	46,768	11,725,179
Obligations under repurchase agreements	2,311,710	539,029	-	2,850,739
Funds borrowed	4,107,137	3,812,355	42,721	7,962,213
Other liabilities	350,457	138,855	22,254	511,566
Total foreign currency denominated monetary liabilities	15,473,082	8,993,259	111,792	24,578,133
Net statement of financial position	1,653,795	(256,169)	4,925	1,402,551
Net off balance sheet position	(1,382,464)	(16,956)	468	(1,398,952)
Net long/(short) position	271,331	(273,125)	5,393	3,599

31 December 2010	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	1,393,890	188,823	53,410	1,636,123
Financial assets at fair value through profit or loss	15,581	6,280	-	21,861
Loans and advances to banks	67,479	-	-	67,479
Loans and advances to customers	8,704,055	5,392,245	66,489	14,162,789
Investment securities	3,113,266	808,579	-	3,921,845
Other assets	670,816	879,336	879	1,551,031
Total foreign currency denominated monetary assets	13,965,087	7,275,263	120,778	21,361,128
Deposits from banks	510,094	149,048	15	659,157
Deposits from customers	7,959,110	3,688,441	43,735	11,691,286
Obligations under repurchase agreements	1,851,766	162,822	-	2,014,588
Funds borrowed	3,305,852	3,195,207	44,431	6,545,490
Other liabilities	511,646	145,022	23,805	680,473
Total foreign currency denominated monetary liabilities	14,138,468	7,340,540	111,986	21,590,994
Net statement of financial position	(173,381)	(65,277)	8,792	(229,866)
Net off balance sheet position	126,228	47,978	(3,765)	170,441
Net long/(short) position	(47,153)	(17,299)	5,027	(59,425)

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

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)*(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 2011 and 2010 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	30 June 2011		30 June 2010	
	Profit or loss	Total comprehensive income	Profit or loss	Total comprehensive income
US Dollar	18,736	32,472	15,263	23,457
EUR	(26,835)	(8,112)	10,418	20,600
Other currencies	418	418	841	841
Total, net	(7,681)	24,778	26,522	44,898

10 percent revaluation of the TL against the following currencies as at and for the six-month period ended 30 June 2011 and 2010 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	30 June 2011		30 June 2010	
	Profit or loss	Total comprehensive income	Profit or loss	Total comprehensive income
US Dollar	(14,830)	(28,566)	(10,838)	(19,032)
EUR	26,835	8,112	(10,414)	(20,596)
Other currencies	370	370	(83)	(83)
Total, net	12,375	(20,084)	(21,335)	(39,711)

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 2011 and 2010 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index	30 June 2011	30 June 2010
ISE – 100 (IMKB100)	10%	16,093	8,548

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

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 54,067,010 (31 December 2010: TL 45,217,579), whereas the carrying amount is TL 53,999,729 (31 December 2010: TL 45,145,156) in the accompanying consolidated statement of financial position as at 30 June 2011.

Fair value of held-to-maturity investment securities is TL 4,523,378 (31 December 2010: TL 4,622,936), whereas the carrying amount is TL 4,335,972 (31 December 2010: TL 4,362,245) in the accompanying consolidated statement of financial position as at 30 June 2011.

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).

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(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 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	138,948	1,919	-	140,867
Derivative financial assets held for trading purpose	-	38,586	-	38,586
Investment funds	-	15,421	-	15,421
Equity securities	62	-	27	89
Investment securities				
Debt securities	13,871,933	210,462	-	14,082,395
Equity securities	175,971	-	36,207	212,178
Total financial assets	14,186,914	266,388	36,234	14,489,536
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(90,813)	-	(90,813)
Total financial liabilities	-	(90,813)	-	(90,813)

31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	176,484	15,521	-	192,005
Derivative financial assets held for trading purpose	-	24,994	-	24,994
Investment funds	-	1,031	-	1,031
Equity securities	52	-	27	79
Investment securities				
Debt securities	13,679,072	222,880	-	13,901,952
Equity securities	158,296	-	31,401	189,697
Total financial assets	14,013,904	264,426	31,428	14,309,758
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(103,367)	-	(103,367)
Total financial liabilities	-	(103,367)	-	(103,367)

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 2011	31 December 2010
Balance at the beginning of the period	31,428	28,567
Total gains or losses for the period recognised in profit or loss	-	-
Total gains or losses for the period recognised in other comprehensive income	4,806	2,861
Balance at the end of the period	36,234	31,428

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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 2010, 2009 and 2008. The amount, calculated as TL 608,713 as at 30 June 2011 (31 December 2010: TL 541,309) 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 7,608,913 (31 December 2010: TL 6,766,363) 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 2011 and 31 December 2010 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 year and the previous year.

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(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 2011 and 31 December 2010 was as follows:

	30 June 2011	31 December 2010
Tier 1 capital	8,846,923	7,843,443
Tier 2 capital	624,278	582,602
Deductions from capital	(272,837)	(275,547)
Total regulatory capital	9,198,364	8,150,498
Risk-weighted assets	57,779,484	49,842,490
Operational risk	7,608,913	6,766,363
Value at market risk	2,042,763	1,853,063
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.64	13.94
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.12	13.42

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 contract, 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:

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

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.

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5. Insurance risk management (*continued*)

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 these 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.

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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.

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6. Segment reporting (*continued*)

Information about operating segments

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 period	372,419	275,790	249,525	(168,910)	728,824	29,317	8,502	2,550	35,677	804,870	6,229	811,099

30 June 2011	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	19,080,548	34,328,416	28,534,231	5,035,431	86,978,626	2,210,191	513,382	723,728	520,566	90,946,493	(980,708)	89,965,785
Investments in associates and subsidiaries	-	-	694,530	-	694,530	125,723	2,561	2,322	15,846	840,982	(829,072)	11,910
Total assets	19,080,548	34,328,416	29,228,761	5,035,431	87,673,156	2,335,914	515,943	726,050	536,412	91,787,475	(1,809,780)	89,977,695
Segment liabilities	19,134,976	35,140,347	20,651,862	2,919,314	77,846,499	2,020,986	421,390	648,896	143,419	81,081,190	(994,962)	80,086,228
Equity including non-controlling interest	-	-	-	9,826,657	9,826,657	314,928	94,553	77,154	392,993	10,706,285	(814,818)	9,891,467
Total liabilities and equity	19,134,976	35,140,347	20,651,862	12,745,971	87,673,156	2,335,914	515,943	726,050	536,412	91,787,475	(1,809,780)	89,977,695

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6. Segment reporting (*continued*)

Information about operating segments (*continued*)

30 June 2010	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	263,948	(59,690)	483,144	5,595	692,997	(30,494)	12,969	8,243	5,704	689,419	(9,837)	679,582
Profit before income tax	263,948	(59,690)	483,144	5,595	692,997	(30,494)	12,969	8,243	5,704	689,419	(9,837)	679,582
Income tax expense	(50,853)	11,500	(93,085)	(1,078)	(133,516)	(3,455)	(1,155)	(1,575)	(2,039)	(141,740)	(2,671)	(144,411)
Profit for the year	213,095	(48,190)	390,059	4,517	559,481	(33,949)	11,814	6,668	3,665	547,679	(12,508)	535,171

31 December 2010	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	14,914,095	30,475,023	24,747,490	4,277,130	74,413,738	2,144,289	573,028	816,849	435,344	78,383,248	(1,538,541)	76,844,707
Investments in associates and subsidiaries	-	-	692,888	-	692,888	124,619	2,561	6,160	16,312	842,540	(830,252)	12,288
Total assets	14,914,095	30,475,023	25,440,378	4,277,130	75,106,626	2,268,908	575,589	823,009	451,656	79,225,788	(2,368,793)	76,856,995
Segment liabilities	17,187,779	31,309,326	14,769,455	2,591,953	65,858,513	1,991,452	489,462	748,405	87,997	69,175,829	(1,549,909)	67,625,920
Equity including non-controlling interest	-	-	-	9,248,113	9,248,113	277,456	86,127	74,604	363,659	10,049,959	(818,884)	9,231,075
Total liabilities and equity	17,187,779	31,309,326	14,769,455	11,840,066	75,106,626	2,268,908	575,589	823,009	451,656	79,225,788	(2,368,793)	76,856,995

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7. Cash and cash equivalents

As at 30 June 2011 and 31 December 2010, cash and cash equivalents as presented in the consolidated statement of financial position and cash flows are as follows:

	30 June 2011	31 December 2010
Balances with the Central Bank excluding reserve deposits	7,565,002	2,564,379
Loans and advances to banks with original maturity less than three months	2,225,262	2,119,049
Cash on hand	725,302	659,536
Receivables from repurchase agreements (<i>Note 9</i>)	1	2,101,584
Others	3,980	4,861
Total cash and cash equivalents in the consolidated statement of financial position	10,519,547	7,449,409
Accruals on cash and cash equivalents	(3,603)	(13,877)
Blocked bank deposits	(273,989)	(292,054)
Total cash and cash equivalents in the consolidated statement of cash flows	10,241,955	7,143,478

As at 30 June 2011, loans and advances to banks include blocked accounts of TL 273,989 (31 December 2010: TL 292,054) held against the “Diversified Payment Rights” securitizations and insurance liabilities of the Group in favour of the Turkish Treasury.

As at 30 June 2011, blocked loans and advances to banks includes credit card receivables of insurance subsidiaries blocked by the banks for 28 days amounted to TL 12,781 (31 December 2010: 6,013) which is presented as cash in the consolidated statement of cash flows, since these amounts are convertible to cash if required.

8. Financial assets at fair value through profit or loss

As at 30 June 2011 and 31 December 2010, financial assets at fair value through profit or loss are as follows:

	30 June 2011		31 December 2010	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt instruments held at fair value:</i>				
Government bonds in TL	116,056	125,182	157,618	170,279
Eurobonds issued by the Turkish Government	10,845	12,976	8,794	12,490
Treasury bills in TL	-	-	6,600	6,521
Corporate bonds in TL	2,666	2,709	2,580	2,715
		140,867		192,005
<i>Equity and other non-fixed income instruments:</i>				
Derivative financial instruments held for trading purposes		38,586		24,994
Investment funds		15,421		1,031
Equity shares		89		79
		54,096		26,104
Total financial assets at fair value through profit or loss		194,963		218,109

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

Income from debt instruments held at fair value is 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 changes in fair value of other equity and non-fixed income instruments are reflected in net trading income. As at and for the six-month period ended 30 June 2011, net income from trading of financial assets (including investment securities) amounting to TL 51,802 (30 June 2010: TL 139,726) is included in “trading income, (net)”.

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

	30 June 2011		31 December 2010	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Turkish Treasury for insurance operations	112,000	121,947	121,326	136,694
Deposited at Istanbul Stock Exchange for repurchase transactions	3,223	3,047	2,747	2,533
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	89	100	97
		125,083		139,324

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

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.

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

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

	30 June 2011					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Currency swaps:						
Purchases	698,710	395,536	1,989,416	-	-	3,083,662
Sales	706,418	395,578	1,944,000	-	-	3,045,996
Currency forwards:						
Purchases	70,709	93,765	103,335	-	-	267,809
Sales	70,692	93,741	103,314	-	-	267,747
Cross currency interest rate swaps:						
Purchases	-	-	145,800	611,308	-	757,108
Sales	-	-	129,930	586,670	-	716,600
Interest rate swaps:						
Purchases	120,000	6,230	24,390	121,500	243,000	515,120
Sales	120,000	2,607	14,211	121,500	243,000	501,318
Currency options:						
Purchases	178,971	9,501	-	-	-	188,472
Sales	178,971	9,501	-	-	-	188,472
Security options:						
Purchases	-	-	-	-	2	2
Sales	-	-	-	-	-	-
Swaptions:						
Purchases	162,000	-	-	-	-	162,000
Sales	162,000	-	-	-	-	162,000
Total of purchases	1,230,390	505,032	2,262,941	732,808	243,002	4,974,173
Total of sales	1,238,081	501,427	2,191,455	708,170	243,000	4,882,133
Total of transactions	2,468,471	1,006,459	4,454,396	1,440,978	486,002	9,856,306

	31 December 2010					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Currency swaps:						
Purchases	1,469,388	427,978	465,105	-	-	2,362,471
Sales	1,457,371	423,412	463,500	-	-	2,344,283
Currency forwards:						
Purchases	33,796	17,447	1,199	-	-	52,442
Sales	33,787	17,443	1,199	-	-	52,429
Cross currency interest rate swaps:						
Purchases	-	-	-	729,658	-	729,658
Sales	-	-	-	720,569	-	720,569
Interest rate swaps:						
Purchases	-	731	127,538	30,223	115,875	274,367
Sales	-	731	124,600	20,331	115,875	261,537
Currency options:						
Purchases	86,554	41,291	-	-	-	127,845
Sales	86,555	41,291	-	-	-	127,846
Security options:						
Purchases	-	-	-	-	2	2
Sales	-	-	-	-	-	-
Total of purchases	1,589,738	487,447	593,842	759,881	115,877	3,546,785
Total of sales	1,577,713	482,877	589,299	740,900	115,875	3,506,664
Total of transactions	3,167,451	970,324	1,183,141	1,500,781	231,752	7,053,449

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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 2011		31 December 2010	
	Fair value of underlying assets	Carrying Value of corresponding assets	Fair value of underlying assets	Carrying Value of corresponding assets
Reverse repurchase agreements	1	1	2,180,920	2,101,584
	1	1	2,180,920	2,101,584

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 2011		31 December 2010	
	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	3,047	2,989	2,533	2,491
Available for sale securities	9,545,221	8,848,827	6,614,170	6,092,534
Held to maturity portfolio	4,142,578	3,856,204	2,378,338	2,118,607
	13,690,846	12,708,020	8,995,041	8,213,632

Accrued interest on obligations under repurchase agreements amounted to TL 21,136 (31 December 2010: TL 26,025) 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 2011 and 31 December 2010:

	30 June 2011			31 December 2010		
	TL	FC	Total	TL	FC	Total
Domestic banks	204,500	193,683	398,183	109	117,305	117,414
Foreign banks	-	111,904	111,904	2	104,873	104,875
Total	204,500	305,587	510,087	111	222,178	222,289

As at 30 June 2011, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL 119,440 (31 December 2010: None) held against the insurance liabilities of the Group in favour of the Turkish Treasury.

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11. Loans and advances to customers

As at 30 June 2011 and 31 December 2010, outstanding loans and advances to customers comprise the followings:

	30 June 2011	31 December 2010
Corporate loans	31,494,557	26,764,770
Consumer loans	17,488,077	13,511,159
Loans to financial institutions	2,224,003	2,666,091
Credit cards	1,675,304	1,436,783
Total performing loans	52,881,941	44,378,803
Non-performing loans	2,202,618	2,364,653
Total gross loans	55,084,559	46,743,456
Finance lease receivables, net of unearned income (<i>Note 12</i>)	453,051	357,903
Factoring receivables	726,591	471,539
Allowance for possible loan losses from loans and receivables, finance lease receivables, and factoring receivables (<i>Note 4</i>)	(2,208,005)	(2,330,316)
Loans and advances to customers, net	54,056,196	45,242,582

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 allowance for possible loan losses:

	30 June 2011	31 December 2010
Reserve at the beginning of the year	2,330,316	2,171,275
Adjustment for currency translation	1,534	(26)
Reserve for possible loan losses provided during the year	135,831	809,371
Recoveries	(259,423)	(584,148)
Provision, net of recoveries	2,208,258	2,396,472
Loans written off during the year	(253)	(66,156)
Reserve at the end of the year	2,208,005	2,330,316

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 2011	31 December 2010
Finance lease receivables, net of unearned incomes	397,222	300,980
Add: non-performing lease receivables	55,829	56,923
Total finance lease receivables (<i>Note 11</i>)	453,051	357,903
Less: allowance for possible losses on lease receivables	(55,829)	(56,923)
Finance lease receivables, net	397,222	300,980

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12. Finance lease receivables (*continued*)

	30 June 2011	31 December 2010
Due within one year	27,224	37,066
Due between 1 and 5 years	406,569	301,711
More than five years	8,783	46
Finance lease receivables, gross	442,576	338,823
Unearned income	(45,354)	(37,843)
Finance lease receivables, net	397,222	300,980
Due within one year	22,277	36,058
Due between 1 and 5 years	368,420	264,882
More than five years	6,525	40
Finance lease receivables, net	397,222	300,980

13. Investment securities

As at 30 June 2011 and 31 December 2010, investment securities comprised the following:

	30 June 2011	31 December 2010
Available-for-sale financial assets	14,330,205	14,126,510
Held-to-maturity investment securities	4,335,972	4,362,245
Total investment securities	18,666,177	18,488,755

Available-for-sale financial assets:

	30 June 2011		31 December 2010	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt and other instruments available-for-sale:</i>				
Government bonds in TL	10,981,152	11,429,650	10,235,383	10,850,438
Eurobonds issued by the Turkish Government	2,053,775	2,323,441	2,038,679	2,340,293
Government bonds in foreign currencies	184,711	186,581	190,585	193,852
Bonds issued by banks	132,964	122,409	93,667	96,839
Corporate bonds	19,595	20,155	13,387	12,959
Treasury bills in TL	159	159	421,530	407,571
		14,082,395		13,901,952
<i>Equity and other non-fixed income instruments:</i>				
Equity shares		247,810		224,558
		247,810		224,558
Total available-for-sale financial assets		14,330,205		14,126,510

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

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13. Investment securities (*continued*)

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

	30 June 2011		31 December 2010	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Central Bank of Turkey for repurchase transactions	5,750,243	5,894,945	4,781,164	5,012,629
Deposited at financial institutions for repurchase transactions	3,517,066	3,763,323	1,377,292	1,589,215
Deposited at Central Bank of Turkey for interbank transactions	1,575,300	1,721,287	270,000	257,391
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	270,197	292,435	66,500	69,228
Deposited at Central Bank of Turkey for foreign currency money market transactions	8,040	8,439	1,148,860	1,402,440
Deposited at Turkish Derivative Exchange	37	38	-	-
Others	77,649	77,342	-	-
		11,757,809		8,330,903

Held-to-maturity investment securities:

	30 June 2011			31 December 2010		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
<i>Debt instruments:</i>						
Government bonds in TL	2,719,475	2,922,126	2,906,011	2,831,621	2,911,012	2,962,381
Eurobonds issued by the Turkish Government	1,317,629	1,379,005	1,582,468	1,329,116	1,401,260	1,610,523
Certificate of deposits	32,400	32,408	32,444	37,080	37,092	37,092
Government bonds in foreign currencies	2,346	2,433	2,455	10,352	10,805	10,866
Bonds issued by foreign banks	-	-	-	2,070	2,076	2,074
Total held-to-maturity investment securities	4,335,972	4,523,378		4,362,245	4,622,936	

The Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 1,390,000 to its held-to-maturity investment securities portfolio at their fair values of TL 1,458,149 as at their reclassification dates in the current period. The value decreases of such securities amounting to TL (2,570) are recorded under equity and will be amortized through the statement of income until their maturities.

Additionally, the Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 2,205,476 to its held-to-maturity investment securities portfolio at their fair values of TL 2,166,451 as at their reclassification dates, in 2010. The value decreases of such securities amounting to TL (4,842) are recorded under equity and will be amortized through the statement of income until their maturities.

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(Currency – Thousands of Turkish Lira (TL))

13. Investment securities (*continued*)

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

	30 June 2011		31 December 2010	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at foreign financial institutions for repurchase transactions	3,696,836	3,898,019	2,200,453	2,263,929
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	-	-	354,475	377,567
Deposited at Central Bank of Turkey for interbank transactions	-	-	25,000	25,999
Deposited at Turkish Derivative Exchange	-	-	1,287	1,258
Deposited at Central Bank of Turkey for foreign currency money market transactions	200	209	200	207
Others	32,400	32,408	37,080	37,092
		3,930,636		2,706,052

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

As at 30 June 2011 and 31 December 2010 investments in equity participations accounted for using the equity method are as follows:

	30 June 2011	31 December 2010
<i>Unquoted investments:</i>		
Kıbrıs Vakıflar Bankası Ltd.	8,651	8,912
<i>Quoted investments:</i>		
Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ	3,259	3,376
	11,910	12,288

15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 30 June 2011 and 1 January to 31 December 2010 are as follows:

Property and equipment	1 January 2011	Currency translation difference	Transfer	Additions	Disposals	30 June 2011
<i>Cost:</i>						
Land and buildings	877,726	464	206	2,838	(36,220)	845,014
Motor vehicles	34,217	4	-	17,940	(706)	51,455
Furniture, office equipment and leasehold improvements	658,498	217	-	21,051	(8,662)	671,104
Other tangibles	57,943	-	-	17,954	(326)	75,571
	1,628,384	685	206	59,783	(45,914)	1,643,144
<i>Accumulated depreciation:</i>						
Land and buildings	226,451	309	-	11,111	(12,717)	225,154
Motor vehicles	33,887	4	-	3,093	(627)	36,357
Furniture, office equipment and leasehold improvements	469,254	174	-	21,160	(8,568)	482,020
Other tangibles	68,494	-	-	22,071	(105)	90,460
	798,086	487	-	57,435	(22,017)	833,991
Net book value	830,298					809,153

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

Intangible assets	1 January 2011	Currency translation difference	Additions	Disposals	30 June 2011
<i>Cost:</i>					
Software programmes	84,873	122	17,786	-	102,781
	84,873	122	17,786	-	102,781
<i>Accumulated amortisation:</i>					
Software programmes	27,280	118	4,745	-	32,143
	27,280	118	4,745	-	32,143
Net book value	57,593				70,638

Property and equipment	1 January 2010	Currency translation difference	Additions	Disposals	31 December 2010
<i>Cost:</i>					
Land and buildings	908,561	94	5,903	(36,832)	877,726
Motor vehicles	32,699	1	2,757	(1,240)	34,217
Furniture, office equipment and leasehold improvements	597,767	50	65,147	(4,466)	658,498
Other tangibles	37,314	-	23,035	(2,406)	57,943
	1,576,341	145	96,842	(44,944)	1,628,384
<i>Accumulated depreciation:</i>					
Land and buildings	205,838	69	25,089	(4,545)	226,451
Motor vehicles	30,842	1	4,149	(1,105)	33,887
Furniture, office equipment and leasehold improvements	439,211	37	33,292	(3,286)	469,254
Other tangibles	29,535	-	41,303	(2,344)	68,494
	705,426	107	103,833	(11,280)	798,086
Net book value	870,915				830,298

Intangible assets	1 January 2010	Currency translation difference	Additions	Disposals	31 December 2010
<i>Cost:</i>					
Software programmes	66,473	55	18,328	17	84,873
	66,473	55	18,328	17	84,873
<i>Accumulated amortisation:</i>					
Software programmes	18,756	36	8,477	11	27,280
	18,756	36	8,477	11	27,280
Net book value	47,717				57,593

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

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16. Other assets

	30 June 2011	31 December 2010
Reserve deposit at Central Bank of Turkey	1,850,406	1,423,140
Individual pension system receivables	798,227	701,303
Assets held for resale	538,950	509,779
Receivables from credit card payments	467,810	292,504
Prepaid expenses	377,464	326,560
Receivables from reinsurance activities	325,617	371,213
Receivables from insurance activities	220,016	256,240
Investment properties	159,087	54,163
Receivables from term sales of fixed assets	104,630	87,974
Deferred acquisition costs for insurance contracts, gross	69,174	65,016
Receivables from derivative financial instruments	33,218	37,763
Prepaid taxes other than income tax and funds to be refunded	17,072	11,838
Miscellaneous receivables	12,578	24,131
Prepaid income taxes	1,812	-
Others	19,214	64,657
Total other assets	4,995,275	4,226,281

At 30 June 2011, 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 16% for demand deposits, and the rates decrease to 5% as maturities get longer (31 December 2010: for all maturity ranges 6%). For foreign currency liabilities, all banks shall provide a reserve rate of 12 % in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 11% as maturities get longer (31 December 2010: for all maturity ranges 11%).

As at 30 June 2011, TL 538,950 (31 December 2010: TL 509,779) 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 2011 and year ended 31 December 2010, movement of deferred acquisition cost is as follows:

	30 June 2011	31 December 2010
Deferred acquisition cost at the beginning of the period	65,016	63,863
Expenses deferred during the period	71,241	117,643
Amortisation	(67,083)	(116,490)
Deferred acquisition cost at the end of the period	69,174	65,016

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17. Deposits from banks

As at 30 June 2011 and 31 December 2010, deposits from banks comprise the following:

	30 June 2011	31 December 2010
Payable on demand	983,313	12,578
Time deposits	2,584,922	1,977,765
Total deposits from banks	3,568,235	1,990,343

18. Deposits from customers

As at 30 June 2011 and 31 December 2010, deposits from customers comprise the following:

	30 June 2011		31 December 2010	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	1,786,540	11,816,429	1,460,236	10,953,658
Foreign currency deposits	1,394,419	11,257,990	1,077,084	11,265,022
<i>Residents in Turkey</i>	<i>1,227,979</i>	<i>10,342,682</i>	<i>1,040,000</i>	<i>10,459,850</i>
<i>Residents in abroad</i>	<i>166,440</i>	<i>915,308</i>	<i>37,084</i>	<i>805,172</i>
Commercial deposits	1,075,487	8,262,241	1,093,325	8,724,186
Public sector deposits	2,571,842	6,669,453	2,100,660	4,800,163
Others	1,666,078	3,834,874	1,521,494	2,979,686
Total deposits from customers	8,494,366	41,840,987	7,252,799	38,722,715

19. Funds borrowed

As at 30 June 2011 and 31 December 2010, funds borrowed comprise the followings in accordance with their original maturities:

	30 June 2011		31 December 2010	
	TL	Foreign Currency	TL	Foreign Currency
<i>Short-term funds</i>	<i>337,164</i>	<i>4,215,084</i>	<i>187,803</i>	<i>3,488,644</i>
<i>Short-term portion of long term funds</i>	<i>6,267</i>	<i>242,957</i>	<i>24,688</i>	<i>39,183</i>
Total short-term funds	343,431	4,458,041	212,491	3,527,827
Medium/long term funds	62,722	3,502,665	72,979	2,934,909
Total funds borrowed	406,153	7,960,706	285,470	6,462,736

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 10.45% (31 December 2010: 9.98%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

On 24 March 2010, the Parent Bank obtained a syndication loan at the amount of US Dollar 170 million and Euro 566.5 million with interest rates of US Libor + 1.50% and Euribor + 1.50%, with the participation of 33 banks under the coordination of West LB AG and repaid the loan on 29 March 2011.

This loan has been renewed with a syndication loan at the amount of US Dollar 192.5 million and Euro 573.5 million with interest rates of US Libor+ % 1.10 and Euribor + %1.10 at a maturity of one year, with the participation of 34 banks under the coordination of West LB AG and the agency of ING Bank N.V.

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20. Other liabilities and provisions

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

	30 June 2011	31 December 2010
Accounts against expenditures of credit card holders	1,628,971	1,239,556
Individual pension system payables	809,434	711,189
Reserve for unearned insurance premiums	419,945	409,003
Reserve for outstanding claims for insurance contracts	365,249	423,325
Import letter of credit	223,463	338,296
Investment contract liabilities	168,596	172,063
Reserve for employee severance indemnity	173,301	165,230
Long term insurance contracts	120,591	110,798
Taxes payable other than income tax	116,017	94,056
Clearing account	118,151	65,919
Miscellaneous payables	103,239	66,853
Reserve for short term employee benefits	95,128	126,217
Derivative financial instruments held for trading purposes	90,764	103,367
Provision for non-cash loans	76,551	92,704
Unearned income	71,690	70,096
Payables to suppliers relating to finance lease activities	65,545	36,288
Provision for unused vacations	63,827	59,759
Other provisions	57,440	44,179
Payables due to insurance activities	35,482	66,401
Blocked accounts	30,180	46,514
Deferred commission income for insurance contracts	28,329	30,462
Provision for cheques	17,896	16,251
Payables due to derivative financial instruments	16,847	24,933
Transfer orders	14,211	6,639
Other liabilities	94,452	59,129
Total other liabilities and provisions	5,005,299	4,579,227

Insurance contract liabilities are detailed in the tables below:

	30 June 2011	31 December 2010
Reserve for unearned insurance premiums		
Reserve for unearned insurance premiums, net	251,854	243,661
Reserve for unearned insurance premiums, reinsurer share	168,091	165,342
Reserve for unearned insurance premiums, gross	419,945	409,003

	30 June 2011	31 December 2010
Reserve for unearned insurance premiums (net)		
At the beginning of the period	243,661	240,684
Premiums written during the period (<i>Note 24</i>)	281,335	487,645
Premiums earned during the period (<i>Note 24</i>)	(273,142)	(484,668)
At the end of the period	251,854	243,661

	30 June 2011	31 December 2010
Provision for outstanding claims		
Provision for outstanding claims, net	211,453	218,984
Provision for outstanding claims, reinsurer share	153,796	204,341
Provision for outstanding claims, gross	365,249	423,325

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)*(Currency – Thousands of Turkish Lira (TL))***20. Other liabilities and provisions (*continued*)**

Provision for outstanding claims (net)	30 June 2011	31 December 2010
At the beginning of the period	218,984	156,002
Cash paid for claims settled during the period (<i>Note 26</i>)	(171,048)	(339,245)
Increase during the period (<i>Note 26</i>)	163,517	402,227
At the end of the period	211,453	218,984

Long term insurance contracts	30 June 2011	31 December 2010
At the beginning of the period	282,861	261,026
Entrance during the period	34,308	43,670
Withdrawals during the period	(27,982)	(21,835)
At the end of the period	289,187	282,861
<i>Long term insurance contracts</i>	<i>120,591</i>	<i>110,798</i>
<i>Investment contract liabilities</i>	<i>168,596</i>	<i>172,063</i>

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

Reserve for employee severance indemnity	30 June 2011	31 December 2010
At the beginning of the period	165,230	137,416
Currency translation difference	30	49
Interest cost	3,179	8,745
Service cost	5,714	9,459
Payment during the period	(9,275)	(13,541)
Actuarial difference	8,423	23,102
At the end of the period	173,301	165,230

21. Income taxes

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

	30 June 2011	30 June 2010
<i>Income tax recognised in profit for the year</i>		
Current income tax related to income from operations	(181,423)	(134,951)
Deferred income tax related to income from operations	25,328	(9,460)
	(156,095)	(144,411)
<i>Income tax recognised in other comprehensive income</i>		
Current income tax recognised in other comprehensive income	27,761	27,130
Deferred income tax recognised in other comprehensive income	5,992	8,003
	33,753	35,133
Income tax expense recognised in the consolidated statement of comprehensive income	(122,342)	(109,278)

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21. Income taxes (*continued*)

The movement of current tax liabilities is as follows:

	30 June 2011	31 December 2010
At the beginning of the year	115,062	84,360
Current income tax charge	181,423	325,272
Current income tax recognised under equity	(27,761)	(21,970)
Taxes paid during the year	(169,880)	(272,600)
Current tax liabilities	98,844	115,062

As further detailed in Note 3(h) – *Income taxes*, temporary Article no. 69, added to Income Tax Law by Law no. 5479, and stating that investment incentive calculated in accordance with the legislative provisions effective as at 31 December 2005 could be only deducted from the profits of 2006, 2007 and 2008 has been amended following a decision taken by the Turkish Constitutional Court on 15 October 2009 since the clause restricting the deduction to 2006, 2007 and 2008 ... was in contradiction of Constitutional Law. The Turkish Constitutional Court's decision was published in the 8 January 2010 Official Gazette number 27456. Based on this decision the Group's subsidiary operating in the finance lease business will be able to deduct investment incentives from future taxable profit without any time limitation. Hence, the Group has recognised deferred tax assets amounting to TL 26,851 as at and for the six-month period ended 30 June 2011 (31 December 2010: TL 25,342).

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 2011 and 2010 is as follows:

	30 June 2011	Tax rate (%)	30 June 2010	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	967,194		679,581	
Taxes on income per statutory tax rate	(193,439)	(20.00)	(135,916)	(20.00)
Unrecognised deferred tax assets on temporary differences	17,490	1.81	-	
Income not subject to tax	14,195	1.47	7,750	1.14
Investment incentives	1,509	0.16	1,055	0.16
Unrecognised deferred tax assets on carried forward tax losses	(567)	(0.06)	(5,173)	(0.76)
Disallowable expenses	(1,125)	(0.12)	(1,255)	(0.18)
Others, net	5,842	0.60	(10,872)	(1.61)
Income tax expense	(156,095)	(16.14)	(144,411)	(21.25)

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Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

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21. Income taxes (*continued*)

Deferred tax assets and liabilities at 30 June 2011 and 31 December 2010 are attributable to the items below:

	30 June 2011	31 December 2010
Provision for employee severance indemnity and unused vacations	47,250	43,454
Other provisions	48,364	30,448
Investment incentive	26,851	25,342
Reporting Standards - Tax Code depreciation differences	19,727	16,999
Valuation differences of financial assets and liabilities	19,538	15,501
Tax losses carried forward	-	567
Other temporary differences	1,774	1,582
Deferred tax assets	163,504	133,893
Net-off of the deferred tax assets and liabilities from the same entity	(19,755)	(24,502)
Deferred tax assets, (net)	143,749	109,391
Valuation differences of financial assets and liabilities	18,869	26,790
Leased tangible assets reporting standards and tax code differences	3,228	-
Reporting Standards - Tax Code depreciation differences	63	1,203
Other temporary differences	1,213	445
Deferred tax liabilities	23,373	28,438
Net-off of the deferred tax assets and liabilities from the same entity	(19,755)	(24,502)
Deferred tax liabilities, (net)	3,618	3,936

22. Equity

Share capital

As at 30 June 2011, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2010: 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 2011, share capital presented in equity amounts to TL 3,300,146 (31 December 2010: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 30 June 2011 (31 December 2010: 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.

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As at and For the Six-Month Period Ended 30 June 2011 (continued)

(Currency – Thousands of Turkish Lira (TL))

22. Equity (continued)

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.

Based on the resolution of the 57th Annual General Assembly held on 25 March 2011, the Bank’s profit for the year ended 31 December 2010 amounting to TL 1,157,140 was transferred to legal reserves in the amount of TL 114,382 and to other reserves in the amount of TL 1,008,444; and the remaining profit amounting to TL 34,314 is decided to be distributed as dividends to equity holders of the Bank.

As at 30 June 2011, legal reserves amounts to TL 626,702 (31 December 2010: TL 507,887).

Non-controlling interest

As at 30 June 2011, non-controlling interests amount to TL 339,012 (31 December 2010: TL 292,164) analysed as follows:

	30 June 2011	31 December 2010
Capital and other reserves	407,278	389,715
Legal reserves	19,550	18,764
Retained earnings	(126,966)	(81,904)
Profit for the period	39,150	(34,411)
Total non-controlling interest	339,012	292,164

Fair value reserves of available-for-sale financial assets:

	30 June 2011	30 June 2010
Balance at the beginning of the period	408,813	388,238
Net gains/(losses) from changes in fair values	(75,709)	(30,578)
Related deferred and current income taxes	19,856	17,776
Net losses/(gains) transferred to profit or loss on disposal	(101,182)	(116,455)
Related deferred and current income taxes	13,897	17,268
Balance at the end of the period	265,675	276,249

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

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23. 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 2011	31 December 2010
Cash loans	7,690	8,978
Non-cash loans	339,440	314,445
Deposits taken	1,267,361	930,696

Transactions entered into

	30 June 2011	30 June 2010
Interest income	246	514
Interest expense	(27,068)	(33,340)
Commission income	115	121
Other operating income	892	1,049
Other operating expense	(20,224)	(16,638)

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 2011, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 8,615 (30 June 2010: TL 8,844).

24. Other income

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

	30 June 2011	30 June 2010
Earned premiums (<i>Note 20</i>)	273,142	230,108
Written premiums (<i>Note 20</i>)	281,335	247,646
Change in reserve for unearned premiums (<i>Note 20</i>)	(8,193)	(17,538)
Income from sale of fixed assets and investment properties	64,116	13,120
Excess fee charged to customers for communication expenses	40,223	37,616
Individual pension business income	12,623	9,750
Dividend income from equity shares	7,767	5,947
Rent income	4,895	3,682
Income from associates accounted for using the equity method	-	907
Others	44,849	72,475
Total	447,615	373,605

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

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25. Salaries and employee benefits

As at and for the six-month period ended 30 June 2011 and 2010, salaries and employee benefits comprised the following:

	30 June 2011	30 June 2010
Wages and salaries	(222,162)	(181,218)
Other fringe benefits	(175,987)	(149,306)
Employer's share of social security premiums	(59,633)	(48,566)
Provision for short term employee benefits	(52,151)	(36,800)
Provision for employee termination benefits (<i>Note 20</i>)	(8,041)	(6,600)
Provision for liability for unused vacations	(5,454)	(2,713)
Total	(523,428)	(425,203)

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

	30 June 2011	30 June 2010
The Bank	11,743	10,299
Subsidiaries	1,759	2,204
Total	13,502	12,503

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) 2,623 and TL (full TL) 2,517 as at 30 June 2011 and 31 December 2010, 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 2011 and 31 December 2010 are as follows:

	30 June 2011	31 December 2010
Discount rate	4.66%	4.66%
Expected rate of salary/limit increase	5.10%	5.10%
Turnover rate to estimate the probability of retirement	1.13%	1.13%

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

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26. Other expenses

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

	30 June 2011	30 June 2010
Incurring insurance claims (<i>Note 20</i>)	(163,517)	(185,961)
<i>Insurance claims paid</i>	(171,048)	(170,575)
<i>Change in provision for outstanding claims</i>	7,531	(15,386)
Banking services promotion expenses	(163,492)	(130,087)
Rent expenses and operating lease charges	(60,084)	(49,258)
Communication expenses	(32,000)	(28,459)
Saving Deposit Insurance Fund premiums	(28,650)	(18,900)
Change in long term insurance contracts	(24,073)	(14,563)
Cleaning service expenses	(18,766)	(14,245)
Advertising expenses	(14,679)	(15,369)
Energy expenses	(11,787)	(10,708)
BRSA participation fee	(11,203)	(14,956)
Other provision expenses	(8,588)	(19,889)
Maintenance expenses	(6,880)	(7,371)
Office supplies	(6,683)	(5,983)
Transportation expenses	(6,452)	(4,248)
Computer usage expenses	(6,079)	(6,957)
Consultancy expenses	(4,632)	(3,170)
Hosting expenses	(4,192)	(3,125)
Loss on sale of assets	(2,646)	(708)
Credit card promotion expenses	(1,122)	(4,861)
Individual pension business expenses	(1,118)	(1,320)
Expense from associates accounted for using the equity method	(378)	-
Other various administrative expenses	(91,947)	(90,196)
Total	(668,968)	(630,334)

27. 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 2011	31 December 2010
Letters of guarantee	9,094,641	8,226,927
Letters of credit	3,083,559	2,912,000
Acceptance credits	175,438	196,623
Other guarantees	81,861	24,278
Total non-cash loans	12,435,499	11,359,828
Credit card limit commitments	4,629,875	4,880,798
Loan granting commitments	3,956,224	3,698,348
Asset purchase commitments	1,216,067	904,825
Commitments for cheque payments	800,896	655,194
Commitments for credit card and banking operations promotions	283,581	201,107
Other commitments	1,731,998	166,611
Total	25,054,140	21,866,711

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As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

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27. Commitments and contingencies (*continued*)

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 15,500 (31 December 2010: TL 15,486) 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.

28. Subsidiaries and associates

The consolidated subsidiaries and associates with their shareholding structure as at 30 June 2011 is as follows:

<i>Subsidiaries</i>	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Güneş Sigorta AŞ	36.35	36.35
Vakıf Emeklilik AŞ	53.90	75.30
Vakıf Enerji ve Madencilik AŞ	65.50	84.92
Taksim Otelcilik AŞ	51.00	51.52
Vakıf Finans Factoring Hizmetleri AŞ	78.39	86.97
Vakıf Finansal Kiralama AŞ	58.71	64.40
Vakıf Pazarlama ve Ticaret AŞ	68.55	73.95
Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ	11.75	21.77
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.44
Vakıf Portföy Yönetimi AŞ	99.99	99.99
Vakıfbank International AG	90.00	90.00
World Vakıf UBB Ltd.	82.00	85.24
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	27.63	29.47
VB Diversified Payment Rights Finance Company (*)	-	-

(*) 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.

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28. Subsidiaries and associates (*continued*)

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.

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 30 June 2011, but its equity until the liquidation decision date has been included in the accompanying consolidated financial statements.

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 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 Pazarlama ve Ticaret AŞ, was established in 1993 to enter into finance lease operations (specifically the acquisition of vessels like cargo and ro-ro ships) and related transactions and contracts.

As per the resolution of the Board of Directors of the Bank on 22 August 2006, it was decided to merge Vakıf Deniz Finansal Kiralama AŞ and Vakıf Finansal Kiralama AŞ which are both consolidated in these consolidated financial statements. In accordance with the 4th sub-clause of temporary Article 1 of "Regulation on Establishment and Operations of Leasing, Factoring and Finance Companies", licence of Vakıf Pazarlama ve Ticaret AŞ for operating in finance lease sector has been revoked by Banking Regulation and Supervision Agency on 25 June 2009. Thereupon, the title of Vakıf Deniz Finansal Kiralama AŞ has been changed as Vakıf Pazarlama ve Ticaret AŞ based on the resolution of Annual General Assembly held on 29 September 2009. The firm's head office is in Istanbul.

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 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.

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28. Subsidiaries and associates (*continued*)

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

Vakıf 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 Lefkosa.

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.

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. Significant events

- There were monetary losses amounting to TL 379,000 incurred in the 2001 financial year as a result of the inflation accounting applied in compliance with the Temporary article no. 4 added to the Banks Law no. 4389 through the Law no. 4743. The tax returns of 2002, 2003 and 2004 were submitted with a condition stating that such losses should have been deducted and the Bank may appeal to the tax court for the tax return. The Bank appealed to the tax court for the corporate tax return on 22 February 2007. Ankara 5th Tax court decided in favour of the Bank and TL 125,187 was transferred to the Bank's accounts on 5 September 2007. Related court decision has been approved by 4th Council of Supreme Court in year 2010.

“The Law on the Collection of Some of the Public Receivables by Reconciliation” no. 5736 was passed on 20 February 2008 in Parliament and approved on 26 February 2008 by the President of the Turkish Republic. In accordance with this law's first sub-clause of the third article, the tax authority would not insist on their claims with the banks which consider 65 percent of these losses in the determination of revenues for the year 2001 as previous year losses, and admit to correct taxable income for the subsequent years and declare that they abnegated from all of the courts related to this matter in one month after this law came into effect. As per the 27 March 2008 dated resolution of the Board of Directors, the Bank management has taken no decision for any reconciliations for the point in dispute stated in the first paragraph above.

The related tax administration appealed to a higher court and the appeal was partially accepted by the State Council. Based on the decision of the State Council, the exercise of jurisdiction was renewed by the Ankara 5th Tax Court and the related case was partly revoked and partly declined. Consequently, the Bank has filed an appeal against the decision of the Ankara 5th Tax Court, the decision was certified by the judgement of Ankara 4th State Council and mentioned decision became definite per this judgement. In accordance with the decision of Ankara 5th Tax Court, the Bank paid TL 20,484 accrued by the tax office on 3 December 2009 and the lawsuit and the related legal procedures has been completed.

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29. Significant events (*continued*)

- In order to assess banking opportunities in Republic of Iraq, Erbil Branch of the Bank started its operations on 16 February 2011.
- As per the resolution of 57th Annual General Assembly held on 25 March 2011, the net profit of year 2010 is decided to be distributed as follows and the distribution is completed in the current year.

Profit Distribution Table of Year 2010	
Profit of the year in the stand alone financial statement of the Bank	1,157,140
Legal reserves	114,382
Other reserves	1,008,444
Dividends to equity holders of the Bank	34,314

- 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.
- Small and Medium Industry Development Organization (“KOSGEB”) claimed that the Bank had subscription fee liabilities for the years 2004, 2005 and 2006 based on the clause c of 14th article of the KOSGEB Law No: 3624 which states that the organization’s budget comprise the subscription fees from banks whose equities are held by state institutions and organizations by more than 50%, amounting to %2 of their annual profits subject to corporate tax. First stage of the court decided the Bank to pay TL 50,252 thousands. Following the notice of the court decision the Bank appealed for correction in the scope of 97th and 98th articles of the Law No: 6111 which became effective as at 25 February 2011. With respect to 97th article of Law No: 6111 the subscription fee liability is abrogated in favor of Bank and 98th article states that this practice will be effective starting from 1 January 2004. Therefore, subscription fee liability and compensation decided by the court lost their basis. Main opposition party applied to the Constitutional Court for the cancellation of 98th article of Law No: 6111. Since 97th and 98th articles of Law No: 6111 are currently effective and are in favor of the Bank, the Bank has not booked provision for the related lawsuit in the accompanying financial statements.

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(*Currency – Thousands of Turkish Lira (TL)*)

30. Subsequent events

- Bank's application for the issuance of TL denominated bank bill and/or bond with different maturities up to TL 1,500 million is approved by Capital Markets Board and announced on weekly bulletin number 2011/28. In this context, bank bonds with nominal value of TL 500 million with maturity of 176 days on 8 August 2011 were sold through public offer as the first tranche of bonds. Compound and simple interest rates of the mentioned bond are 8.896% p.a. and 8.7% p.a, respectively and the issuance price is TL 95.974. Investors will receive the yield at maturity based on nominal amounts of the bonds and the interest rate determined and started to be calculated from the issuance date. The interest will be paid with the principal at maturity.
- As per the 8 September 2011 dated resolution of Board of Directors of the Bank, it is decided to merge Vakıf Pazarlama AŞ, a consolidated entity and Vakıf Sistem PazarlamaYazılım Servis Güvenlik Temizlik Ticaret ve Sanayi AŞ that is accounted as available for sale investment securities in the accompanying consolidated financial statements.
- On 7 September 2011, 1-year term US Dollar 145 million and Euro 433 million syndicated loan agreement was signed with the participation of 26 banks from 13 countries. Interest rate of the loan used to finance foreign trade is Libor +%1 and Euribor +%1.
- In accordance with the 2011/40 numbered "Press Release on Reserve Requirements" announced by Central Bank and published on 25 July 2011, reserve requirements ratio for one year and more than one year dated foreign currency deposit accounts and cumulative foreign currency deposit accounts decreased from 11% to 10%, for foreign currency other liabilities with maturity up to one to three years (three-years included) decreased from 11.5% to 10%, and for foreign currency other liabilities with maturity more than three years the ratio decreased from 11% to 9%. Announced rates has been effective beginning from the liability schedule dated 22 July 2011 and the reserve requirements calculated at the new rates has been set starting from 5 August 2011.

For all maturities of foreign currency reserve requirement ratios have been reduced by 0.5% with 2011/48 numbered "Press Release on Reserve Requirements" announced by Central Bank and published on 5 August 2011. Announced amendment has been effective beginning from the liability schedule dated 19 August 2011 and the reserve requirements calculated at new rates has been set starting from 5 August 2011.

- Communiqué on Reserve Requirements has been amended in order to assist the mitigation of the volatility in repurchase agreements' interest rate in accordance with the strategy determined in the Monetary Policy Committee meeting held on 4 August 2011. Accordingly, obligations under repurchase agreements will be included to liabilities subject to the reserve requirement with average amount of all the days between the two liability periods, instead of amount as at every 14 days on Fridays. This regulation has become effective beginning from the liability period dated 5 August 2011.
- In accordance with the 2011/55 numbered "Press Release on Reserve Requirements and Rediscount Loan Practices, and Foreign Currency Sale Tenders" announced by Central Bank and published on 12 September 2011, TL reserve requirements are allowed to be deposited in USD and/or EUR up to 10% of the required amounts. The amendment will be effective for the liability schedule dated 16 September 2011. Therefore, as at 30 September 2011 TL reserve requirements could be deposited in foreign currency up to 10%.

Furthermore, gold deposit accounts are included in liabilities subject to reserve requirements. In addition to this, total amount of the required reserves for precious metals deposit accounts, and 10% of the required reserve amount for foreign currency liabilities excluding precious metals deposit accounts are permitted to be deposited in standard gold at Central Bank.

The arrangement regarding gold deposit accounts will be effective beginning from 14 October 2011 dated liability schedule, and obligors will be able to set the total amount of required reserves for precious metals deposit accounts; and 10% of the required reserves for foreign currency liabilities excluding these accounts, in gold.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2011 (*continued*)

(*Currency – Thousands of Turkish Lira (TL)*)

30. Subsequent events (*continued*)

- In accordance with the 2011/62 numbered "Press Release on Reserve Requirements" announced by Central Bank and published on 5 October 2011, reserve requirement ratio for FC demand deposits, notice deposits and FC private current accounts, deposits/participation accounts up to one month, up to three month, up to six month and up to one year maturities decreased from 11.5% to 11.0%, FC deposits/participation accounts with one year and longer maturity and cumulative FC deposits/participation accounts decreased from 9.5% to 9.0%, other FC liabilities with maturity up to one year (including one year) decreased from 11.5% to 11%, and other FC liabilities up to three year maturity (including three years) decreased from 9.5% to 9%, and other FC liabilities longer than three year maturity decreased from 8.5% to 6%. Announced rates have been effective beginning from the liability schedule dated 30 September 2011 and the reserve requirements calculated at the new rates will be maintained starting from 14 October 2011.
- In accordance with the 2011/65 numbered "Press Release on Reserve Requirements" announced by Central Bank and published on 6 October 2011, reserve requirement ratios for TL deposits/participation accounts up to three month maturity (including three month) decreased from 13% to 12.5%, ratio for other TL liabilities up to one year maturity (including one year) decreased from 13 to 11%, ratio for other TL liabilities up to three year maturity (including three year) decreased from 13% to 8%, other TL liabilities with maturity longer than three years maturity decreased from 13% to 5%. Remaining rates have been maintained. Announced rates has been effective beginning from the liability schedule dated 30 September 2011 and the reserve requirements calculated at the new rates will be maintained starting from 14 October 2011.
- In accordance with the 2011/70 numbered "Press Release on Reserve Requirements" announced by Central Bank and published on 27 October 2011, reserve requirement ratio for FC demand deposits, notice deposits and FC private current accounts, deposits/participation accounts up to one month decreased from %16 to %11, for deposits/participation accounts with maturity up to three months (including three months) decreased from 12% to 11.5% and deposits/participation accounts with maturity up to six months (including six months) decreased by one point from 9% to 8%. Remaining rates has been maintained. Announced rates has been effective beginning from the liability schedule dated 28 October 2011 and the reserve requirements calculated at the new rates will be maintained starting from 11 November 2011.