**TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI**

**INTERIM CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018**

REPORT ON REVIEW OF INTERIM CONSOLIDATED CONDENSED FINANCIAL INFORMATION

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

Introduction

1. We have reviewed the accompanying interim consolidated condensed statement of financial position of Türkiye Vakıflar Bankası T.A.O. and its subsidiaries (collectively referred to as the "Group") as of 30 June 2018 and the related interim consolidated condensed statements of income, comprehensive income, changes in shareholders' equity and cash flows for six-month period then ended. Management is responsible for the preparation and presentation of this interim consolidated condensed financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim consolidated condensed financial information based on our review.

Scope of Review

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

Basis for the Qualified Conclusion

3. The accompanying interim consolidated condensed financial statements as at 30 June 2018 include a free provision amounting to TL 500,000 thousand and the related deferred tax asset of TL 100,000 thousand recognized in 2017 provided by the Bank management considering the possible effect of the circumstances that may arise from negative changes in the economy and market conditions.

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Qualified Conclusion

4. Based on our review, except for the effects of the matter on the interim consolidated condensed financial statements described in the basis for the qualified conclusion paragraph above, nothing has come to our attention that causes us to believe that the accompanying interim consolidated condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Zeynep Uras, SMMM
Partner

Istanbul, 10 January 2019

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

CONTENTS **PAGE**

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

INTERIM CONSOLIDATED CONDENSED
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	30 June 2018	31 December 2017
ASSETS			
Cash and due from banks and balances with Central Banks	9	44,656,783	43,478,412
Derivative Financial Instruments		3,522,948	1,946,251
Financial assets at fair value through profit or loss ("FVPL")		175,903	130,002
Financial assets at fair value through OCI ("FVOCI")		8,682,340	-
Financial assets at amortised cost ("AC")		28,060,422	-
Loans and advances to banks		895,409	626,541
Loans and advances to customers	5	213,962,024	186,135,089
Factoring receivables	5	2,602,810	2,201,607
Investment securities		-	31,456,445
- Available-for-Sale		-	14,690,374
- Held-to-Maturity		-	16,766,071
Investments in associates		272,386	342,530
Property and equipment		1,915,927	1,839,428
Intangible assets		381,615	373,567
Current tax assets		2,075	2,729
Deferred tax assets		523,851	448,230
Other financial assets		5,602,576	2,749,234
Other assets		7,265,453	7,800,332
Total assets		**318,522,522**	**279,530,397**
LIABILITIES AND EQUITY			
Trading liabilities		2,181,261	1,180,542
Deposits from banks		9,820,006	23,310,731
Deposits from customers		164,108,244	148,074,608
Obligations under repurchase agreements		25,813,768	9,157,688
Funds borrowed		41,899,773	31,387,788
Debt securities issued	10	24,528,288	19,870,759
Subordinated liabilities		7,070,095	5,917,137
Other liabilities and provisions		15,860,251	15,939,740
Corporate tax liabilities		244,400	323,837
Deferred tax liabilities		24,080	16,803
Total liabilities		**291,550,166**	**255,179,633**
Equity attributable to owners of the parent			
Share capital		3,300,146	3,300,146
Share premium		721,901	721,901
Revaluation surplus		894,915	598,233
Reserves		1,969,693	1,917,232
Retained earnings		19,258,228	17,007,392
Total equity attributable to owners of the parent		**26,144,883**	**23,544,904**
Non-controlling interests		**827,473**	**805,860**
Total equity		**26,972,356**	**24,350,764**
Total liabilities and equity		**318,522,522**	**279,530,397**
Commitments and contingencies		**123,745,750**	**101,047,001**

The notes on pages 7 to 35 are an integral part of these interim consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	1 January - 30 June 2018	1 January - 30 June 2017
Interest income			
Interest on loans measured at AC		12,091,526	8,373,817
Interest on securities		1,608,603	1,579,885
Measured at FVPL (Trading financial assets)		6,505	8,435
Measured at FVOCI (Available-for-sale financial assets)		326,078	958,795
Measured at AC (Held-to-maturity investments)		1,276,020	612,655
Interest on deposits at banks		132,058	88,153
Interest on money market placements		18,961	22,455
Other interest income		183,489	184,429
Total interest income		**14,034,637**	**10,248,739**
Interest expense			
Interest on deposits		(5,910,587)	(3,947,460)
Interest on money market deposits		(1,197,457)	(633,909)
Interest on funds borrowed		(630,533)	(379,222)
Interest expense on securities issued		(945,107)	(445,715)
Other interest expense		(259,866)	(196,712)
Total interest expense		**(8,943,550)**	**(5,603,018)**
Net interest income		**5,091,087**	**4,645,721**
Fee and commission income		1,278,004	862,017
Fee and commission expense		(394,879)	(304,762)
Net fee and commission income		**883,125**	**557,255**
Other operating income			
Net trading income		297,474	15,578
Net foreign exchange gains		59,459	112,230
Other income	13	1,737,893	849,801
Total other operating income		**2,094,826**	**977,609**
Other administrative and operating expenses			
Salaries and employee benefit expenses	14	(1,178,652)	(904,244)
Provision for loan impairment, net of recoveries		(1,828,978)	(857,239)
Depreciation and amortisation		(102,708)	(97,417)
Taxes other than on income		(149,793)	(80,078)
Other expenses	15	(2,045,685)	(1,642,241)
Total other administrative and operating expenses		**(5,305,816)**	**(3,581,219)**
Share of profit of associates accounted for using the equity method		25,195	26,285
Profit before income tax		**2,788,417**	**2,625,651**
Income tax expense		(577,588)	(504,730)
Profit for the period		**2,210,829**	**2,120,921**

The notes on pages 7 to 35 are an integral part of these interim consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	1 January - 30 June 2018	1 January - 30 June 2017
Other comprehensive income:			
Items that will never be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(1,333)	333
Revaluation of property, plant and equipment		(9,943)	(2,053)
Other accumulated comprehensive income that will not be reclassified in profit or loss		454,704	-
Related tax		(107,401)	344
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		73,110	32,932
Net change in fair value of financial assets at fair value through other comprehensive income (available for sale financial assets)		(248,955)	229,470
Fair value differences of financial assets at fair value through other comprehensive income (available for sale financial assets)		(3,821)	3,467
Other items		(10,025)	(306)
Income tax related to items that will be reclassified subsequently to profit or loss		39,776	(45,116)
Other comprehensive income for the period, net of income tax		**186,112**	**219,071**
Total comprehensive income for the period		**2,396,941**	**2,339,992**
Profit/(loss) attributable to:			
- Owners of the parent	11	2,174,767	2,105,111
- Non-controlling interests		36,062	15,810
Profit for the period		**2,210,829**	**2,120,921**
Total comprehensive income/(loss) attributable to:			
- Owners of the parent		2,343,921	2,319,686
- Non-controlling interests		53,020	20,306
Total comprehensive income for the period		**2,396,941**	**2,339,992**
Basic and diluted Earnings per share on profit for the period (full TL)	11	0.0088	0.0084

The notes on pages 7 to 35 are an integral part of these interim consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Attributable to owners of the parent									
			Reserves							
	Share Capital	Share premium	Fair value reserves	Revaluation Surplus	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2018	**3,300,146**	**721,901**	**(78,147)**	**676,380**	**199,354**	**1,717,878**	**17,007,392**	**23,544,904**	**805,860**	**24,350,764**
First time adoption impact of IFRS, net	-	-	161,636	-	-	-	85,075	**246,711**	-	**246,711**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(714)	**(714)**	(352)	**(1,066)**
Change in revaluation surplus	-	-	-	(13,172)	-	-	(914)	**(14,086)**	6,132	**(7,954)**
Foreign currency translation differences	-	-	-	-	43,422	-	-	**43,422**	15,066	**58,488**
Net change in fair value of financial assets at fair value through other comprehensive income (available for sale financial assets), net of tax	-	-	151,275	-	-	-	-	**151,275**	(4,248)	**147,027**
Fair value differences of financial assets at fair value through other comprehensive income (available for sale financial assets), net of tax	-	-	(3,057)	-	-	-	-	**(3,057)**	-	**(3,057)**
Other items	-	-	-	-	-	-	(7,686)	**(7,686)**	360	**(7,326)**
Total other comprehensive income	**-**	**-**	**148,218**	**(13,172)**	**43,422**	**-**	**(9,314)**	**169,154**	**16,958**	**186,112**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**2,174,767**	**2,174,767**	**36,062**	**2,210,829**
Total comprehensive income for the period	**-**	**-**	**148,218**	**(13,172)**	**43,422**	**-**	**2,165,453**	**2,343,921**	**53,020**	**2,396,941**
Transfer to reserves	-	-	-	-	-	9,039	(9,039)	-	-	-
Dividends paid	-	-	-	-	-	-	(72,949)	**(72,949)**	(9,143)	**(82,092)**
Other items	-	-	-	-	-	-	82,296	**82,296**	(22,264)	**60,032**
Total contributions by and distributions to owners of the parent, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**9,039**	**308**	**9,347**	**(31,407)**	**(22,060)**
Balances at 30 June 2018	**3,300,146**	**721,901**	**231,707**	**663,208**	**242,776**	**1,726,917**	**19,258,228**	**26,144,883**	**827,473**	**26,972,356**

The notes on pages 7 to 35 are an integral part of these interim consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Attributable to owners of the parent									
			Reserves							
	Share Capital	Share premium	Fair value reserves	Revaluation Surplus	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2017	**3,300,146**	**724,352**	**(160,481)**	**676,238**	**210,306**	**1,444,580**	**13,419,948**	**19,615,089**	**707,663**	**20,322,752**
Profit for the period	-	-	-	-	-	-	**2,105,111**	**2,105,111**	**15,810**	**2,120,921**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(29)	**(29)**	295	**266**
Change in revaluation surplus	-	-	-	(1,182)	-	-	-	**(1,182)**	(460)	**(1,642)**
Foreign currency translation differences	-	-	-	-	28,577	-	130	**28,707**	4,225	**32,932**
Net change in fair value of available for sale financial assets, net of tax	-	-	183,918	-	-	-	-	**183,918**	436	**184,354**
Fair value differences of available for sale financial assets transferred to profit or loss, net of tax	-	-	3,467	-	-	-	-	**3,467**	-	**3,467**
Other items	-	-	-	-	-	-	(306)	**(306)**	-	**(306)**
Total other comprehensive income	-	-	**187,385**	**(1,182)**	**28,577**	-	**(205)**	**214,575**	**4,496**	**219,071**
Total comprehensive income for the period	-	-	**187,385**	**(1,182)**	**28,577**	-	**2,104,906**	**2,319,686**	**20,306**	**2,339,992**
Transfer to reserves	-	-	-	-	-	272,838	(272,838)	-	-	-
Dividends paid	-	-	-	-	-	-	(122,350)	**(122,350)**	(2,106)	**(124,456)**
Other items	-	-	-	-	-	-	(13,410)	**(13,410)**	329	**(13,081)**
Total contributions by and distributions to owners of the parent, recognised directly in equity	-	-	-	-	-	**272,838**	**(408,598)**	**(135,760)**	**(1,777)**	**(137,537)**
Balances at 30 June 2017	**3,300,146**	**724,352**	**26,904**	**675,056**	**238,883**	**1,717,418**	**15,116,256**	**21,799,015**	**726,192**	**22,525,207**

The notes on pages 7 to 35 are an integral part of these interim consolidated condensed financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	1 January - 30 June 2018	1 January - 30 June 2017
Cash flows from operating activities:			
Profit for the period		2,210,829	2,120,921
Adjustments for:			
Income tax expense		577,588	504,730
Provision for loan impairment, net of recoveries		1,828,978	857,239
Depreciation and amortization		102,708	97,417
Provision for short term employee benefits		159,201	96,448
Provision for retirement pay liability and unused vacations		35,139	47,410
Change in unearned premium reserve	13	83,115	120,116
Change in provision for outstanding claims	15	44,176	74,308
Other provision expenses		16,743	54,170
Net interest income		(5,091,087)	(4,645,721)
Share of profit of associates accounted for using the equity method		(25,195)	(26,285)
Currency translation differences		43,422	28,577
Other non-cash adjustments		173,668	(1,159,844)
		159,285	**(1,830,514)**
Changes in:			
Loans and advances to banks		(268,868)	(457,782)
Reserve deposits		(2,096,154)	(3,058,894)
Financial assets at fair value through profit or loss		(1,663,909)	(17,342)
Loans and advances to customers		(31,632,613)	(19,569,307)
Other assets		(212,766)	2,899,624
Deposits from banks		(12,288,961)	2,427,991
Deposits from customers		14,822,356	17,771,461
Obligation under repurchase agreements		16,657,059	(1,858,771)
Other liabilities and provisions		(426,903)	327,638
		(17,080,759)	**(1,535,382)**
Interest received		14,973,426	9,934,993
Interest paid		(7,778,505)	(5,582,586)
Taxes paid		(603,667)	(205,964)
Cash used in operating activities (-)		**(10,330,220)**	**780,547**
Cash flows from investing activities:			
Dividends received		19,821	17,322
Acquisition of property and equipment		(171,218)	(254,421)
Proceeds from the sale of property and equipment		41,715	443,593
Acquisition of intangible assets		(63,258)	(66,644)
Proceeds from the sale of intangible assets		3,631	8,348
Acquisition of investment securities		(6,359,419)	(4,599,226)
Proceeds from sale of investment securities		1,387,796	3,903,774
Cash provided by/(used in) investing activities		**(5,140,932)**	**(547,254)**
Cash flows from financing activities:			
Proceeds from issue of debt securities		15,429,517	6,620,263
Repayments of debt securities	10	(5,114,443)	(4,448,237)
Repayments of funds borrowed		10,624,632	9,988,521
Proceeds from funds borrowed		(5,773,742)	(9,174,937)
Dividends paid		(72,949)	(124,456)
Cash provided by financing activities		**15,093,015**	**2,861,154**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(92,230)	(59,808)
Net increase/decrease in cash and cash equivalents (-)		**(470,367)**	**3,034,639**
Cash and cash equivalents at the beginning of the period		42,893,537	27,171,802
Cash and cash equivalents at the end of the period	9	**42,423,170**	**30,206,441**

The notes on pages 7 to 35 are an integral part of these interim consolidated condensed financial statements.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (the "Bank" or the "Parent") 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 953 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2017: 924 domestic, 3 foreign, in total 927 branches). As at 30 June 2018, the Bank has 16,491 employees (31 December 2017: 16,097). Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Saray Mahallesi, Dr. Adnan Büyükdeniz Caddesi No:7/A-B, 34768 Ümraniye/İstanbul.

The shareholder holding control over the Parent Bank is the Registered foundations represented by the General Directorate of the Foundations having 58.45 of the Parent Bank's outstanding shares. Another organization holding qualified share in the Parent Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10 of outstanding shares of the Parent Bank. The shares of the Bank are quoted to Borsa İstanbul AŞ (BIST) and traded publicly.

As at 30 June 2018, the Bank's nominal paid-in capital amounted to TL 2,500,000 divided into 250,000,000,000 shares with a nominal value of 1 Kurus each (TL 1 equals Kurus 100). As at 30 June 2018, the Bank's shareholders' structure is as follows:

Shareholders	Number of the shares (100 units)	Nominal amount	Share (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,673,619	2,674	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,514,354	630,514	25.22
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**3,300,146**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until 1 January 2006.

1. GENERAL INFORMATION (Continued)

These consolidated financial statements were approved for issue on 10 January 2019.

The changes in the ownership structure of the Parent Bank are arranged by the provisional article of Law No.696, paragraph 6, published in the Official Gazette dated December 24, 2017 numbered 6219, while the other provisions of the Law no 6219 are arranged by the 7th and 12th paragraphs of the mentioned provisional article of Law.

It is stated in the 6th paragraph of the 2nd sub-article of the related article that "In the act of the application to the Bank within the seven days after the effective date of the cabinet decree, by the shareholders of the stocks that are managed and represented by the General Directorate of Foundations, with the exception of that are owned by the appendant foundations among the Group A and Group B stocks of the Bank, the stocks are transferred to the Undersecretariat of Treasury, by taking their per share value into consideration, over the calculated average value of the values that are mentioned in the conclusion sections of the valuation projects that are prepared by three different firms. The absolute amount of the stocks are recorded in the share ledger on behalf of the Undersecretariat of Treasury within the seven days after the effective date of the cabinet decree.

It is stated in the 6th paragraph of the 3rd sub-article of the related article that "In the act of the application to the Bank within the hundred and twenty days after the effective date of the cabinet decree, by the shareholders of the stocks that are owned by the Vakıfbank Officer and Retainers Retirement and Health Care Foundation (Fund), among the Group C stocks of the Bank, the dependent minister of the Undersecretariat of Treasury has the authority to transfer the stocks over their per share value, that is stated the for the fund, by the Council of Ministers to the Undersecretariat of Treasury.

It is stated in the 6th paragraph of the 4th sub-article of the related article that "In the act of the application to the Bank within the hundred and twenty days after the effective date of the cabinet decree, by the shareholders of the stocks that are owned by the appendant foundations among the Group B stocks of the Bank, and the stocks that are owned by the other natural and legal persons among the Group C stocks of the Bank, the dependent minister of the Undersecretariat of Treasury has the authority to transfer the stocks over their per share value, that is stated the for the fund, by the Council of Ministers.

It is stated in the 6th paragraph of the 5th sub-article of the related article that "The stocks that are transferred to the Treasury, are represented and managed by the dependent Minister of the Undersecretariat of Treasury".

With the mentioned provisional article, the ownership of the stocks which are represented and managed by the T.C. General Directorate for Foundations will be transferred to the Prime Ministry Undersecretariat of Treasury.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

1. GENERAL INFORMATION (Continued)

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 30 June 2018:

	Proportion directly held by the Bank (%)	Proportion held by the Group (%)
Subsidiaries:		
Güneş Sigorta AŞ (*)	48.02	48.02
Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ (*)	22.89	34.55
Vakıf Emeklilik ve Hayat AŞ	53.90	79.67
Vakıf Enerji ve Madencilik AŞ	65.50	85.52
Taksim Otelcilik AŞ	51.00	51.69
Vakıf Faktoring AŞ	78.39	88.68
Vakıf Finansal Kiralama AŞ	58.71	66.23
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.48
Vakıf Portföy Yönetimi AŞ	100.00	100.00
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ (*)	38.70	40.86
World Vakıf UBB Ltd. in Liquidation (**)	82.00	85.32
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası AŞ	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to the rights - acquired through arrangements between shareholders or articles of association of the related subsidiary - to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

(**) 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 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. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as "World Vakıf UBB Ltd. in Liquidation". Therefore, the financial statements of the subsidiary have not been consolidated as at 30 June 2018 and 31 December 2017.

For the purposes of the interim consolidated condensed financial statements, the Bank and its consolidated subsidiaries described below are referred to as the "Group".

Güneş Sigorta AŞ was established under the leadership of the Bank and Soil Products Office in 1957. The subsidiary 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.

1. GENERAL INFORMATION (Continued)

Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ was established in 1991 in Istanbul. The main activity of the subsidiary 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.

Vakıf Emeklilik ve Hayat AŞ was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory body and started to operate both in pension business. Its head office is in Istanbul.

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

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

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

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

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

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

Vakıfbank 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, Austria.

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 subsidiary'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 Istanbul.

The Bank has also the following associates:

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

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. BASIS OF PREPARATION

These interim consolidated condensed financial statements for the six-month period ended 30 June 2018 have been prepared in accordance with IAS 34, "Interim financial reporting". The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards. The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards which have been disclosed below in note 3 and note 6 respectively. The other standards did not have any impact on the Group's accounting policies.

Taxes on income in the interim periods are accrued using the weighted average effective tax rate that would be applicable to expected total annual profit or loss.

In preparation of the interim consolidated condensed financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the most recent annual consolidated financial statements except for the adoption of new standards and interpretations as of 1 January 2018, where applicable, noted below:

New and Revised International Financial Reporting Standards

a. Standards, amendments and interpretations applicable as at 30 June 2018

- **IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **IFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard improves the financial reporting of revenue and comparability of the top line in financial statements globally.

- **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendments to IFRS 4, 'Insurance contracts'** regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard is not relevant to the Group.

- **Amendment to IAS 40, 'Investment property'** relating to transfers of investment property**;** effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

2. BASIS OF PREPARATION (Continued)

a. Standards, amendments and interpretations applicable as at 30 June 2018 (Continued)

- **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
  - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b. Standards, amendments and interpretations that are issued but not effective as at 30 June 2018

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **Amendment to IAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

2. BASIS OF PREPARATION (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 30 June 2018 (Continued)

- **IFRS 16 'Leases',** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank has started to work on compliance with the IFRS 16 Leases Standard effective from 1 January 2019 and continues its works in order to comply with related standard.

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

  - IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

2. BASIS OF PREPARATION (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 30 June 2018 (Continued)

- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

  - Use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

The new standards, amendments and interpretations which will be effective after 1 January 2018 are not expected to have a material impact on the Group's consolidated financial statements, except IFRS 16. The Group is still assessing the impact of IFRS 16 Leases Standard, which will be effective from 1 January 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at June 30, 2018 are consistent with those followed in the preparation of the consolidated financial statements of the prior year except IFRS 9.

The Group has adopted IFRS 9 as issued by the IASB with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening "retained earnings" of the current period.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aimes to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from shortterm fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Equity securities classified as financial assets at fair value through profit/loss are recognized at fair value.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Financial Assets at Fair Value through Other Comprehensive Income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not designated in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment. During initial recognition an entity can choose in an irrecovable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash fows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

Both "Fair value through other comprehensive income" and "measured at amortized cost" securities portfolio of the Parent Bank include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted using the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of prior two months. The Parent Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year.

Loans

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method". As of January 1, 2018 loans of The Parent Bank are retained under the "Measured at Amortized Cost" accounts due to holding loans in scope of a business model for the collection of contractual cash flows and contractual terms of loans that leads to cash flows representing solely payments of principal and interest at certain date.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Information on Expected Credit Loss

As of 1 January 2018, the Group recognize provisions for impairment in accordance with IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

The expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions.
It is possible to perform the provision calculations in accordance with IFRS 9, although may vary exceptionally, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

Exposure at Default: Represents the amount of risk on the default date of the debtor in case of default.

According to IFRS 9 in calculating the default amount, the estimation of how customer risk rating changes over time is important. Exposure of Default values are calculated different for cash-loans and non-cash loans

Monetary risks are fundamentally divided into two; related and unrelated to amortization plan. EAD is calculated, either by taking into account loan installments being paid in the future over balance change for cash loans with payment plan, or by keeping credit balance constant for cash loans without payment plan. For Non-cash Loans and Limit Commitments EAD is calculated by regarding to credit conversion rate and behavioral maturity periods.

Loss Given Default: The ratio that provides the uncollectable amount of the receivable in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9.

Probability of Default: Represents the probability of default of the debtor in a defined time lag in the future.

In addition to these parameters, macroeconomic forecasts are included in the calculation of expected loss provision by estimating within two sets of scenarios, which are base and negative case scenarios. Future macroeconomic expectations taken into account in accordance with IFRS 9 are in line with the economic forecasts of the Parent Bank's current Budget and ICAAP processes.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Information on Expected Credit Loss (Continued)

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

Significant Increase in the Credit Risk

The Standart requires the assessment of whether there is a significant increase in the credit risk of financial assets by the date of initial recognition based on the information available without excessive effort and cost as of the reporting date. The factors that show a significant increase in credit risk under IFRS 9 are as follows:

- Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days
- The classification of the financial asset under stage 2 in the case of financial receivable reconstruction
- Internal classification system that is established according to the information gathered by the Parent Bank
- Comparison between the default risk of the debtor and the default risk of receivable as of the granting date based on the change in the rating/score info as of reporting date.

The Parent Bank has accounted for the effect of applying the new provisions at the date of January 1, 2018 by recording a reversal in the opening records of previous years' profit and loss accounts. The primary impact is due to changes in the allowance for credit losses in accordance with the new impairment provisions and the tax effects of the corresponding provisions.

Information on Fees and Commissions

Banking services income is recorded as income when it is collected. Other fee and commission income is transferred to profit/loss accounts according to time period principle on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

Fees and commissions other than those that are an integral part of the effective interest rate of financial instruments measured at amortized cost are accounted in accordance with the IFRS 15 "Revenue from Contracts with Customers" standard.

Explanations on Prior Period Accounting Policies not Valid for the Current Period

IFRS 9 Financial Instruments" standard came into effect instead of "TAS 39 Financial Instruments: Recognition and Measurement" as of January 1, 2018. Accounting policies lost their validity with the transition of IFRS 9 are given below:

According to TAS 39 - Financial Instruments: Recognition and Measurement, financial assets are classified in four categories; as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Explanations on Prior Period Accounting Policies not Valid for the Current Period (Continued)

Financial assets at fair value through profit or loss

The financial assets included in this group are, "Trading financial assets" and "Financial assets at fair value through profit or loss classified as financial assets" as it is divided into two separate titles.

Financial assets held for trading are trading financial assets and are either acquired for generating profit from short-term fluctuations in the price or dealer's margin, or are the financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Financial assets at fair value through profit or loss classified as financial assets are financial assets which are not acquired for trading, however during initial recognition with transaction costs and classified as fair value through profit or loss.

Such an asset is not present in Parent Bank's portfolio.

Both assets are measured at their fair values and gain/loss arising is recorded in the statement of income. Interest income earned on financial assets and the difference between their acquisition costs and fair values are recorded as interest income in the statement of income. The gains/losses in case of disposal of such securities before their maturities are recorded under trading income/losses in the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are the financial assets other than loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. Available-for-sale financial assets are initially recorded at cost and subsequently measured at their fair values. However, assets that are not traded in an active market are measured by valuation techniques, including recent market transactions in similar financial instruments, adjusted for factors unique to the instrument being valued; or discounted cash flow techniques for the assets which do not have a fixed maturity. Unrecognized gains or losses derived from the difference between their fair values and the discounted values are recorded in "Valuation differences of the marketable securities" under the shareholders' equity. In case of disposal of such assets, the valuation differences under shareholder's equity are transferred directly to the statement of income.

Held to maturity isvestments

Held to maturity investments are the financial assets with fixed maturities and fixed or determinable payment schedules that are acquired with the intent to hold until maturity, including funding capability, except loans and receivables.

Financial assets classified as held to maturity investment however sold before its' maturity or reclassified, are not allowed to be classified as held to maturity investment for two years with respect to TAS 39 rules. There are no financial assets in the Parent Bank's portfolio contradictory to the standard.

Held-to-maturity investments, subsequent to initial recognition, are measured at amortized cost using effective interest method after deducting impairments, if any.

Loans and Receivables

Loans and receivables are the financial assets raised by providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments, which are not quoted in an active market and not classified as a securities. Loans are initially recognized with their purchase and carried at their amortized costs using the internal rate of return at the subsequent recognition.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

4. USE OF ESTIMATES AND JUDGEMENTS AND SEASONALITY OF OPERATIONS

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

In preparing these interim consolidated condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same, except for the newly introduced model of IFRS 9 ECL calculation mentioned in note 3, as those that applied to the consolidated financial statements for the year ended 31 December 2017.

There is no significant seasonality effect on the operations of the Group.

5. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2018	Stage 1	Stage 2
Commercial	90,980,007	85,102,568	5,877,439
Consumer	46,516,491	45,383,100	1,133,391
Credit cards	7,636,090	7,437,814	198,276
Other	71,727,257	70,249,495	1,477,762
Total performing loans	**216,859,845**	**208,172,977**	**8,686,868**
Non-performing loans (Stage 3)	8,801,563		
Less: Stage 1 provisions	(1,790,649)		
Less: Stage 2 provisions	(535,193)		
Less: Stage 3 provisions	(6,770,732)		
Total (*)	**216,564,834**		

(*) Includes Factoring Receivables.

	31 December 2017
Commercial	80,443,090
Consumer	42,600,626
Credit cards	7,122,855
Other	58,880,285
Total performing loans	**189,046,856**
Non-performing loans	7,943,186
Less: Allowance for individually impaired loans	(6,372,880)
Less: Allowance for collectively impaired loans	(2,280,466)
Total	**188,336,696**

	1 January 2018	30 June 2018
Stage 1 provision	(1,498,660)	(1,790,649)
Stage 2 provision	(465,073)	(535,193)
Stage 3 provision	(6,157,549)	(6,770,732)
Total Provisions	**(8,121,282)**	**(9,096,574)**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

6. FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES

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, judgement 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 amortized cost are not materially different than their recorded values except for those of loans and advances to customers, financial assets at fair value through OCI and financial assets at amortised cost. 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 loans and advances to banks and customers are TL 214,709,648 (31 December 2017: TL 189,138,022) whereas the carrying amount is TL 217,460,243 (31 December 2017: TL 188,963,237) in the interim consolidated condensed statement of financial position as at 30 June 2018.

Fair value of financial assets at amortised cost is TL 26,617,580 (31 December 2017: TL 16,466,094), whereas the carrying amount is TL 28,060,422 (31 December 2017: TL 16,766,071) in the interim consolidated condensed statement of financial position as at 30 June 2018.

The fair value of the funds borrowed, subordinated liabilities, deposits from banks and deposits from customers approximates their carrying amounts since they bear floating rates.

The classification of fair value measurements of financial assets and liabilities at 30 June 2018 is as follows:

30 June 2018	**Level 1**	**Level 2**	**Level 3(*)**	**Total**
Asset carried at fair value				
Financial assets - FVPL				
Debt securities	196	6,200	-	6,396
Derivative financial assets held for trading purposes	-	3,522,948	-	3,522,948
Other financial assets	10,053	96,211	-	106,264
Equity securities	2,510	60,733	-	63,243
Investment securities - FVOCI				
Debt securities	5,901,669	2,050,533	-	7,952,202
Other financial assets	608,840	-	-	608,840
Financial assets at amortised cost				
Debt securities	8,527,522	17,952,790	137,268	26,617,580
Total financial assets measured at fair value	**15,050,790**	**23,689,415**	**137,268**	**38,877,473**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(2,181,261)	-	(2,181,261)
Total financial liabilities measured at fair value	**-**	**(2,181,261)**	**-**	**(2,181,261)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

6. FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES (Continued)

The classification of fair value measurements of financial assets and liabilities measured at 31 December 2017 is as follows:

31 December 2017	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets at fair value through profit/loss				
Debt securities	6,759	116,924	-	123,683
Derivative financial assets held for trading purpose	-	1,946,251	-	1,946,251
Investment funds	5,380	-	-	5,380
Equity securities	939	-	-	939
Investment securities - available-for-sale				
Debt securities	11,554,994	2,972,020	-	14,527,014
Equity securities	-	43,355	120,005	163,360
Security Held to Maturity				
Debt securities	8,586,814	7,765,880	113,400	16,466,094
Total financial assets	**20,154,886**	**12,844,430**	**233,405**	**33,232,721**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(1,180,542)	-	(1,180,542)
Total financial liabilities	**-**	**(1,180,542)**	**-**	**(1,180,542)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

	30 June 2018	31 December 2017
Balance at the beginning of the period - 1 January	233,405	267,961
Total gains or losses for the period recognized in other comprehensive income	(96,137)	(34,556)
Balance at the end of the period - 30 June	**137,268**	**233,405**

7. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9

"IFRS 9 Financial Instruments", which is effective from 1 January 2018 has been applied. The aim of the standard is to determine the financial reporting principles on financial assets and financial liabilities. The Group has applied the classification, measurement and impairment requirements by adjusting the opening balance sheet and opening equity at 1 January 2018, without restatement of the comparative financial statements.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

7. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting. IFRS 9 permits not to apply the standard's principles on hedge accounting and to continue to apply hedge accounting principles of IAS 39. The Bank continues to comply with all principles of IAS 39 for hedge accounting based on the analyzes made so far.

The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

a) Classification and measurement of financial instruments

According to IFRS 9, each financial asset will be classified as either amortized cost, fair value through profit or loss ("FVPL"), or fair value through other comprehensive income ("FVOCI") in accordance with the business model and the contractual cash flow characteristics. The business model is determined by the Bank in terms of the manner in which assets are managed and their performance is reported.

	Before IFRS 9		After IFRS 9	
	Basis of Measurement	Book value	Basis of Measurement	Book value
Financial Assets		31 December 2017		1 January 2018
Cash and due from banks and balances with central banks	Amortised cost	43,478,412	Amortised cost	43,478,412
Loans and advances due from banks	Amortised cost	626,541	Amortised cost	626,541
Securities	Fair value through comprehensive income	14,690,374	Fair value through comprehensive income	7,192,477
	Fair value through profit or loss	130,002	Fair value through profit or loss	173,372
	Amortised cost	16,766,071	Amortised cost	24,422,643
Derivative financial instruments held for trading	Fair value through profit or loss	1,946,251	Fair value through profit or loss	1,946,251
Loans and advances to customers (Net)	Amortised cost	186,135,089	Amortised cost	186,244,984
Factoring receivables (Net)	Amortised cost	2,201,607	Amortised cost	2,184,116

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

7. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

b) Financial statement confirmation of financial assets at IFRS 9 transition:

	Book Value Before IFRS 9	**Reclassifications**	**Remeasurement**	**Book Value After IFRS 9**
Financial Assets	**31 December 2017**			**1 January 2018**
Financial assets at fair value through other comprehensive income				
Balances before reclassification (available for sale)	14,690,374	-	-	-
Disposal: to financial assets at fair value through P/L	-	(43,370)	-	-
Disposal: to financial assets measured at amortized cost	-	(7,454,527)	-	-
Book value in accordance with IFRS 9	-	-	-	7,192,477
Financial assets at fair value through profit and loss				
Book value in accordance with IAS 39	130,002	-	-	-
Addition: from available for sale portfolio	-	43,370	-	-
Book value in accordance with IFRS 9	-	-	-	173,372
Financial assets at amortised cost				
Balances before reclassification (held to maturity)	16,766,071	-	-	-
Addition: from available for sale portfolio	-	7,454,527	202,045	-
Book value in accordance with IFRS 9	-	-	-	24,422,643

In accordance with IFRS 9 classification and measurement requirements, the Bank has performed some reclassifications as above. The reasons of these reclassifications are explained below:

1) Financial assets classified as measured at amortized cost in accordance with IFRS 9 standard:

The Bank reassessed its business model in order to hold the financial assets to collect contractual cash flow or to both collect the contractual cash flows and sell the assets. At the date of initial application of IFRS 9, the Bank assessed the appropriate business model for its debt securities amounting to TL 7,454,527 which were previously classified as available-for-sale and measured at fair value, as to collect the contractual cash flows and measured at amortised cost.

2) Equity securities at fair value through profit or loss in accordance with IFRS 9 standard:

From the date of initial application of IFRS 9, the Bank has classified its equity securities amounting to TL 43,370 as financial assets measured at fair value through profit or loss. These were previously classified as financial assets available-for-sale.

c) Reconciliation of the opening balance of the provisions for impairment at IFRS 9 transition

The following table presents the reconciliation between provisions for impairment of the Bank as of 31 December 2017 and the provision provided for expected credit losses measured in accordance with IFRS 9 expected loss model as of 1 January 2018.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

7. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

	Book Value before IFRS 9	Remeasurement	Book Value after IFRS 9
	31 December 2017		1 January 2018
Loans and advances to customers	**8,485,066**	**(363,784)**	**8,121,282**
Stage 1	1,847,087	(348,427)	1,498,660
Stage 2	265,099	199,974	465,073
Stage 3	6,372,880	(215,331)	6,157,549
Financial Assets	**30,859**	**55,310**	**86,169**
Guarantees and loan commitments	**292,475**	**216,070**	**508,545**
Stage 1 and Stage 2	137,421	340,068	477,489
Stage 3	155,054	(123,998)	31,056

d) Equity impacts of IFRS 9 transition

According to paragraph 15 of Article 7 of IFRS 9 Financial Instruments Standards, it is not compulsory to restate previous period information at initial application of IFRS 9 and if the previous period information is not restated, the differences between the book values of 1 January 2018, the date of initial application, should be reflected in the opening balance of equity. The explanations about the initial application effects of IFRS 9, amounting to TL 246,711 increase, on equity are presented below.

The positive difference amounting to TL 73,924 (net-off tax) between provisions for impairment provided in accordance with IAS 39 and provisions provided for the expected credit losses measured in accordance with the IFRS 9 expected loss model as of 1 January 2018, has been classified under "Retained earnings" in shareholders' equity.

Equity securities followed under available-for-sale financial assets before January 1, 2018, along with its following under financial assets at fair value through profit or loss beginning from IFRS 9's first implementation date, the amount of TL 11,151 impairment provision are classified as prior period's profit/loss under equity.

Remeasurement difference regarding the after tax effect amounting net TL 161,636 has been classified under "Accumulated Other Comprehensive Income or Expense Reclassified through Other Profit or Loss", for the securities amounting TL 7,454,527 classified before January 1, 2018 as available-for-sale financial assets and after fair value through other comprehensive income, has been classified with the IFRS 9 transition as measured at amortized cost.

8. SEGMENT INFORMATION

The Board of Directors of the Bank is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

8. SEGMENT INFORMATION (Continued)

Operating segments

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 Group has the following segments, as described below:

- *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 and 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.
- *Other segments;* includes combined information about operating segments that do not meet the quantitative thresholds

The Board of Directors assesses the performance of the operating segments based on a measure of profit before income tax adjusted for certain income and expenses. Performance is measured based on segment profit before income tax adjusted for certain income and expenses, as included in the internal management reports that are reviewed by the Board of Directors. This measure 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 are based on the accounting policies set out in the accounting policy notes in the annual consolidated financial statements for the year ended 31 December 2017.

Information regarding the results of reportable segments is included below:

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

8. SEGMENT INFORMATION (Continued)

30 June 2018	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	3,682,292	7,351,751	807,281	-	11,841,324	-	81,812	185,403	2,431	12,110,970	(19,444)	12,091,526
Interest expense on deposits	(3,022,971)	(2,742,329)	(187,406)	-	(5,952,706)					(5,952,706)	42,119	(5,910,587)
Operating profit	**628,724**	**3,715,471**	**818,036**	**121,729**	**5,283,960**	**914,966**	**24,489**	**41,416**	**131,025**	**6,395,856**	**(130,601)**	**6,265,255**
Profit before income tax	110,336	2,453,466	430,663	(351,377)	2,643,088	104,658	13,464	34,964	36,437	2,832,611	(44,194)	2,788,417
Income tax expense	(22,446)	(499,125)	(87,613)	71,483	(537,701)	(19,140)	(7,142)	(7,885)	(5,720)	(577,588)	-	(577,588)
Profit for the year	**87,890**	**1,954,341**	**343,050**	**(279,894)**	**2,105,387**	**85,518**	**6,322**	**27,079**	**30,717**	**2,255,023**	**(44,194)**	**2,210,829**
30 June 2018												
Segment assets	52,168,630	159,871,935	87,345,068	9,570,201	308,955,834	3,882,879	2,610,580	2,619,094	1,856,733	319,925,120	(1,674,984)	318,250,136
Investments in associates and subsidiaries	-	-	2,309,702	-	2,309,702	507,702	6,449	2,693	87,552	2,914,098	(2,641,712)	272,386
Investment in equity accounted investments												
Total assets	**52,168,630**	**159,871,935**	**89,654,770**	**9,570,201**	**311,265,536**	**4,390,581**	**2,617,029**	**2,621,787**	**1,944,285**	**322,839,218**	**(4,316,696)**	**318,522,522**
Segment liabilities	81,156,213	83,552,381	107,111,743	12,423,261	284,243,598	3,369,993	2,447,199	2,463,484	756,549	293,280,823	(1,730,657)	291,550,166
Equity including non-controlling interest	-	-	-	27,021,938	27,021,938	1,020,588	169,830	158,303	1,187,736	29,558,395	(2,586,039)	26,972,356
Total liabilities and equity	**81,156,213**	**83,552,381**	**107,111,743**	**39,445,199**	**311,265,536**	**4,390,581**	**2,617,029**	**2,621,787**	**1,944,285**	**322,839,218**	**(4,316,696)**	**318,522,522**
Tangible fixed assets	-	-	-	110,192	110,192	-	-	-	-	110,192	-	110,192
Intangible fixed assets	-	-	-	68,032	68,032	-	-	-	-	68,032	-	68,032
Depreciation	-	-	-	(64,391)	(64,391)	-	-	-	-	(64,391)	-	(64,391)
Amortization	-	-	-	(43,448)	(43,448)	-	-	-	-	(43,448)	-	(43,448)

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

8. SEGMENT INFORMATION (Continued)

30 June 2017	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	2,667,367	4,885,537	765,512	-	8,318,416	-	64,780	-	1,042	8,384,238	(10,421)	8,373,817
Interest expense on deposits	(1,905,697)	(1,959,408)	(106,391)	-	(3,971,496)	-	-	-		(3,971,496)	24,036	(3,947,460)
Operating profit	**847,592**	**2,902,218**	**1,154,428**	**(253,401)**	**4,650,837**	**716,927**	**22,678**	**19,004**	**58,382**	**5,467,828**	**(118,197)**	**5,349,631**
Profit before income tax	417,701	1,959,315	838,722	(699,569)	2,516,169	41,752	14,252	14,524	15,302	2,601,999	23,652	2,625,651
Income tax expense	(81,006)	(379,975)	(162,656)	135,670	(487,967)	(8,827)	(3,053)	(2,812)	(2,071)	(504,730)	-	(504,730)
Profit for the year	**336,695**	**1,579,340**	**676,066**	**(563,899)**	**2,028,202**	**32,925**	**11,199**	**11,712**	**13,231**	**2,097,269**	**23,652**	**2,120,921**

31 December 2017	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	48,230,054	136,210,592	76,716,283	10,045,506	271,202,435	3,614,072	2,088,920	2,243,613	1,656,084	280,805,124	(1,617,257)	279,187,867
Investments in associates and subsidiaries	-	-	2,468,154	-	2,468,154	504,943	6,449	2,693	91,936	3,074,175	(2,731,645)	342,530
Investment in equity accounted investees	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**48,230,054**	**136,210,592**	**79,184,437**	**10,045,506**	**273,670,589**	**4,119,015**	**2,095,369**	**2,246,306**	**1,748,020**	**283,879,299**	**(4,348,902)**	**279,530,397**
Segment liabilities	68,788,960	80,227,299	87,249,334	12,888,665	249,154,258	3,147,637	1,890,231	2,101,241	567,613	256,860,980	(1,681,347)	255,179,633
Equity including non-controlling interest	-	-	-	24,516,331	24,516,331	971,378	205,138	145,065	1,180,407	27,018,319	(2,667,555)	24,350,764
Total liabilities and equity	**68,788,960**	**80,227,299**	**87,249,334**	**37,404,996**	**273,670,589**	**4,119,015**	**2,095,369**	**2,246,306**	**1,748,020**	**283,879,299**	**(4,348,902)**	**279,530,397**
Tangible fixed assets	-	-	-	171,218	171,218	-	-	-	-	171,218	-	171,218
Intangible fixed assets	-	-	-	63,258	63,258	-	-	-	-	63,258	-	63,258
Depreciation	-	-	-	(144,869)	(144,869)	-	-	-	-	(144,869)	-	(144,869)
Amortization	-	-	-	(41,112)	(41,112)	-	-	-	-	(41,112)	-	(41,112)

The measurement basis adopted by the Board of Directors to assess the performance of the operating segments excludes fixed assets and accordingly; segment information related to depreciation and amortization expenses and capital expenditures is not provided.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

9. CASH AND CASH EQUIVALENTS

As at 30 June 2018 and 31 December 2017, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	30 June 2018	31 December 2017
Cash on hand	2,081,582	1,990,927
Due from Central Bank	22,977,551	20,881,397
Balances with the CBT excluding reserve deposits	10,083,809	5,421,152
Receivables from repurchase agreements	9,228	1,659,035
Loans and advances to banks with original maturity less than three months	9,104,071	13,136,670
Others	400,542	389,231
Total cash and cash equivalents in the consolidated statement of financial position	**44,656,783**	**43,478,412**
Accruals on cash and cash equivalents	(110,310)	(7,032)
Blocked bank deposits	(2,123,303)	(577,843)
Total cash and cash equivalents in the consolidated statement of cash flows	**42,423,170**	**42,893,537**

10. DEBT SECURITIES ISSUED

The Bank issued Eurobonds in the scope of Global Medium Term Notes (GMTN). The details of debt securities issued are as follows:

	30 June 2018			31 December 2017		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
Nominal	9,276,252	15,113,291	24,389,543	7,005,913	12,795,515	19,801,428
Cost	9,022,415	15,030,531	24,052,946	6,832,622	12,723,353	19,555,975
Net Book Value	9,307,672	15,220,616	24,528,288	6,967,544	12,903,215	19,870,759

30 June 2018	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Financial Sector Bonds	TL	July 2018 - April 2023	12.90 % -18.80 %	9,307,672	9,307,672
Financial Sector Bonds	USD	October 2018 - January 2023	5.15 % -5.75 %	2,152,262	9,847,892
Financial Sector Bonds	EUR	July 2018 - May 2021	1.15 % -3.72 %	1,007,808	5,372,724

31 December 2017	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2018 - April 2023	11.20 % - 14.38 %	6,967,544	6,967,544
Bank Bonds	USD	February 2018 - May 2022	3.02 % - 5.63 %	2,204,369	8,332,516
Bank Bonds	EUR	January 2018 - May 2021	1.30 % - 3.50 %	1,010,546	4,570,699

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the period:

	30 June 2018	30 June 2017
Net profit attributable for the year	2,210,829	2,120,921
Net profit attributable to owners of the Bank	2,174,767	2,105,111
Number of 100 ordinary shares for basic earnings per shares	2,500,000,000	2,500,000,000
Basic earnings per 100 share	0.8699	0.8420
Diluted earnings per 100 share	0.8699	0.8420

There is no dilution of shares for the six months period ended 30 June 2018 and 30 June 2017.

In current period the group paid dividends amounting to TL 83,618 (30 June 2017: 124,456 TL) to the owners of ordinary shares. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated interim financial statements.

12. RELATED PARTY TRANSACTIONS

For the purpose of these interim consolidated condensed financial statements, shareholders (namely Registered Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	30 June 2018			31 December 2017		
Related party	Cash loans	Non-cash loans	Deposits	Cash loans	Non-cash loans	Deposits
Shareholders with significant influence	62,604	51,885	775,630	17,006	57,074	1,242,940
Associates	-	-	3,520	-	-	3,258
Key management personnel	48	-	143	59	-	148
Total	**62,652**	**51,885**	**779,293**	**17,065**	**57,074**	**1,246,346**

	30 June 2018				30 June 2017			
Related party	Commission Income	Interest income	Interest expense	Other operating expense	Commission Income	Interest income	Interest expense	Other operating Expense
Shareholders with significant influence	42	1,203	39,886	4	47	-	47,230	6
Associates	-	80,672	-	7	-	14	8,197	-
Total	**42**	**81,875**	**39,886**	**11**	**47**	**14**	**55,428**	**6**

Key Management Remuneration

For the six-month periods ended 30 June 2018, the key management personnel received remuneration and fees amounted to TL 18,046 (30 June 2017: TL 14,256).

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

13. OTHER INCOME

For the six-month periods ended 30 June 2018 and 2017, other income comprised the followings:

	30 June 2018	**30 June 2017**
Earned premiums	702,073	504,704
Written premiums	*785,188*	*624,820*
Change in reserve for unearned premiums	*(83,115)*	*(120,116)*
Gain on sale of fixed assets	94,204	76,710
Individual pension business income	60,426	47,836
Excess fee charged to customers for communication expenses	18,231	24,976
Dividend income from equity shares	19,821	17,322
Reversal of miscellaneous provision	702,814	5,880
Rent income	50,756	171
Other items	89,568	172,202
Total	**1,737,893**	**849,801**

14. SALARIES AND EMPLOYEE BENEFIT EXPENSES

For the six month periods ended 30 June 2018 and 2017, salaries and employee benefit expenses comprised the following:

	30 June 2018	**30 June 2017**
Wages and salaries	(505,582)	(376,099)
Other fringe benefits	(477,963)	(390,410)
Employer's share of social security premiums	(184,862)	(129,692)
Change in provision for liability for unused vacations	(10,245)	(8,043)
Total	**(1,178,652)**	**(904,244)**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

15. OTHER EXPENSES

For the six month periods ended 30 June 2018 and 2017, other expenses comprised the following:

	30 June 2018	30 June 2017
Incurred insurance claims	(471,065)	(393,420)
Insurance claims paid	*(426,889)*	*(319,112)*
Change in provision for outstanding claims	*(44,176)*	*(74,308)*
Banking services promotion expenses	(376,172)	(325,355)
Provision for Severance Pay and Employee Benefits	(204,585)	(135,815)
Rent expenses and operating lease charges	(184,838)	(154,011)
Communication expenses	(98,634)	(99,484)
Advertising expenses	(94,019)	(54,876)
Saving Deposit Insurance Fund premiums	(93,654)	(89,524)
Cleaning service expenses	(39,838)	(35,623)
Maintenance expenses	(32,443)	(27,413)
Energy expenses	(22,104)	(17,839)
BRSA participation fee	(20,462)	(15,940)
Consultancy expenses	(20,172)	(11,376)
Other provision expenses	(16,743)	(54,170)
Computer usage expenses	(16,333)	(14,366)
Credit card promotion expenses	(14,459)	(10,714)
Transportation expenses	(13,471)	(9,961)
Office supplies	(13,426)	(6,089)
Hosting expenses	(8,280)	(6,860)
Loss on sale of assets	(3,582)	(376)
Individual pension business expenses	(1,861)	(222)
Other various administrative expenses	(299,544)	(178,807)
Total	**(2,045,685)**	**(1,642,241)**

16. 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 include the following:

	30 June 2018	31 December 2017
Letters of guarantee	47,145,493	40,153,276
Letters of credit	10,545,092	8,994,152
Acceptance credits	2,058,704	1,555,554
Other guarantees	1,048,258	370,100
Total financial guarantee contracts	**60,797,547**	**51,073,082**
Credit card limit commitments	12,609,798	10,534,862
Loan commitments	13,335,890	11,935,000
Commitments for cheque payments	2,921,701	2,542,741
Commitments for credit card and banking operations promotions	777,078	761,674
Other commitments	33,303,736	24,199,642
Total commitments	**62,948,203**	**49,973,919**
Total commitments and contingencies	**123,745,750**	**101,047,001**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

16. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent assets and liabilities

There are various legal cases against the Group for which TL 8,089 (31 December 2017: TL 6,348) provision 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.

Information on derivative financial instruments

	30 June 2018	31 December 2017
	Notional Amounts	Notional Amounts
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**43,326,790**	**28,048,820**
Currency Forwards	1,733,828	2,770,498
Currency Swaps	38,540,984	24,420,686
Currency Futures	-	-
Currency Options	3,051,978	857,636
Interest Rate Derivative Transactions	**29,654,656**	**16,961,096**
Interest Rate Forwards	-	-
Interest Rate Swaps	29,654,656	16,961,096
Interest Rate Options	-	-
Investment Security Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**19,123,742**	**16,340,947**
Total Derivative Transactions	**92,105,188**	**61,350,863**

17. SUBSEQUENT EVENTS

In accordance with change on "Announcement on Reserve Deposits" of CBRT numbered 2013/15 published in the Official Gazette dated August 14, 2018 numbered 30509, all banks operating in Turkey are required to provide reserve rate ranging from 1.5% to 8% for local currency liabilities. For foreign currency liabilities, reserve rate ranging from 4% to 20% in US Dollar or Euro.

The Parent Bank has issued and offered to public a Vakıfbank bond, which has a value date of October 26, 2018, with nominal value of TL 200,000,000 (Full TL), with 119 days maturity, and maturity date of February 22, 2019, on October 22-23-24, 2018, and as a result of the realized issue, The Vakıfbank bond with the ISIN Code TRFVKFB21913, is determined with 149,129,468 (Full TL) nominal value, with 119 days maturity and maturity date of February 22, 2019, 26.1622% annual compound interest, 24.1429 % simple interest and TL 92,703 issue price.

The Parent Bank has issued and offered to public a Vakıfbank bond, which has a value date of October 26, 2018, with nominal value of TL 100,000,000 (Full TL), with 210 days maturity, and maturity date of May 24, 2019, on October 22-23-24, 2018, and as a result of the realized issue, The Vakıfbank bond with the ISIN Code TRFVKFB51910, is determined with 56,328,458 (Full TL) nominal value, with 210 days maturity and maturity date of May 24, 2019, 25.8627% annual compound interest, 24.5937% simple interest and TL 87,604 issue price.

17. SUBSEQUENT EVENTS (Continued)

The issuance of additional Tier-1 (AT1) notes with a nominal amount of TL 4,993,574,836 (Full TL) with 12.62% fix interest rate coupon payment on semi-annual basis, Perpetual Non-Call 5 (PNC5) structure has been finalized as of September 27, 2018.

The Parent Bank, has performed book building for a Vakıfbank bond with the ISIN Code TRFVKFBA1855, which has a value date of October 5, 2018, with nominal value of TL 512,010,226 (Full TL), with 63 days maturity and maturity date of December 7, 2018.

The Parent Bank, has performed book building for a Vakıfbank bond to be sold to qualified investors. The ISIN Code of the bond is TRFVKFB11922, value date is October 19, 2018, nominal value is TL 448,000,000 (Full TL), has 84 days to maturity and the maturity date is January 11, 2019.

The Parent Bank obtained a foreign borrowing, amounting USD 300 million and 10 years maturity on October 5, 2018, through future flow transaction and treasury financing transaction as well as other required transactions within Diversified Payment Rights securitization program. Fitch Ratings assigned "BBB-", investment grade note, to the transaction.

Fitch Ratings -International Rating Agency- has downgraded miscellaneous credit ratings of 20 Turkish banks, including the Parent Bank on October 1, 2018. In line with this matter, the Parent Bank's new credit ratings are as follows, Long-Term Foreign-Currency IDR: downgraded to 'B+/ Negative' from 'BB-/ Negative'; Long-Term Local-Currency IDR: downgraded to 'BB/ Negative' from 'BB+/ Negative', Viability Rating: downgraded to 'b+' from 'bb-'. Long-term senior unsecured rating: downgraded to 'B+' from 'BB-'. Subordinated debt rating: downgraded to 'B' from 'B+'. Support Rating downgraded to '4' from '3'. Short-Term Foreign-Currency IDR, Short-Term Local-Currency IDR and Short-term senior unsecured rating affirmed at 'B'.

On November 15, 2018 The Parent Bank purchased USD 6 million nominal amount of its Eurobond maturing in 2022 with ISIN code of XS0849728190.

On November 16, 2018 The Parent Bank purchased USD 1 million nominal amount of its Eurobond maturing in 2022 with ISIN code of XS0849728190.

The Parent Bank, has performed book building for a Vakıfbank bond with the ISIN Code TRFVKFB21921, which has a value date of November 16, 2018, with nominal value of TL 755,900,000 (Full TL), with 91 days maturity and maturity date of February 15, 2019.

The Parent Bank has issued a Vakıfbank structured debt security to be sold to qualified investors. The ISIN Code of the security is TR0VKFB00XW8, value date is November 16, 2018, nominal value is TL 40,000,000 (Full TL), has 35 days to maturity and the maturity date is December 21,2018.

On November 21, 2018, under the joint coordination of Emirates NBD as the agent bank, VakıfBank signed a syndication loan agreement amounting USD 252 million and EUR 528.5 million, USD 855 million equivalent in total with the participation of 20 banks from 12 countries. The cost of the trench amounting USD equivalent of 130 million which has 2 years tenor is Libor+3.50% p.a., for USD 122 million and EUR 528.5 million tranches, having both 367 days tenor are Libor+2.75% and Euribor+2,65% p.a, respectively.

The Parent Bank has issued and offered to public a Vakıfbank bond, which has a value date of November 23, 2018, with nominal value of 100,000,000 (Full TL), with 210 days maturity, and maturity date of June 21, 2019, on November 19-20-21, 2018, and as a result of the realized issue, The Vakıfbank bond with the ISIN Code TRFVKFB61919, is determined with 43,699,261 (Full TL) nominal value, with 210 days maturity and maturity date of June 21, 2019, 21.1651% annual compound interest, 20.2988 % simple interest and TL 89,543 issue price.

17. SUBSEQUENT EVENTS (Continued)

The Parent Bank has issued and offered to public a Vakıfbank bond, which has a value date of November 23, 2018, with nominal value of 200,000,000 (Full TL), with 147 days maturity, and maturity date of April 19, 2019, on November 19-20-21, 2018, and as a result of the realized issue, The Vakıfbank bond with the ISIN Code TRFVKFB41929, is determined with 99,034,729 (Full TL) nominal value, with 147 days maturity and maturity date of April 19, 2019, 20.9496% annual compound interest, 19.7678 % simple interest and TL 92,626 issue price.

The Head Office has been authorized to sign any agreement and purchase 22,900 m2 field within the 52-floor building, owned by Vakıf REIT, to the amount of TL 299,990,000.

As of September 30, 2018, member of the Board of Directors Mr. Ömer Arısoy resigned from his duty.

The Parent Bank had issued mortgage covered bond issuance, amounting TL 1,000,000 (Full TL) with 5 years maturity, the issue date of which is December 7, 2018 and the investor of which is the Fund managed by Development and Investment Bank of Turkey.

It was announced with the referred disclosure that the necessary applications to CMB for the covered bond issuance, amounting TL 1 billion with 5 years maturity, the issue date of which is December 7, 2018 and the investor of which is the Fund managed by Development and Investment Bank of Turkey, had been completed and the issuance certificate had been approved by CMB. Within this scope, issue amount of TL 1 billion has been transferred to our Bank accounts on December 7, 2018 and the transaction has been completed.

The Parent Bank has issued a Vakıfbank structured debt security to be sold to qualified investors. The ISIN Code of the security is TRFVKFB31920, value date is December 7,2018, nominal value is TL 148,742,706 (Full TL), has 84 days to maturity and the maturity date is March 1, 2019.

On December 13, 2018, the Group sold the shares of Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş., amounting TL 885,160 from the price range of TL 3.30-3.55. With this transaction, our share in capital of Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. decreased to the level of 18.47 %.

Mr. Mikail HIDIR, has been appointed as Executive Vice President with the Board decision dated December 13, 2018. He will commence on his duty following BRSA approval.

The Parent Bank has issued a Vakıfbank structured debt security to be sold to qualified investors. The ISIN Code of the security is TRFVKFB31938, value date is December 14,2018, nominal value is TL 306,500,000 (Full TL), has 77 days to maturity and the maturity date is March 1, 2019.

The Parent Bank has issued and offered to public a Vakıfbank bond, which has a value date of December 19, 2018, with nominal value of 100,000,000 (Full TL), with 217 days maturity, and maturity date of July 26, 2019, on December 17-18-19, 2018, and as a result of the realized issue, The Vakıfbank bond with the ISIN Code TRFVKFB71918, is determined with 50,732,354 (Full TL) nominal value, with 217 days maturity and maturity date of July 26, 2019, 23.1341% annual compound interest, 22.1525 % simple interest and TL 88,363 issue price.

The Parent Bank has issued and offered to public a Vakıfbank bond, which has a value date of December 19, 2018, with nominal value of 300,000,000 (Full TL), with 119 days maturity, and maturity date of April 19, 2019, on December 19-20-21, 2018, and as a result of the realized issue, The Vakıfbank bond with the ISIN Code TRFVKFB41937, is determined with 323,942,555 (Full TL) nominal value, with 119 days maturity and maturity date of April 19, 2019, 22.5954% annual compound interest, 21.0637 % simple interest and TL 93,574 issue price.

17. SUBSEQUENT EVENTS (Continued)

The Parent Bank has issued a Vakıfbank structured debt security to be sold to qualified investors. The ISIN Code of the security is TR0VKFB00YJ3, value date is December 21, 2018, nominal value is TL 100,000,000 (Full TL), has 35 days to maturity and the maturity date is January 25,2019.

It had been disclosed on August 6, 2018 that all creditors including The Parent Bank have reached an agreement on restructuring the debts of Ojer Telekomünikasyon A.Ş. (OTAŞ), the major shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) provided under the loan agreements. It was contemplated that 192.500.000.000 Class A shares owned by OTAŞ in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing loan facilities of OTAŞ, would be taken over by a special purpose vehicle incorporated or to be incorporated in the Republic of Turkey, owned directly or indirectly by the creditors. The Parent Bank has participated in Levent Yapılandırma Yönetimi A.Ş. which was established within this context with 4,2559% stake on December 24, 2018.

The Parent Bank has issued a Vakıfbank structured debt security to be sold to qualified investors. The ISIN Code of the security is TRFVKFB31946, value date is December 26, 2018, nominal value is TL 26,203,802 (Full TL), has 93 days to maturity and the maturity date is March 29,2019.

As per the Board decision dated December 13, 2018, our subsidiary Vakıf Portföy Yönetimi A.Ş., which is fully owned by The Parent Bank was sold to Ziraat Portföy Yönetimi A.Ş with a price of TL 52,500,000 in full as of January 2, 2019.

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