

**TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS AS AT 30 JUNE 2014
WITH INDEPENDENT AUDITORS' REVIEW REPORT**



REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

Introduction

1. We have reviewed the accompanying condensed consolidated interim statement of financial position of Türkiye Vakıflar Bankası T.A.O. and its subsidiaries (the "Group") as of 30 June 2014 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting" ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim 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.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.



Other matter

4. The financial statements of the Group as of 31 December 2013 were audited by another audit firm whose audit report dated 24 March 2014 expressed an unqualified opinion. The interim financial statements of the Group as of 30 June 2013 were reviewed by the same audit firm whose report dated 18 September 2013 stated that nothing has come to their attention that would cause them to conclude that the interim financial statements were not prepared in all material respects, in accordance with IAS 34.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'ZUras', is written over the text of the firm's name.

Zeynep Uras, SMMM
Partner

Istanbul, 15 September 2014

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

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**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014**

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

| | Notes | <i>(Reviewed)</i> 30 June 2014 | <i>(Audited)</i> 31 December 2013 |
|--|-------|-----------------------------------|--------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 5,846,917 | 7,597,991 |
| Financial assets at fair value through profit or loss | 4 | 398,846 | 663,232 |
| Loans and advances to banks | | 205,925 | 165,504 |
| Loans and advances to customers | | 94,174,762 | 89,175,046 |
| Investment securities | | 22,519,142 | 22,155,267 |
| Investments in associates | | 209,862 | 191,794 |
| Property and equipment | | 927,140 | 1,018,847 |
| Intangible assets | | 143,686 | 128,130 |
| Current tax assets | | 7,069 | 6,014 |
| Deferred tax assets | | 217,816 | 198,603 |
| Other assets | | 18,576,497 | 18,006,405 |
| Total assets | | 143,227,662 | 139,306,833 |
| LIABILITIES AND EQUITY | | | |
| Trading liabilities | 4 | 263,680 | 219,480 |
| Deposits from banks | | 4,501,092 | 4,298,991 |
| Deposits from customers | | 81,298,514 | 78,783,217 |
| Obligations under repurchase agreements | | 12,935,598 | 14,580,345 |
| Funds borrowed | | 11,682,600 | 12,306,664 |
| Debt securities issued | 6 | 8,139,429 | 6,820,735 |
| Subordinated liabilities | | 1,939,866 | 1,964,663 |
| Other liabilities and provisions | | 7,426,100 | 6,589,617 |
| Current tax liabilities | | 244,926 | 61,399 |
| Deferred tax liabilities | | 6,999 | 3,978 |
| Total liabilities | | 128,438,804 | 125,629,089 |
| Equity attributable to owners of the parent | | | |
| Share capital | | 3,300,146 | 3,300,146 |
| Share premium | | 724,316 | 724,316 |
| Reserves | | 1,552,507 | 878,806 |
| Retained earnings | | 8,663,319 | 8,366,271 |
| Total equity attributable to owners of the parent | | 14,240,288 | 13,269,539 |
| Non-controlling interests | | 548,570 | 408,205 |
| Total equity | | 14,788,858 | 13,677,744 |
| Total liabilities and equity | | 143,227,662 | 139,306,833 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

| Notes | <i>(Reviewed)</i> 1 January - 30 June 2014 | <i>(Reviewed)</i> 1 January - 30 June 2013 |
|--|--|--|
| Interest income | | |
| Interest on loans and receivables | 4,514,291 | 3,749,443 |
| Interest on securities | 1,082,862 | 662,338 |
| Interest on deposits at banks | 33,028 | 34,611 |
| Interest on money market placements | 508 | 611 |
| Other interest income | 26,079 | 21,431 |
| Total interest income | 5,656,768 | 4,468,434 |
| Interest expense | | |
| Interest on deposits | (2,569,829) | (1,518,778) |
| Interest on money market deposits | (519,030) | (138,566) |
| Interest on funds borrowed | (108,979) | (76,975) |
| Interest expense on securities issued | (197,337) | (103,285) |
| Other interest expense | (82,624) | (111,559) |
| Total interest expense | (3,477,799) | (1,949,163) |
| Net interest income | 2,178,969 | 2,519,271 |
| Fee and commission income | 506,360 | 505,372 |
| Fee and commission expense | (213,851) | (144,791) |
| Net fee and commission income | 292,509 | 360,581 |
| Other operating income | | |
| Net trading income | 88,152 | 188,879 |
| Net foreign exchange gains | 69,599 | 9,731 |
| Other income | 9 | 577,084 |
| Total other operating income | 793,752 | 775,694 |
| Other administrative and operating expenses | | |
| Salaries and employee benefit expenses | 10 | (797,709) |
| Provision for possible loan losses, net of recoveries | (537,341) | (919,723) |
| Depreciation and amortisation | (66,211) | (63,834) |
| Taxes other than on income | (54,696) | (42,982) |
| Other expenses | 11 | (1,128,583) |
| Total other administrative and operating expenses | (2,584,540) | (2,668,126) |
| Share of profit of associates accounted for using the equity method | 17,175 | 15,943 |
| Profit before income tax | 697,865 | 1,003,363 |
| Income tax expense | (151,803) | (179,861) |
| Profit for the period | 546,062 | 823,502 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

| | Notes | 1 January - 30 June 2014 | 1 January - 30 June 2013 |
|---|-------|-----------------------------|-----------------------------|
| Other comprehensive income: | | | |
| <i>Items that will be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation differences | | (21,494) | 19,884 |
| Net change in fair value of available for sale financial assets | | 622,365 | (695,988) |
| Fair value differences of available for sale financial assets transferred to profit or loss | | 39,197 | (142,782) |
| Other items | | (1,664) | - |
| Income tax related to items that will be reclassified subsequently to profit or loss | | (133,366) | 36,162 |
| Other comprehensive income for the period, net of income tax | | 505,038 | (782,724) |
| Total comprehensive income for the period | | 1,051,100 | 40,778 |
| Profit/(loss) attributable to: | | | |
| - Owners of the parent | 7 | 561,600 | 834,002 |
| - Non-controlling interests | | (15,538) | (10,500) |
| Profit for the period | | 546,062 | 823,502 |
| Basic and diluted earnings per share (full TL) | 7 | 0.0022 | 0.0033 |
| Total comprehensive income/(loss) attributable to: | | | |
| - Owners of the parent | | 1,069,298 | 129,223 |
| - Non-controlling interests | | (18,198) | (88,445) |
| Total comprehensive income for the period | | 1,051,100 | 40,778 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

| | Attributable to owners of the parent | | | | | | | Non-controlling interest | Total equity |
|--|--------------------------------------|----------------|---------------------|------------------------------|------------------|-------------------|-------------------|--------------------------|-------------------|
| | Share capital | Share premium | Fair value reserves | Reserves | | | Total | | |
| | | | | Currency translation reserve | Legal reserves | Retained earnings | | | |
| Balances at 1 January 2014 (Audited) | 3,300,146 | 724,316 | (168,236) | 133,175 | 913,867 | 8,366,271 | 13,269,539 | 408,205 | 13,677,744 |
| Profit for the period | - | - | - | - | - | 561,600 | 561,600 | (15,538) | 546,062 |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation differences | - | - | - | (18,834) | - | - | (18,834) | (2,660) | (21,494) |
| Net change in fair value of available for sale financial assets, net of tax | - | - | 496,926 | - | - | - | 496,926 | - | 496,926 |
| Fair value differences of available for sale financial assets transferred to profit or loss | - | - | 31,270 | - | - | - | 31,270 | - | 31,270 |
| Other items | - | - | - | - | - | (1,664) | (1,664) | - | (1,664) |
| Total other comprehensive income | - | - | 528,196 | (18,834) | - | (1,664) | 507,698 | (2,660) | 505,038 |
| Total comprehensive income for the period | - | - | 528,196 | (18,834) | - | 559,936 | 1,069,298 | (18,198) | 1,051,100 |
| Transfer to reserves | - | - | - | - | 162,888 | (162,888) | - | - | - |
| Dividends paid | - | - | - | - | - | (100,000) | (100,000) | (316) | (100,316) |
| Capital advances paid | - | - | - | - | - | - | - | 157,874 | 157,874 |
| Other items | - | - | - | - | 1,451 | - | 1,451 | 1,005 | 2,456 |
| Total contributions by and distributions to owners of the parent, recognised directly in equity | - | - | - | - | 164,339 | (262,888) | (98,549) | 158,563 | 60,014 |
| Balances at 30 June 2014 (Reviewed) | 3,300,146 | 724,316 | 359,960 | 114,341 | 1,078,206 | 8,663,319 | 14,240,288 | 548,570 | 14,788,858 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013**

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

| | Attributable to owners of the parent | | | | | | Total | Non- controlling interest | Total equity |
|--|--------------------------------------|------------------|------------------------|------------------------------------|-------------------|----------------------|-------------------|---------------------------------|-------------------|
| | Share capital | Share premium | Fair value reserves | Reserves | | Retained earnings | | | |
| | | | | Currency translation reserve | Legal reserves | | | | |
| Balances at 1 January 2013 (Audited) | 3,300,146 | 724,320 | 873,807 | 67,062 | 752,778 | 6,756,136 | 12,474,249 | 464,896 | 12,939,145 |
| Profit for the period | - | - | - | - | - | 834,002 | 834,002 | (10,500) | 823,502 |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation differences | - | - | - | 17,896 | - | - | 17,896 | 1,988 | 19,884 |
| Net changes in fair value of available for sale financial assets, net of tax | - | - | (703,819) | - | - | 113,234 | (590,585) | (79,933) | (670,518) |
| Fair value differences of available for sale financial assets transferred to profit or loss | - | - | (132,090) | - | - | - | (132,090) | - | (132,090) |
| Total other comprehensive income | - | - | (835,909) | 17,896 | - | 113,234 | (704,779) | (77,945) | (782,724) |
| Total comprehensive income for the period | - | - | (835,909) | 17,896 | - | 947,236 | 129,223 | (88,445) | 40,778 |
| Transfer to reserves | - | - | - | - | 147,318 | (147,318) | - | - | - |
| Dividends paid | - | - | - | - | - | (100,000) | (100,000) | (292) | (100,292) |
| Other items | - | - | - | - | 13,313 | - | 13,313 | 12,190 | 25,503 |
| Total contributions by and distributions to owners of the parent, recognised directly in equity | - | - | - | - | 160,631 | (247,318) | (86,687) | 11,898 | (74,789) |
| Balances at 30 June 2013 (Reviewed) | 3,300,146 | 724,320 | 37,898 | 84,958 | 913,409 | 7,456,054 | 12,516,785 | 388,349 | 12,905,134 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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

| Notes | 1 January - 30 June 2014 | 1 January - 30 June 2013 |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Profit for the period | 546,062 | 823,502 |
| <i>Adjustments for:</i> | | |
| Income tax expense | 151,803 | 179,861 |
| Provision for possible loan losses, net of recoveries | 537,341 | 919,723 |
| Depreciation and amortization | 66,211 | 63,834 |
| Provision for short term employee benefits | 121,525 | 119,528 |
| Provision for retirement pay liability and unused vacations | 30,453 | 20,365 |
| Change in unearned premium reserve | 9 89,780 | 57,859 |
| Change in provision for outstanding claims | 11 56,575 | 53,806 |
| Long term insurance contracts | 29,019 | 5,997 |
| Other provision expenses | 9,337 | 66,792 |
| Net interest income | (2,178,969) | (2,519,271) |
| Share of profit of associates accounted for using the equity method | (17,175) | (15,943) |
| Other non-cash adjustments | 29,156 | (441,902) |
| | (528,882) | (665,849) |
| <i>Changes in:</i> | | |
| Loans and advances to banks | (40,421) | (542,705) |
| Reserve deposits | (540,420) | (2,403,366) |
| Financial assets at fair value through profit or loss | 248,603 | (417,281) |
| Loans and advances to customers | (4,207,967) | (10,160,675) |
| Other assets | 95,191 | (504,640) |
| Deposits from banks | 202,796 | (732,768) |
| Deposits from customers | 2,459,489 | 5,342,715 |
| Obligation under repurchase agreements | (1,631,679) | 5,471,731 |
| Other liabilities and provisions | 517,185 | 114,998 |
| | (2,897,223) | (3,831,991) |
| Interest received | 5,184,305 | 4,225,046 |
| Interest paid | (3,513,047) | (1,726,134) |
| Taxes paid | (56,497) | (310,073) |
| Cash used in operating activities (-) | (1,811,344) | (2,309,001) |
| Cash flows from investing activities: | | |
| Dividends received | 9 5,718 | 17,079 |
| Acquisition of property and equipment | (68,623) | (104,349) |
| Proceeds from the sale of property and equipment | 34,030 | 10,908 |
| Acquisition of intangible assets | (29,745) | (22,211) |
| Acquisition of investment securities | (4,642,759) | (5,318,317) |
| Proceeds from sale of investment securities | 5,524,196 | 3,200,086 |
| Cash provided by/(used in) investing activities | 822,817 | (2,216,804) |
| Cash flows from financing activities: | | |
| Proceeds from issue of debt securities | 4,085,369 | 3,503,715 |
| Repayments of debt securities | 6 (2,721,989) | (1,840,356) |
| Repayments of funds borrowed | 3,476,062 | 3,792,948 |
| Proceeds from funds borrowed | (4,027,454) | (2,294,272) |
| Dividends paid | 7 (100,316) | (100,292) |
| Cash provided by financing activities | 711,672 | 3,061,743 |
| Effect of foreign exchange rate fluctuations on cash and cash equivalents | (9,013) | (2,516) |
| Net decrease in cash and cash equivalents (-) | (285,868) | (1,466,578) |
| Cash and cash equivalents at the beginning of the period | 6,102,994 | 5,376,750 |
| Cash and cash equivalents at the end of the period | 5,817,126 | 3,910,172 |

The notes on pages 7 to 23 are an integral part of these condensed consolidated interim financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

(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 867 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2013: 856 domestic, 3 foreign, in total 859 branches). As at 30 June 2014, the Bank has 14,891 employees (31 December 2013: 14,943). Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank’s head office is located at Sanayi Mahallesi, Eski Büyükdere Caddesi, Güler Sokak, No:51, Kağıthane-İstanbul.

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

As at 30 June 2014 and 31 December 2013, The Bank’s nominal paid-in capital amounted to TL2,500,000 divided into 250,000,000,000 shares with a nominal value of 1 Kurus each (TL 1 equals Kurus 100). As at 30 June 2014 and 31 December 2013 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 |
| Appendant foundations (Group B) | 386,224,784 | 386,225 | 15.45 |
| Other appendant foundations (Group B) | 3,096,742 | 3,097 | 0.13 |
| Other registered foundations (Group B) | 1,453,085 | 1,453 | 0.06 |
| Other real persons and legal entities (Group C) | 1,534,585 | 1,535 | 0.06 |
| Publicly traded (Group D) | 630,079,498 | 630,079 | 25.20 |
| 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.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

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

1. GENERAL INFORMATION (Continued)

These condensed consolidated interim financial statements were approved for issue on 15 September 2014. These condensed consolidated interim financial statements have been reviewed, not audited.

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 30 June 2014 and 31 December 2013:

| | Proportion directly held by the Bank (%) | Proportion held by the Group (%) |
|---|--|--|
| Subsidiaries: | | |
| Güneş Sigorta A.Ş. (*) | 36.35 | 36.35 |
| Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. (*) | 11.75 | 21.77 |
| Vakıf Emeklilik A.Ş. | 53.90 | 75.30 |
| Vakıf Enerji ve Madencilik A.Ş. | 65.50 | 84.96 |
| Taksim Otelcilik A.Ş. | 51.00 | 51.52 |
| Vakıf Finans Factoring Hizmetleri A.Ş. | 78.39 | 86.99 |
| Vakıf Finansal Kiralama A.Ş. | 58.71 | 64.40 |
| Vakıf Yatırım Menkul Değerler A.Ş. | 99.00 | 99.44 |
| Vakıf Portföy Yönetimi A.Ş. | 99.99 | 99.99 |
| Vakıfbank International AG | 90.00 | 90.00 |
| Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*) | 27.63 | 29.49 |
| World Vakıf UBB Ltd. in Liquidation (**) | 82.00 | 85.25 |
| VB Diversified Payment Rights Finance Company (***) | - | - |
| Associates: | | |
| Kıbrıs Vakıflar Bankası Ltd. Şti. | 15.00 | 15.00 |
| T. Sınai Kalkınma Bankası A.Ş. | 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 non-compliance 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 2014 and 31 December 2013.

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

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

Güneş Sigorta A.Ş. 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.

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

1. GENERAL INFORMATION (Continued)

Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. 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 A.Ş. 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 A.Ş. 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 A.Ş. 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 Finans Factoring Hizmetleri A.Ş. was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

Vakıf Finansal Kiralama A.Ş. 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 A.Ş. 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 A.Ş. operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

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

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. 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 Ankara.

The bank has also the following associates:

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

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.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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2. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six-month period ended 30 June 2014 have been prepared in accordance with IAS 34, “Interim financial reporting”. The condensed consolidated interim 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 for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards.

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

In preparation of the condensed consolidated interim 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 2014, where applicable, noted below:

New and Revised International Financial Reporting Standards

a. The new standards, amendments and interpretations which are effective for the financial statements as of 30 June 2014

- IAS 32 (amendment), “Financial instruments: Presentation”, on offsetting financial assets and financial liabilities, is effective for annual periods beginning on or after 1 January 2014. The amendment updates the application guidance in IAS 32, ‘Financial instruments: Presentation’, to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- IFRS 10, IFRS 12 and IAS 27 (amendments), “Consolidated financial statements”: ‘exceptions for the consolidation of subsidiaries’; is effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics.
- IAS 36 (amendments), “Impairment of assets” on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- IAS 39 (amendments) “Financial Instruments: Recognition and Measurement” - “Novation of derivatives is effective for annual periods beginning on or after 1 January 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.
- IFRIC 21 –IAS 37, “Levies” is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of IAS 37, ‘Provisions, contingent liabilities and contingent assets’. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

New and revised standards effective for the financial period ending 30 June 2014 and do not have a material impact on the Group.

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

2. BASIS OF PREPARATION (Continued)

b. The new standards, amendments and interpretations introduced to the prior Financial Statements as of 30 June 2014, however will be effective after 1 July 2014

- IAS 19 (amendment), “Defined benefit plans”, is effective for annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- Annual improvements 2012; is effective for annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards :
 - IFRS 2, “Share Based Payment”
 - IFRS 3, “Business Combination”
 - IFRS 8, “Operating Segments”
 - IFRS 13, “Fair value measurement”
 - IAS 16, “Tangible Assets and IAS 38, Intangible Assets”
 - IFRS 9, “Financial Instruments: IAS 37, Provisions, Contingent Assets and Liability”
 - IAS 39, “Financial Instruments-Recognition and Measurement”
- Annual improvements 2013; is effective for annual periods beginning on or after 1 July 2014. The amendments include changes from 2011-12-13 cycle of the annual improvements project that affect 4 standards:
 - IFRS 1, “First Adoption of IFRS”
 - IFRS 3, “Business Combinations”
 - IFRS 13, “Fair Value Measurement”
 - IAS 40, “Investment Properties”
- IFRS 11 (amendments), “Joint Arrangements”, is effective for annual periods beginning on or after 1 July 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- IAS 16 and IAS 38 (amendments), “Tangible Assets”, “Intangible Assets”, is effective for annual periods beginning on or after 1 July 2016. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- IFRS 14, “Regulatory deferral accounts”, is effective for annual periods beginning on or after 1 July 2016. ‘Regulatory deferral accounts’ permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

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2. BASIS OF PREPARATION (Continued)

- IFRS 15, “Revenue from contracts with customers”, is effective for annual periods beginning on or after 1 July 2017. The International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The new model employs an asset and liability approach, rather than current revenue guidance focuses on an ‘earnings processes.
- IFRS 9 “Financial instruments - classification and measurement”; is effective for annual periods beginning on or after 1 January 2018. Key features of the new standard are: Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The new standards, amendments and interpretations which will be will be effective after 1 July 2014 are not expected to have a material impact on the Group except for the application of IFRS 9. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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3. USE OF ESTIMATES AND JUDGEMENTS AND SEASONALITY OF OPERATIONS

The preparation of condensed consolidated interim 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 condensed consolidated interim 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 as those that applied to the consolidated financial statements for the year ended 31 December 2013, with the exception of changes in estimates that are required in determining the loan loss provision as described below, which had an increasing impact on collective loan loss provision:

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the asset is collectively assessed for impairment. The Group performs such collective impairment assessment for retail and corporate loans separately. While determining the collective loan loss provision for all existing corporate loans in the current period, probability of default and loss given default calculations are performed based on loan groups divided with respect to credit risk characteristics, rating models and customer sectors; whereas in the prior periods, such calculations were performed in accordance with available information provided for a single group of total corporate loans.

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

4. 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 and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to banks and customers are TL 96,189,021 (31 December 2013: TL 88,690,117), whereas the carrying amount is TL 94,380,687 (31 December 2013: TL 89,340,550) in the condensed consolidated interim statement of financial position as at 30 June 2014.

Fair value of held-to-maturity investment securities is TL 5,953,728 (31 December 2013: TL 5,303,328), whereas the carrying amount is TL 6,140,219 (31 December 2013: TL 5,413,171) in the condensed consolidated interim statement of financial position as at 30 June 2014.

The fair value of the funds borrowed and subordinated liabilities accepted to approximate their carrying amounts since they bear floating rates.

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

The classification of fair value measurements of financial assets and liabilities measured at 30 June 2014 is as follows:

| 30 June 2014 | Level 1 | Level 2 | Level 3(*) | Total |
|---|-------------------|------------------|-------------------|-------------------|
| Debt securities | | | | |
| <i>Financial assets at fair value through profit/loss</i> | | | | |
| Debt securities | 22,230 | - | - | 22,230 |
| Derivative financial assets held for trading purpose ^(**) | - | 322,242 | - | 322,242 |
| Investment Funds | 52,189 | - | - | 52,189 |
| Equity securities | 2,158 | - | 27 | 2,185 |
| <i>Investment securities - available-for-sale</i> | | | | |
| Debt securities ^(***) | 12,061,121 | 4,203,525 | - | 16,264,646 |
| Equity securities | - | - | 53,194 | 53,194 |
| Total financial assets | 12,137,698 | 4,525,767 | 53,221 | 16,716,686 |
| <i>Financial liabilities held for trading purpose</i> | | | | |
| Derivative financial liabilities held for trading purpose ^(**) | - | 263,680 | - | 263,680 |
| Total financial liabilities | - | 263,680 | - | 263,680 |

(*) These amounts consist of fair value of the equity investments determined by independent valuation companies. Fair value of equity investments are determined by using discount rates, macroeconomic factors and projected cash flows. Changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions does not have a significant effect on total investment portfolio.

(**) The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(***) The fair value of debt securities, are calculated using quoted prices. Where such prices are not available, estimate is made based on the latest available price adjusted by the accrued interest.

There are no transfers between Level 1 and Level 2 during the period.

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

The classification of fair value measurements of financial assets and liabilities measured at 31 December 2013 is as follows:

| 31 December 2013 | Level 1 | Level 2 | Level 3^(*) | Total |
|---|-------------------|------------------|------------------------------|-------------------|
| <i>Financial assets at fair value through profit/loss</i> | | | | |
| Debt securities | 146,661 | 69,686 | - | 216,347 |
| Derivative financial assets held for trading purpose ^(**) | - | 438,395 | - | 438,395 |
| Investment funds | 5,467 | - | - | 5,467 |
| Equity securities | 2,996 | - | 27 | 3,023 |
| <i>Investment securities – available-for-sale</i> | | | | |
| Debt securities ^(***) | 14,981,029 | 1,666,128 | - | 16,647,157 |
| Equity securities | 3,158 | - | 54,823 | 57,981 |
| Total financial assets | 15,139,311 | 2,174,209 | 54,850 | 17,368,370 |
| <i>Financial liabilities held for trading purpose</i> | | | | |
| Derivative financial liabilities held for trading purpose ^(**) | - | 219,480 | - | 219,480 |
| Total financial liabilities | - | 219,480 | - | 219,480 |

(*) These amounts consist of fair value of the equity investments determined by independent valuation companies. Fair value of equity investments are determined by using discount rates, macroeconomic factors and projected cash flows. Changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions does not have a significant effect on total investment portfolio.

(**) The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(***) The fair value of debt securities, are calculated using quoted prices. Where such prices are not available, estimate is made based on the latest available price adjusted by the accrued interest.

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

| | 2014 | 2013 |
|---|---------------|---------------|
| Balance at the beginning of the period – 1 January | 54,850 | 42,676 |
| Total gains or losses for the period recognized in other comprehensive income | (1,629) | (885) |
| Balance at the end of the period – 30 June | 53,221 | 41,791 |

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5. 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.

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 segment;* includes loans, deposits and other transactions and balances with retail customers.
- *Corporate and commercial banking segment;* includes loans, deposits and other transactions and balances with corporate customers.
- *Investment banking segment;* 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.
- *Other segments;* includes the Group’s insurance, finance lease and factoring businesses.

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 2013.

Information regarding the results of reportable segments is included below:

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5. SEGMENT INFORMATION (Continued)

| 30 June 2014 | Retail Banking | Corporate Banking | Investment Banking | Other | Unallocated | Combined | Eliminations ^(*) | Total |
|---------------------------------|----------------|-------------------|--------------------|---------------|--------------------|----------------|-----------------------------|----------------|
| Operating Profit/Loss | | | | | | | | |
| Interest income | 1,629,427 | 2,849,208 | 1,102,589 | 100,554 | 2,924 | 5,684,702 | (27,934) | 5,656,768 |
| Interest expense | (1,069,564) | (1,444,011) | (926,164) | (50,356) | (15,638) | (3,505,733) | 27,934 | (3,477,799) |
| Net interest income | 559,863 | 1,405,197 | 176,425 | 50,198 | (12,714) | 2,178,969 | - | 2,178,969 |
| Net fees and commissions income | 232,326 | 84,391 | - | (2,290) | - | 314,427 | (21,918) | 292,509 |
| Other income / (expense) | (63,257) | (96,489) | 125,380 | (36,697) | (1,683,922) | (1,754,985) | (18,628) | (1,773,613) |
| Profit Before Tax | 728,932 | 1,393,099 | 301,805 | 11,211 | (1,696,636) | 738,411 | (40,546) | 697,865 |

(*) The elimination amount in the interest income represents the inter-segment revenue for corporate banking segment.

| 30 June 2014 | Retail Banking | Corporate Banking | Investment Banking | Other | Unallocated | Combined | Eliminations | Total |
|--|-------------------|-------------------|--------------------|------------------|------------------|--------------------|--------------------|--------------------|
| Asset | | | | | | | | |
| Cash and cash equivalents | - | - | 3,905,413 | 1,488,393 | 1,400,979 | 6,794,785 | (947,868) | 5,846,917 |
| Financial assets at fair value through profit and loss | - | - | 322,242 | 127,558 | - | 449,800 | (50,954) | 398,846 |
| Marketable securities and associates | - | - | 23,958,593 | 265,304 | 46,538 | 24,270,435 | (1,541,431) | 22,729,004 |
| Loans and receivables | 30,900,163 | 62,092,962 | 36,224 | 1,494,858 | - | 94,524,207 | (143,520) | 94,380,687 |
| Other assets | - | - | 15,261,275 | 1,740,486 | 2,917,455 | 19,919,216 | (47,008) | 19,872,208 |
| Total Assets | 30,900,163 | 62,092,962 | 43,483,747 | 5,116,599 | 4,364,972 | 145,958,443 | (2,730,781) | 143,227,662 |
| Liability | | | | | | | | |
| Trading liabilities | - | - | 253,617 | 10,063 | - | 263,680 | - | 263,680 |
| Deposits from banks and customers | 36,328,706 | 44,854,357 | 4,495,240 | 220,379 | 794,788 | 86,693,470 | (893,864) | 85,799,606 |
| Obligations under repurchase agreements | - | - | 12,935,598 | - | - | 12,935,598 | - | 12,935,598 |
| Funds borrowed | - | - | 10,577,032 | 1,249,087 | - | 11,826,119 | (143,519) | 11,682,600 |
| Debt securities issued | - | - | 8,139,429 | - | 66,082 | 8,205,511 | (66,082) | 8,139,429 |
| Subordinated liabilities | - | - | 1,939,866 | - | 10,587 | 1,950,453 | (10,587) | 1,939,866 |
| Other liabilities | - | - | 185,853 | 2,185,720 | 5,428,656 | 7,800,229 | (122,204) | 7,678,025 |
| Total Liabilities | 36,328,706 | 44,854,357 | 38,526,635 | 3,665,249 | 6,300,113 | 129,675,060 | (1,236,256) | 128,438,804 |

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.

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5. SEGMENT INFORMATION (Continued)

| 30 June 2013 | Retail Banking | Corporate Banking | Investment Banking | Other | Unallocated | Combined | Eliminations (*) | Total |
|---------------------------------|----------------|-------------------|--------------------|--------------|--------------------|----------------|------------------|------------------|
| Operating Profit/Loss | | | | | | | | |
| Interest income | 1,511,196 | 2,072,531 | 789,922 | 95,872 | 11,525 | 4,481,046 | (12,612) | 4,468,434 |
| Interest expense | (648,131) | (830,661) | (390,351) | (53,318) | (39,314) | (1,961,775) | 12,612 | (1,949,163) |
| Net interest income | 863,065 | 1,241,870 | 399,571 | 42,554 | (27,789) | 2,519,271 | - | 2,519,271 |
| Net fees and commissions income | 186,737 | 174,483 | - | (2,522) | 20,160 | 378,858 | (18,277) | 360,581 |
| Other income / (expense) | (172,785) | (652,558) | 48,065 | (33,770) | (1,132,492) | (1,943,540) | 67,051 | (1,876,489) |
| Profit Before Tax | 877,017 | 763,795 | 447,636 | 6,262 | (1,140,121) | 954,589 | 48,774 | 1,003,363 |

(*) The elimination amount in the interest income represents the inter-segment revenue for corporate banking segment.

| 31 December 2013 | Retail Banking | Corporate Banking | Investment Banking | Other | Unallocated | Combined | Eliminations | Total |
|--|-------------------|-------------------|--------------------|------------------|-------------------|--------------------|--------------------|--------------------|
| Asset | | | | | | | | |
| Cash and cash equivalents | - | - | 5,881,883 | 1,079,120 | 1,488,965 | 8,449,968 | (851,977) | 7,597,991 |
| Financial assets at fair value through profit and loss | - | - | 439,427 | 263,047 | - | 702,474 | (39,242) | 663,232 |
| Marketable securities and associates | - | - | 23,690,747 | 277,229 | - | 23,967,976 | (1,620,915) | 22,347,061 |
| Loans and receivables | 30,419,715 | 57,705,309 | 172,347 | 1,156,726 | - | 89,454,097 | (113,547) | 89,340,550 |
| Other assets | - | - | 158,167 | 1,516,203 | 17,701,226 | 19,375,596 | (17,597) | 19,357,999 |
| Total Assets | 30,419,715 | 57,705,309 | 30,342,571 | 4,292,325 | 19,190,191 | 141,950,111 | (2,643,278) | 139,306,833 |
| Liability | | | | | | | | |
| Trading liabilities | - | - | 200,778 | 19,734 | - | 220,512 | (1,032) | 219,480 |
| Deposits from banks and customers | 31,327,338 | 52,348,818 | - | 195,043 | - | 83,871,199 | (788,991) | 83,082,208 |
| Obligations under repurchase agreements | - | - | 14,580,345 | - | - | 14,580,345 | - | 14,580,345 |
| Funds borrowed | - | - | 11,431,951 | 974,686 | - | 12,406,637 | (99,973) | 12,306,664 |
| Debt securities issued | - | - | 6,884,826 | - | - | 6,884,826 | (64,091) | 6,820,735 |
| Subordinated liabilities | - | - | 1,974,142 | - | - | 1,974,142 | (9,479) | 1,964,663 |
| Other liabilities | - | - | - | 2,165,310 | 4,617,258 | 6,782,568 | (127,574) | 6,654,994 |
| Total Liabilities | 31,327,338 | 52,348,818 | 35,072,042 | 3,354,773 | 4,617,258 | 126,720,229 | (1,091,140) | 125,629,089 |

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.

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

6. DEBT SECURITIES ISSUED

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

| | 30 June 2014 | | | 31 December 2013 | | |
|----------------|--------------|---------------------|-----------|------------------|---------------------|-----------|
| | TL | Foreign Currency | Total | TL | Foreign Currency | Total |
| Nominal | 2,136,341 | 6,050,432 | 8,186,773 | 2,357,636 | 4,499,865 | 6,857,501 |
| Cost | 2,044,851 | 6,018,148 | 8,062,999 | 2,256,108 | 4,477,363 | 6,733,471 |
| Net Book Value | 2,078,323 | 6,061,106 | 8,139,429 | 2,301,798 | 4,518,937 | 6,820,735 |

The movement during the period is as follows:

| | 2014 | 2013 |
|---|------------------|------------------|
| Balance at the beginning of the period – 1 January | 6,820,735 | 2,372,748 |
| Proceeds from issue of debt securities (including accruals) | 4,040,683 | 3,524,640 |
| Repayments of debt securities | (2,721,989) | (1,840,356) |
| Balance at the end of the period – 30 June | 8,139,429 | 4,057,032 |

7. EARNINGS PER SHARE

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

| | 1 January - 30 June 2014 | 1 January - 30 June 2013 |
|--|-----------------------------|-----------------------------|
| Net profit attributable to owners of the Parent | 561,600 | 834,002 |
| Number of ordinary shares for basic earnings per share | 250,000,000,000 | 250,000,000,000 |
| Basic earnings per share (full TL) | 0.0022 | 0.0033 |

There is no dilution of shares for the six months period ended 30 June 2014 and 30 June 2013.

In current period the group paid dividends amounting to TL 100,316 (30 June 2013: TL 100,292) 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 financial statements.

8. RELATED PARTY TRANSACTIONS

For the purpose of these condensed consolidated interim financial statements, shareholders (namely General Directorate of the Registered Foundations and Appendant 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.

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8. RELATED PARTY TRANSACTIONS (Continued)

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:

| Related party | 30 June 2014 | | | 31 December 2013 | | |
|------------------------------|--------------|----------------|----------------|------------------|----------------|------------------|
| | Cash loans | Non-cash loans | Deposits | Cash loans | Non-cash loans | Deposits |
| Direct/Indirect shareholders | 2,008 | 11,591 | 790,992 | 1,870 | 36,646 | 1,014,941 |
| Associates | 1 | 264 | 16,197 | 11 | 592 | 20,387 |
| Key management personnel | - | - | 196 | - | - | 318 |
| Total | 2,009 | 11,855 | 807,385 | 1,881 | 37,238 | 1,035,646 |

| Related party | 30 June 2014 | | | | 30 June 2013 | | | |
|------------------------------|-------------------|-----------------|------------------|-------------------------|-------------------|-----------------|------------------|-------------------------|
| | Commission Income | Interest income | Interest expense | Other operating expense | Commission Income | Interest income | Interest expense | Other operating expense |
| Direct/Indirect shareholders | 16 | - | 33,036 | - | 12 | - | 13,028 | - |
| Associates | 8 | - | 862 | 9 | 7 | 5 | 511 | 25 |
| Total | 24 | - | 33,898 | 9 | 19 | 5 | 13,539 | 25 |

Key Management Remuneration

For the six-month periods ended 30 June 2014, the key management personnel received remuneration and fees amounted to TL 13,762 (30 June 2013: TL 11,189).

9. OTHER INCOME

For the six-month periods ended 30 June 2014 and 2013, other income comprised the followings:

| | 30 June 2014 | 30 June 2013 |
|--|-----------------|-----------------|
| Earned premiums | 324,202 | 385,532 |
| <i>Written premiums</i> | <i>413,982</i> | <i>443,391</i> |
| <i>Change in reserve for unearned premiums</i> | <i>(89,780)</i> | <i>(57,859)</i> |
| Reversal of miscellaneous provision | 141,274 | 37,161 |
| Excess fee charged to customers for communication expenses | 42,303 | 42,977 |
| Income from sale of fixed assets | 40,787 | 35,825 |
| Private pension business income | 22,056 | 17,883 |
| Dividend income from equity shares | 5,718 | 17,079 |
| Other items | 59,661 | 40,627 |
| Total | 636,001 | 577,084 |

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

10. SALARIES AND EMPLOYEE BENEFIT EXPENSES

For the six month periods ended 30 June 2014 and 2013, salaries and employee benefit expenses comprised the following:

| | 30 June 2014 | 30 June 2013 |
|--|------------------|------------------|
| Wages and salaries | (303,902) | (272,273) |
| Other fringe benefits | (246,420) | (182,014) |
| Short term and long term employee benefit expenses | (151,978) | (139,917) |
| Employer’s share of social security premiums | (95,409) | (79,714) |
| Total | (797,709) | (673,918) |

11. OTHER EXPENSES

For the six month periods ended 30 June 2014 and 2013, other expenses comprised the following:

| | 30 June 2014 | 30 June 2013 |
|---|--------------------|------------------|
| Incurred insurance claims | (378,952) | (343,639) |
| <i>Insurance claims paid</i> | <i>(322,377)</i> | <i>(289,833)</i> |
| <i>Change in provision for outstanding claims</i> | <i>(56,575)</i> | <i>(53,806)</i> |
| Banking services promotion expenses | (218,590) | (197,565) |
| Rent expenses and operating lease charges | (103,502) | (79,043) |
| Saving Deposit Insurance Fund premiums | (43,611) | (39,210) |
| Communication expenses | (40,232) | (33,595) |
| Advertising expenses | (34,026) | (43,326) |
| Other provision expenses | (32,944) | (66,792) |
| Loss on sale of assets | (29,019) | (25,682) |
| Cleaning service expenses | (22,035) | (15,414) |
| Energy expenses | (12,923) | (8,166) |
| Maintenance expenses | (12,841) | (7,819) |
| Credit card promotion expenses | (11,396) | (10,812) |
| Computer usage expenses | (11,066) | (2,000) |
| BRSA participation fee | (10,162) | (5,458) |
| Transportation expenses | (9,337) | (2,059) |
| Consultancy expenses | (8,720) | (1,755) |
| Office supplies | (8,306) | (4,819) |
| Other various administrative expenses | (140,921) | (80,515) |
| Total | (1,128,583) | (967,669) |

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12. 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 2014 | 31 December 2013 |
|---|-------------------|-------------------|
| Letters of guarantee | 18,766,419 | 17,901,823 |
| Letters of credit | 3,989,490 | 4,390,249 |
| Acceptance credits | 1,953,027 | 1,052,278 |
| Other guarantees | 43,838 | 62,356 |
| Total non-cash loans (financial guarantee contracts) | 24,752,774 | 23,406,706 |
| Loan commitments (not revocable) | 7,248,317 | 6,739,356 |
| Credit card limit commitments | 6,964,066 | 6,261,117 |
| Revocable commitments | 3,918,128 | 52,883,612 |
| Commitments for cheque payments | 1,474,188 | 1,320,438 |
| Commitments for credit card and banking operations promotions | 274,308 | 238,991 |
| Other commitments | 2,381,612 | 4,619,748 |
| Total commitments | 22,260,619 | 72,063,262 |
| Total commitments and contingencies | 47,013,393 | 95,469,968 |

Contingent assets and liabilities

There are various legal cases against the Group for which TL 16,359 (31 December 2013: TL 54,533) provision has been provided, excluding routine insurance claims. The legal case related to World Vakıf UBB in Liquidation Ltd has been settled in favour of the Bank, so the provision amounting to TL 38,510 has been reversed in current period.

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.

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

12. COMMITMENTS AND CONTINGENCIES (Continued)

Information on derivative financial instruments

| | 30 June 2014 Notional Amounts | 31 December 2013 Notional Amounts |
|---|----------------------------------|--------------------------------------|
| Trading Derivatives | | |
| Foreign Currency Related Derivative Transactions | 20,313,682 | 18,988,231 |
| Currency Forwards | 1,023,602 | 1,334,135 |
| Currency Swaps | 17,637,518 | 17,313,236 |
| Currency Futures | - | - |
| Currency Options | 1,652,562 | 340,860 |
| Interest Rate Derivative Transactions | 4,561,648 | 4,147,151 |
| Interest Rate Forwards | - | - |
| Interest Rate Swaps | 4,561,648 | 4,145,148 |
| Interest Rate Options | - | - |
| Investment Security Options | - | 2,003 |
| Interest Rate Futures | - | - |
| Other Trading Derivatives | 3,204,226 | 3,961,577 |
| Total Derivative Transactions | 28,079,556 | 27,096,959 |

13. SUBSEQUENT EVENTS

- a. In the current period, the Bank and its subsidiaries paid a total of TL 181,372 for the capital increase of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş., a subsidiary of the Bank. After the registration of the capital increase by the related authorities at 4 July 2014, the proportion of the total shares of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. held by the Group increased from 29.49% to 40.64%.
- b. The issue and public offer of the Bank’s bonds with a nominal value of TL 500,000,000 with 175-day maturity and nominal value of TL 100,000,000 with 350-days maturity have been performed on 18, 19 and 20 August 2014 with permission of the Capital Markets Board of Turkey and within the context of TL 8,000,000,000 nominal ceiling.
 - Bonds’ simple and compound interest rates with 175-day maturity are 9.3221% and 9.5486% respectively and nominal bond value of TL100 is sold at a unit price of TL 95.722
 - Bonds’ simple and compound interest rates with 350-day maturity are 9.8719% and 9.8914% respectively and nominal bond value of TL100 is sold at a unit price of TL 91.352
 - Total public offer value for the 175-day maturity bond is nominal value of TL 688,848,745 and for the 350-day maturity bonds is nominal value of TL 44,909,562.