KPMG

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Consolidated Interim Financial Statements
As at 30 June 2010
With Independent Auditors' Review Report Thereon

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik AŞ

24 September 2010

This report includes "Independent Auditors' Report on Review of Consolidated Interim Financial Statements" comprising 1 page and; "Consolidated Interim Financial Statements Together with their Explanatory Notes" comprising 73 pages.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
and Its Subsidiaries

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Independent Auditors' Report on Review of Consolidated Interim Financial Information

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

Introduction

We have reviewed the accompanying consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries (the "Group") as at 30 June 2010 and related statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 – *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements does not present fairly, in all material respects, the financial position of the Group as at 30 June 2010, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 – *Interim Financial Reporting*.

Istanbul, Turkey
24 September 2010

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Financial Position
At 30 June 2010

(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	9,210,593	8,901,925
Financial assets at fair value through profit or loss	8	270,992	141,258
Loans and advances to banks	10	110,415	101,859
Loans and advances to customers	11,12	40,015,014	35,014,619
Investment securities	13	19,620,831	18,983,829
Investment in equity participations accounted for using the equity method	14	11,167	10,654
Property and equipment	15	814,195	870,915
Intangible assets	15	52,294	47,717
Deferred tax assets	21	103,635	101,938
Other assets	16	3,493,403	3,159,699
Total assets		**73,702,539**	**67,334,413**
LIABILITIES AND EQUITY			
Deposits from banks	17	2,977,314	2,156,145
Deposits from customers	18	46,684,859	42,860,322
Obligations under repurchase agreements	9	6,137,678	6,145,352
Funds borrowed	19	5,804,168	4,696,610
Other liabilities and provisions	20	3,763,659	3,363,458
Current tax liabilities	21	21,697	84,360
Deferred tax liabilities	21	3,930	3,753
Total liabilities		**65,393,305**	**59,310,000**
Share capital	22	3,300,146	3,300,146
Share premium		724,320	724,320
Fair value reserves of available-for-sale financial assets	22	276,249	388,238
Restricted funds		-	14,282
Translation reserve		37,001	46,759
Legal reserves	22	507,887	384,414
Retained earnings		3,177,175	2,862,909
Total equity attributable to equity holders of the Bank		**8,022,778**	**7,721,068**
Non-controlling interest	22	**286,456**	**303,345**
Total equity		**8,309,234**	**8,024,413**
Total liabilities and equity		**73,702,539**	**67,334,413**
Commitments and contingencies	27	**18,317,973**	**17,188,447**

The notes on pages 8 to 73 are an integral part of these consolidated interim financial statements.

(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2010	30 June 2009
Interest income			
Interest on loans and receivables		2,023,991	2,330,277
Interest on securities		843,378	872,077
Interest on deposits at banks		71,781	82,485
Interest on money market placements		51,026	46,654
Other interest income		57,050	31,189
Total interest income		**3,047,226**	**3,362,682**
Interest expense			
Interest on deposits		(1,323,114)	(1,572,250)
Interest on money market deposits		(202,965)	(97,359)
Interest on funds borrowed		(46,662)	(101,274)
Other interest expense		(38,015)	(19,699)
Total interest expense		**(1,610,756)**	**(1,790,582)**
Net interest income		**1,436,470**	**1,572,100**
Fee and commission income		290,820	331,886
Fee and commission expense		(95,874)	(116,706)
Net fee and commission income		**194,946**	**215,180**
Other operating income			
Net trading income	8	139,726	64,968
Net foreign exchange gains		(4,560)	20,705
Other income	24	373,605	302,341
Total other operating income		**508,771**	**388,014**
Other operating expense			
Salaries and employee benefits	25	(425,203)	(404,587)
Provision for possible loan losses, net of recoveries		(312,329)	(334,121)
Depreciation and amortisation	15	(59,856)	(58,552)
Taxes other than on income		(32,883)	(26,202)
Other expenses	26	(630,334)	(580,778)
Total other operating expenses		**(1,460,605)**	**(1,404,240)**
Profit before income tax		**679,582**	**771,054**
Income tax expense	21	(144,411)	(131,578)
Profit for the period		**535,171**	**639,476**

The notes on pages 8 to 73 are an integral part of these consolidated interim financial statements.

(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2010	30 June 2009
Other comprehensive income, net of income tax			
Revaluation of property, plant and equipment		(24,232)	-
Foreign currency translation differences for foreign operations		(10,888)	1,373
Change in fair value of available for sale financial assets		(27,844)	151,955
Change in fair value of available for sale financial assets transferred to profit or loss		(106,045)	18,928
Income tax on other comprehensive income		35,133	(23,804)
Other comprehensive income for the period, net of income tax		**(133,876)**	**148,452**
Total comprehensive income for the period		**401,295**	**787,928**
Profit attributable to:			
Equity holders of the Bank		558,504	630,048
Non-controlling interest	22	(23,333)	9,428
Profit for the period		**535,171**	**639,476**
Total comprehensive income attributable to:			
Equity holders of the Bank		422,475	774,368
Non-controlling interest		(21,180)	13,560
Total comprehensive income for the period		**401,295**	**787,928**
Earnings per share on profit for the period (full TL)		0.2141	0.2558
Earnings per share on total comprehensive income for the period (full TL)		0.1605	0.3152

The notes on pages 8 to 73 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2010
(Currency – Thousands of Turkish Lira (TL))

		Attributable to equity holders of the Bank								
	Notes	**Share Capital**	**Share premium**	**Fair value reserves**	**Restricted funds**	**Translation reserve**	**Legal reserves**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2009		**3,300,146**	**724,320**	**692**	**14,282**	**45,653**	**306,750**	**1,608,461**	**306,584**	**6,306,888**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	630,048	9,428	**639,476**
Other comprehensive income										
Foreign currency translation differences		-	-	-	-	1,236	-	-	137	**1,373**
Net change in fair value of available for sale financial assets, net of tax	22	-	-	123,308	-	-	-	-	3,526	**126,834**
Net gains on available for sale financial assets transferred to profit or loss, net of tax	22	-	-	19,776	-	-	-	-	469	**20,245**
Total other comprehensive income		**-**	**-**	**143,084**	**-**	**1,236**	**-**	**-**	**4,132**	**148,452**
Total comprehensive income for the period		**-**	**-**	**143,084**	**-**	**1,236**	**-**	**630,048**	**13,560**	**787,928**
Transactions with owners, recorded directly in equity										
Transfer to reserves		-	-	-	-	-	77,543	(77,543)	-	**-**
Dividends paid		-	-	-	-	-	-	-	(6,377)	**(6,377)**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**77,543**	**(77,543)**	**(6,377)**	**(6,377)**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**77,543**	**(77,543)**	**(6,377)**	**(6,377)**
Balances at 30 June 2009		**3,300,146**	**724,320**	**143,776**	**14,282**	**46,889**	**384,293**	**2,160,966**	**313,767**	**7,088,439**

The notes on pages 8 to 73 are an integral part of these consolidated interim financial statements.

(Currency – Thousands of Turkish Lira (TL))

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Restricted funds**	**Translation reserve**	**Legal reserves**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2010		**3,300,146**	**724,320**	**388,238**	**14,282**	**46,759**	**384,414**	**2,862,909**	**303,345**	**8,024,413**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	558,504	(23,333)	**535,171**
Other comprehensive income										
Net change in restricted funds		-	-	-	(14,282)	-	-	-	(9,950)	**(24,232)**
Foreign currency translation differences		-	-	-	-	(9,758)	-	-	(1,130)	**(10,888)**
Net changes in fair value of available for sale financial assets, net of tax	22	-	-	(12,802)	-	-	-	-	2,823	**(9,979)**
Net losses on available for sale financial assets transferred to profit or loss, net of tax	22	-	-	(99,187)	-	-	-	-	10,410	**(88,777)**
Total other comprehensive income		**-**	**-**	**(111,989)**	**(14,282)**	**(9,758)**	**-**	**-**	**2,153**	**(133,876)**
Total comprehensive income for the period		**-**	**-**	**(111,989)**	**(14,282)**	**(9,758)**	**-**	**558,504**	**(21,180)**	**401,295**
Transactions with owners, recorded directly in equity										
Transfer to reserves		-	-	-	-	-	123,473	(123,473)	-	**-**
Dividends paid		-	-	-	-	-	-	(120,765)	(329)	**(121,094)**
Other		-	-	-	-	-	-	-	4,620	**4,620**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**123,473**	**(244,238)**	**4,291**	**(116,474)**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**123,473**	**(244,238)**	**4,291**	**(116,474)**
Balances at 30 June 2010		**3,300,146**	**724,320**	**276,249**	**-**	**37,001**	**507,887**	**3,177,175**	**286,456**	**8,309,234**

The notes on pages 8 to 73 are an integral part of these consolidated interim financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Cash Flows
For the Six-Month Period Ended 30 June 2010
(Currency – Thousands of Turkish Lira (TL))

	Notes	30 June 2010	30 June 2009
Cash flows from operating activities:			
Profit for the period		535,171	639,476
Adjustments for:			
Income tax expense	21	144,411	131,578
Provision for possible loan losses		312,329	334,121
Depreciation and amortisation	15	59,856	58,552
Provision for retirement pay liability and unused vacations	25	9,313	25,351
Provision for short term employee benefits	25	36,800	40,000
Unearned premium reserve	24	17,538	2,398
Provision for outstanding claims	26	15,386	227
Long term insurance contracts	26	14,563	(13,946)
Other provision expenses	26	19,889	2,941
Net interest income		(1,436,470)	(1,572,100)
Income from associates accounted for using the equity method	24	(907)	(341)
Currency translation differences		(10,888)	1,373
Other non-cash adjustments		(39,632)	71,203
Changes in operating assets and liabilities:			
Loans and advances to banks		(47,659)	(146,409)
Reserve deposits		(193,327)	45,201
Financial assets at fair value through profit or loss		(114,173)	(25,246)
Loans and advances to customers		(5,358,571)	(2,105,199)
Other assets		(120,733)	(34,058)
Deposits from banks		823,977	434,295
Deposits from customers		3,788,458	4,489,249
Obligation under repurchase agreements		74,123	920,402
Other liabilities and provisions		279,317	119,306
Interest received		3,106,480	3,442,007
Interest paid		(1,653,546)	(1,880,636)
Income taxes paid		(170,507)	(150,619)
Cash provided by operating activities		**91,198**	**4,829,126**
Cash flows from investing activities:			
Dividends received	24	5,947	3,287
Acquisition of property and equipment	15	(29,225)	(46,203)
Proceeds from the sale of property and equipment		42,275	7,176
Acquisition of intangible assets	15	(8,470)	(4,550)
Acquisition of investment securities		(7,810,125)	(3,813,980)
Proceeds from sale of investment securities		6,903,609	1,764,429
Cash used in investing activities		**(895,989)**	**(2,089,841)**
Cash flows from financing activities:			
Repayments of funds borrowed		(690,341)	(601,194)
Proceeds from funds borrowed		1,884,164	350,736
Dividends paid		(121, 094)	(6,377)
Cash (used in)/provided by financing activities		**1,072,729**	**(256,835)**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(3,697)	(1,583)
Net increase in cash and cash equivalents		264,241	2,480,867
Cash and cash equivalents at the beginning of the period	7	8,774,294	7,379,620
Cash and cash equivalents at the end of the period	7	**9,038,535**	**9,860,487**

The notes on pages 8 to 73 are an integral part of these consolidated interim financial statements.

Notes to the consolidated interim financial statements:

1. Overview of the Bank

(a) Brief History

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

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

The Bank provides corporate, commercial and retail banking services through a network of 574 domestic branches and 2 foreign branches in New York and Bahrain (31 December 2009: 543 domestic, 2 foreign, in total 545 branches). Additionally, the Bank has a bank which is located in Austria. As at 30 June 2010, the Bank has 10,337 (31 December 2009: 10,153) employees. The Bank's head office is located at Atatürk Bulvarı No:207, Kavaklıdere - Ankara.

(b) Ownership

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

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

(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank *(continued)*

(b) Ownership *(continued)*

As at 30 June 2010 and 31 December 2009, The Bank's paid-in capital amounted to TL 2,500,000, divided into 2,500,000,000 shares with a nominal value of 1 Turkish Lira each. As at 30 June 2010, the Bank's shareholders' structure was as disclosed below:

Shareholders	Number of shares	Nominal value of the shares – thousands of TL	Share percentage (%)
Foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,059	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Appendant foundations (Group B)	387,681,125	387,681	15.51
Other appendant foundations (Group B)	3,179,181	3,179	0.13
Other real persons and legal entities (Group C)	1,861,346	1,861	0.07
Publicly traded (Group D)	629,667,042	629,667	25.19
Total	**2,500,000,000**	**2,500,000**	**100.00**

2. Basis of preparation

(a) Statement of compliance

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

The accompanying consolidated interim financial statements of the Bank and its subsidiaries (collectively "the Group") are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group adopted all IFRSs, which were mandatory as at 30 June 2010.

The accompanying consolidated interim financial statements were authorized by the Bank management on 24 September 2010.

(b) Basis of measurement

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

(c) Functional currency and presentation currency

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

2. Basis of preparation *(continued)*

(d) Accounting in hyperinflationary countries

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

(e) Use of estimates and judgments

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

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

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

- Note 4 – *Financial risk management*
- Note 5 – *Insurance risk management*
- Note 11 – *Loans and advances to customers*
- Note 12 – *Finance lease receivables*
- Note 15 – *Property and equipment and intangible assets*
- Note 20 – *Other liabilities and provisions including insurance contract liabilities*
- Note 21 – *Income taxes*

(f) Changes in accounting policies

Effective 1 January 2010 the Group has changed its accounting policies in the following areas:

Presentation of financial statements

The Group has presented insurance contract liabilities in gross amounts, which were presented net of reinsurer shares in the previous periods. In accordance with this amendment, reinsurer share of reserve for unearned insurance premiums as at 31 December 2009 amounting to TL 171,086 has been added to the reserve for unearned insurance premiums balance; and reinsurer share of provision for outstanding claims as at 31 December 2009 amounting to TL 140,713 has been added to the provision for outstanding claims balance. Receivables from insurance activities have been increased by the total amount of the reinsurer shares of insurance technical provisions amounting to TL 311,799. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. Basis of preparation *(continued)*

(f) Changes in accounting policies *(continued)*

The Group has presented equity securities not subject to consolidation in available for sale investment securities which were presented under investment in equity participations in the previous periods. Beginning from this period these equity securities have been presented as investment securities and in accordance with this amendment equity securities which were presented under investment in equity participations as at 31 December 2009 amounting to TL 157,850 have been reclassified under available for sale investment securities. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3. Significant accounting policies

(a) Basis of consolidation

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

Subsidiaries

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

Associates

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

Special purpose entities

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

Transactions eliminated on consolidation

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

3. Significant accounting policies *(continued)*

(b) Foreign currency

Foreign currency transactions

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

Foreign operations

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

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

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

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

(c) Interest

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

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

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

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

3. Significant accounting policies *(continued)*

(d) Fees and commission

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

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

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

(e) Net trading income

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

(f) Dividends

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

(g) Lease payments made

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

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

(h) Income taxes

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

Corporate tax

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

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

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Corporate tax *(continued)*

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

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

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

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

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

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

Deferred taxes

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

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

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

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Transfer pricing regulations

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

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

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

Investment incentives

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

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

Because withholding tax at 19.8% of the investment incentive amount in respect of certificates obtained prior to 24 April 2003 is expected, the benefit to the Group of using the investment incentive is computed as 0.2% which is the difference between the existing tax rate and the withholding tax rate. Accordingly, as at 30 June 2010, TL 236 (31 December 2009: TL 224) deferred tax asset is calculated over TL 117,793 (31 December 2009: TL 112,195) which is deductible from future taxable income.

The total investment incentive qualifying after 24 April 2003 amounted to TL 78,153 which is indexed by the growth rate of the producer price index and calculated as TL 111,014 (31 December 2009: TL 105,798) as at 30 June 2010. Since the Group will be able to deduct this amount from its future taxable income, deferred tax assets amounted TL 22,203 (31 December 2009: TL 21,160) is recognised based on investment incentives qualifying after 24 April 2003.

3. Significant accounting policies *(continued)*

(i) Financial instruments

Recognition

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

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

Classification

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

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

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

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

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

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

See also *specific instruments* below.

Measurement

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

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

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Measurement *(continued)*

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

Fair value measurement principles

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

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

Gains and losses on subsequent measurement

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

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

Derecognition

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

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

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

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

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

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Offsetting

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

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

Specific instruments

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Identification and measurement of impairments

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

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

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

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

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

(j) Repurchase transactions

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

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

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(k) Securitisations

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

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

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

(l) Property and equipment

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

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

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

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

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

(m) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds some investment property as a consequence of the ongoing rationalization of its real estate company and insurance companies, consolidated in the accompanying consolidated financial statements.

Investment properties are measured initially at cost including transaction costs.

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

3. Significant accounting policies *(continued)*

(n) Intangible assets

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

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

(o) Impairment of non-financial assets

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

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

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

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

(p) Provisions

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

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

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(q) Employee benefits

Pension and other post-retirement obligations

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

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

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

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

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

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008. The actual date of the transfer has not been specified yet.

Pension and medical benefits transferable to SSF:

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

3. Significant accounting policies *(continued)*

(q) Employee benefits *(continued)*

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

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

Excess benefit not transferable to SSF:

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

Actuarial evaluation:

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated February 2010 which is prepared in accordance with IAS 19 – *Employee Benefits*, there is no technical or actual deficit determined which requires provision against.

Reserve for employee severance indemnity

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

Other benefits to employees

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

(r) Items held in trust

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

(s) Financial guarantees

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

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

3. Significant accounting policies *(continued)*

(t) Insurance business

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

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

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

(t) Insurance business *(continued)*

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

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

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

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

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

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

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

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

3. Significant accounting policies *(continued)*

(u) Individual pension business

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

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

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

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

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

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

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

(v) Earnings per share

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

(w) Subsequent events

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

3. Significant accounting policies *(continued)*

(x) Segment reporting

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

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are not effective as of 30 June 2010 have not been applied in preparing these consolidated interim financial statements and are not expected to have any impact on the consolidated financial statements of the Group, with the exception of:

- IFRS 9 – *Financial Instruments* which was published by International Accounting Standards Board in October 2009 as a part of a wider project that aims to bring new regulations to replace IAS 39 – *Financial Instruments: Recognition and Measurement*.

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

An entity shall apply *IFRS 9* for annually periods beginning on or after 1 January 2013. An earlier application is permitted. If an entity adopts this IFRS in its financial statements for a period beginning before 1 January 2012, then prior periods do not need to be restated.

- IFRS 1 – *First-time Adoption of IFRSs* – Limited Exemption from comparative TFRS 7 Disclosures for First-time Adopters;
- IFRS 7 – *Financial Instruments* is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments;
- IAS 24 – *Related Party Disclosures*: Amendment to definition of related party;
- IAS 27 – *Consolidated and Separate Financial Statements:* Amendments clarifying that the consequential amendments to IAS 21 – *The Effects of Changes in Foreign Exchange Rates,* IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering;
- IAS 34 – *Interim Financial Reporting:* Amendment to the list of events or transactions that require disclosure under IAS 34;
- IFRIC 14 – IAS 19 – Amendments to The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction;
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments;

4. Financial risk management

(a) Introduction and overview

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

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

Risk management framework

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

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

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

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

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

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;

- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;

- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk

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

Management of credit risk

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

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

Exposure to credit risk

	Loans and advances to customers		**Other assets exposed to credit risk (inc. financial assets other than loans and advances to customers) (*)**	
	30 June 2010	**31 December 2009**	**30 June 2010**	**31 December 2009**
Individually impaired	2,536,740	2,366,091	23,129	20,160
Allowance for impairment	(2,371,889)	(2,171,275)	(15,484)	(14,588)
Carrying amount	**164,851**	**194,816**	**7,645**	**5,572**
Past due but not impaired	222,004	351,349	92,301	88,619
Carrying amount	**222,004**	**351,349**	**92,301**	**88,619**
Neither past due nor impaired	39,057,395	34,205,238	34,854,005	33,481,541
Loans with renegotiated terms	570,764	263,216	-	-
Carrying amount	**39,628,159**	**34,468,454**	**34,854,005**	**33,481,541**
Total carrying amount	**40,015,014**	**35,014,619**	**34,953,951**	**33,575,732**

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

As at 30 June 2010 and 31 December 2009, the Group has no allowance for loans and advances to banks and investment securities.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectoral distribution of the performing loans and advances to customers

	30 June 2010	31 December 2009
Consumer loans	10,433,488	9,202,303
Mortgage loans	*4,639,580*	*3,954,650*
General purpose loans	*3,806,037*	*4,136,093*
Overdraft checking accounts	*603,569*	*622,890*
Auto loans	*149,593*	*441,303*
Other consumer loans	*1,234,709*	*47,367*
Manufacturing	9,302,227	7,374,063
Wholesale and retail trade	5,253,494	4,994,496
Financial institutions	2,597,756	1,766,996
Transportation and telecommunication	2,356,586	2,087,938
Construction	2,355,752	1,927,633
Credit cards	1,253,861	1,004,298
Hotel, food and beverage services	886,212	879,255
Agriculture and stockbreeding	427,843	282,897
Health and social services	321,164	195,906
Others	4,661,780	5,104,018
Total performing loans and advances to customers	**39,850,163**	**34,819,803**

Impaired loans and receivables

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write-off policy

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

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

	Loans and advances to customers		Other assets	
30 June 2010	**Gross**	**Net**	**Gross(*)**	**Net (*)**
Grade 3 : Individually impaired	246,502	162,438	-	-
Grade 4 : Individually impaired	448,442	-	-	-
Grade 5 : Individually impaired	1,841,796	2,413	23,129	7,645
Total	**2,536,740**	**164,851**	**23,129**	**7,645**

	Loans and advances to customers		Other assets	
31 December 2009	**Gross**	**Net**	**Gross(*)**	**Net (*)**
Grade 3 : Individually impaired	304,596	191,684	-	-
Grade 4 : Individually impaired	340,501	-	-	-
Grade 5 : Individually impaired	1,720,994	3,132	20,160	5,572
Total	**2,366,091**	**194,816**	**20,160**	**5,572**

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

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2010 and 31 December 2009.

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

Cash loans	**30 June 2010**	**31 December 2009**
Secured loans:	25,231,355	23,500,280
Secured by government institutions or government securities	*10,315,870*	*121,945*
Guarantees issued by financial institutions	*313,299*	*344,992*
Secured by cash collateral	*171,345*	*88,423*
Secured by mortgages	*121,219*	*9,944,162*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*14,309,622*	*13,000,758*
Unsecured loans	14,618,808	11,319,523
Total performing loans and advances to customers	**39,850,163**	**34,819,803**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Non-cash loans	**30 June 2010**	**31 December 2009**
Secured loans:	3,417,497	4,003,521
Secured by mortgages	*818,122*	*965,319*
Secured by cash collateral	*87,756*	*87,452*
Guarantees issued by financial institutions	*53,772*	*357,208*
Secured by government institutions or government securities	-	*123*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*2,457,847*	*2,593,419*
Unsecured loans	5,838,674	5,117,312
Total non-cash loans	**9,256,171**	**9,120,833**

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

	30 June 2010	**31 December 2009**
Cash collateral(*)	-	-
Mortgages	451,503	997,361
Promissory notes(*)	4,771	4,927
Others	536,732	942,028
Total	**993,006**	**1,944,316**

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

Sectoral and geographical concentration of impaired loans

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

Sectoral concentration	**30 June 2010**	**31 December 2009**
Service sector	948,360	237,661
Consumer loans	389,099	421,626
Construction	262,723	311,682
Textile	169,463	293,464
Food	156,638	264,577
Agriculture and stockbreeding	57,567	87,999
Durable consumer goods	29,050	178,582
Metal and metal products	28,223	88,560
Financial institutions	11,843	12,715
Others	483,774	469,225
Total non-performing loans and advances to customers	**2,536,740**	**2,366,091**

Geographical concentration	**30 June 2010**	**31 December 2009**
Turkey	2,521,635	2,349,640
Austria	15,105	16,451
Total non-performing loans and advances to customers	**2,536,740**	**2,366,091**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

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

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

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

30 June 2010	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	7,470,263	1,501,514	238,816	-	-	-	9,210,593
Financial assets at fair value through profit or loss	2,561	7,144	4,346	91,540	137,453	27,948	270,992
Loans and advances to banks	-	20,911	35,302	51,458	2,744	-	110,415
Loans and advances to customers	164,851	6,618,646	2,451,100	8,907,324	18,299,653	3,573,440	40,015,014
Investment securities	171,163	210,369	1,968,812	4,327,508	7,957,415	4,985,564	19,620,831
Other assets	1,578,917	169,229	9,481	41,990	811,296	41	2,610,954
Total assets	**9,387,755**	**8,527,813**	**4,707,857**	**13,419,820**	**27,208,561**	**8,586,993**	**71,838,799**
Deposits from banks	10,966	2,595,974	370,370	4	-	-	2,977,314
Deposits from customers	6,952,876	26,497,253	11,668,570	1,246,582	319,093	485	46,684,859
Obligations under repurchase agreements	-	2,419,547	3,364,905	185,852	167,374	-	6,137,678
Funds borrowed	-	211,820	1,227,373	1,528,089	1,846,763	990,123	5,804,168
Current tax liabilities	-	-	21,697	-	-	-	21,697
Other liabilities and provisions	142,762	1,273,017	81,138	27,872	668,458	2,583	2,195,830
Total liabilities	**7,106,604**	**32,997,611**	**16,734,053**	**2,988,399**	**3,001,688**	**993,191**	**63,821,546**
Net	**2,281,151**	**(24,469,798)**	**(12,026,196)**	**10,431,421**	**24,206,873**	**7,593,802**	**8,017,253**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

31 December 2009	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	3,355,593	5,492,901	53,431	-	-	-	8,901,925
Financial assets at fair value through profit or loss	3,211	4,105	14,049	52,935	46,439	20,519	141,258
Loans and advances to banks	-	-	26,350	45,248	30,261	-	101,859
Loans and advances to customers	194,816	5,869,168	2,772,254	7,677,575	15,326,440	3,174,366	35,014,619
Investment securities	159,327	669,504	861,483	4,070,329	10,115,269	3,107,917	18,983,829
Other assets	1,735,728	157,104	73,724	112,187	216,361	407	2,295,511
Total assets	**5,448,675**	**12,192,782**	**3,801,291**	**11,958,274**	**25,734,770**	**6,303,209**	**65,439,001**
Deposits from banks	9,372	1,640,304	450,325	56,144	-	-	2,156,145
Deposits from customers	5,905,540	25,817,064	9,049,291	1,888,579	199,820	28	42,860,322
Obligations under repurchase agreements	-	732,737	3,887,386	1,403,218	122,011	-	6,145,352
Funds borrowed	-	230,483	163,009	1,511,332	1,510,401	1,281,385	4,696,610
Current tax liabilities	-	-	84,360	-	-	-	84,360
Other liabilities and provisions	738,269	868,575	51,593	56,907	74,342	14,003	1,803,689
Total liabilities	**6,653,181**	**29,289,163**	**13,685,964**	**4,916,180**	**1,906,574**	**1,295,416**	**57,746,478**
Net	**(1,204,506)**	**(17,096,381)**	**(9,884,673)**	**7,042,094**	**23,828,196**	**5,007,793**	**7,692,523**

Residual contractual maturities of the financial liabilities

30 June 2010	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	2,977,314	3,086,546	10,966	2,694,822	380,754	4	-	-
Deposits from customers	46,684,859	46,902,332	6,952,876	26,612,710	11,723,996	1,267,665	344,465	620
Obligations under repurchase agreements	6,137,678	6,148,048	-	2,422,179	3,366,291	186,388	173,190	-
Funds borrowed	5,804,168	6,237,718	-	239,114	1,229,759	1,541,790	2,059,670	1,167,385
Other financial liabilities	2,195,830	2,195,830	142,762	1,273,017	81,138	27,872	668,458	2,583
Total	**63,799,849**	**64,570,474**	**7,106,604**	**33,241,842**	**16,781,938**	**3,023,719**	**3,245,783**	**1,170,588**
Non-cash loans	**9,256,171**	**9,256,171**	**5,286,666**	**241,206**	**1,048,113**	**1,742,693**	**863,142**	**74,351**

31 December 2009	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	2,156,145	2,165,104	9,372	1,642,756	455,531	57,445	-	-
Deposits from customers	42,860,322	43,103,962	5,905,540	25,955,189	9,101,420	1,916,371	225,408	34
Obligations under repurchase agreements	6,145,352	6,153,387	-	732,903	3,889,087	1,408,969	122,428	-
Funds borrowed	4,696,610	5,032,914	-	231,973	164,162	1,539,408	1,666,851	1,430,520
Other financial liabilities	1,803,689	1,803,689	738,269	868,575	51,593	56,907	74,342	14,003
Total	**57,662,118**	**58,259,056**	**6,653,181**	**29,431,396**	**13,661,793**	**4,979,100**	**2,089,029**	**1,444,557**
Non-cash loans	**9,120,833**	**9,120,833**	**4,778,410**	**53,817**	**154,574**	**1,291,543**	**2,633,322**	**209,167**

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

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

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

Average, highest and lowest values of consolidated market risks as at 30 June 2010 and 31 December 2009, calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	30 June 2010			**31 December 2009**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	136,598	151,077	122,119	99,814	126,144	62,973
Common share risk	3,366	3,390	3,341	1,652	3,320	36
Currency risk	19,210	24,322	14,097	15,334	24,175	9,319
Option risk	319	493	145	7,022	15,950	2,594
Total value at risk	**1,993,650**	**2,113,213**	**1,874,088**	**1,547,779**	**2,118,538**	**937,688**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

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

30 June 2010	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and cash equivalents	7,762,672	238,816	-	-	-	1,209,105	9,210,593
Loans and advances to banks	20,911	35,302	51,458	2,744	-	-	110,415
Loans and advances to customers	13,474,432	6,159,048	10,452,021	7,184,681	2,579,981	164,851	40,015,014
Investment securities	4,518,507	4,094,266	6,140,500	1,785,650	2,910,745	171,163	19,620,831
Other assets	2,232	9,247	38,200	89,204	41	2,472,030	2,610,954
Total assets	**25,778,754**	**10,536,679**	**16,682,179**	**9,062,279**	**5,490,767**	**4,017,149**	**71,567,807**
Deposits from banks	2,595,974	370,370	4	-	-	10,966	2,977,314
Deposits from customers	26,497,253	11,668,570	1,246,582	319,093	485	6,952,876	46,684,859
Obligations under repurchase agreements	2,419,547	3,364,905	185,852	167,374	-	-	6,137,678
Funds borrowed	250,832	3,592,949	1,865,283	76,108	18,996	-	5,804,168
Other liabilities and provisions	10,569	9,875	27,714	25,644	2,583	2,119,445	2,195,830
Total liabilities	**31,774,175**	**19,006,669**	**3,325,435**	**588,219**	**22,064**	**9,083,287**	**63,799,849**
Net	**(5,995,421)**	**(8,469,990)**	**13,356,744**	**8,474,060**	**5,468,703**	**(5,066,138)**	**7,767,958**

31 December 2009	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and cash equivalents	7,648,452	53,431	-	-	-	1,200,042	8,901,925
Loans and advances to banks	-	26,350	45,248	30,261	-	-	101,859
Loans and advances to customers	9,760,759	10,182,439	6,362,896	6,287,910	2,225,799	194,816	35,014,619
Investment securities	3,591,049	4,080,466	5,045,932	3,520,513	2,586,542	159,327	18,983,829
Other assets	12,104	20,944	90,788	158,495	20,403	1,992,777	2,295,511
Total assets	**21,012,364**	**14,363,630**	**11,544,864**	**9,997,179**	**4,832,744**	**3,546,962**	**65,297,743**
Deposits from banks	1,640,304	450,325	56,144	-	-	9,372	2,156,145
Deposits from customers	25,817,064	9,049,291	1,888,579	199,820	28	5,905,540	42,860,322
Obligations under repurchase agreements	732,737	3,934,522	1,403,218	74,875	-	-	6,145,352
Funds borrowed	272,403	3,643,238	733,488	26,924	3,682	16,875	4,696,610
Other liabilities and provisions	7,214	23,840	34,111	8,938	7,879	1,721,707	1,803,689
Total liabilities	**28,469,722**	**17,101,216**	**4,115,540**	**310,557**	**11,589**	**7,653,494**	**57,662,118**
Net	**(7,457,358)**	**(2,737,586)**	**7,429,324**	**9,686,622**	**4,821,155**	**(4,106,532)**	**7,635,625**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

The following table indicates the average effective interest rates applied to monetary financial instruments by major currencies for the six-month period ended 30 June 2010 and for the year ended 31 December 2009:

30 June 2010	**US Dollar %**	**EUR %**	**TL %**
Cash and cash equivalents	0.35 - 3.60	0.15 - 1.81	3.50 - 13.00
Loans and advances to banks	0.39 - 5.50	0.65 - 5.36	8.62 - 10.20
Loans and advances to customers	0.99 - 7.02	2.75 - 5.42	7.80 - 18.78
Investment securities	4.04 - 11.86	5.44 - 9.50	4.00 - 16.00
Deposits from banks	0.20 - 4.35	0.10 - 3.00	4.25 - 10.40
Deposits from customers	1.88 - 3.48	2.02 - 3.12	2.21 - 12.43
Obligations under repurchase agreements	0.85 - 2.04	-	3.25 - 15.75
Funds borrowed	0.38 - 4.30	0.93 - 2.40	6.00 - 12.00

31 December 2009	**US Dollar %**	**EUR %**	**TL %**
Cash and cash equivalents	0.34 - 3.57	0.27 - 1.25	5.2 - 11.62
Loans and advances to banks	0.90 - 7.10	1.97 - 5.85	9.25 - 10.25
Loans and advances to customers	2.14 - 5.79	3.82 - 6.96	14.94 - 16.66
Investment securities	6.68 - 8.71	1.67 - 7.42	9.82 - 11.93
Deposits from banks	0.15 - 3.50	0.45 - 3.50	4.25 - 10.75
Deposits from customers	1.67 - 3.07	1.98 - 3.89	3.75 - 14.00
Obligations under repurchase agreements	0.75 - 3.75	1.00	7.10 - 18.40
Funds borrowed	0.04 - 3.75	1.82 - 4.43	7.06 - 17.64

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate sensitivity

Interest rate sensitivity of profit or loss is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss held as at 30 June 2010 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 30 June 2010.

Interest rate sensitivity of the other comprehensive income is calculated by considering the effects of the assumed changes in interest rates on the fair values of fixed rate available-for-sale financial assets as at 30 June 2010.

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

This analysis is performed on the same basis for 30 June 2009.

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

	Profit or loss		Total comprehensive income	
30 June 2009	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(5,981)	6,318	(5,981)	6,318
Available-for-sale financial assets	19,665	(19,732)	(120,909)	128,780
Floating rate financial assets	108,544	(108,544)	108,544	(108,544)
Floating rate financial liabilities	(32,607)	32,607	(32,607)	32,607
Total, net	**89,621**	**(89,351)**	**(50,953)**	**59,161**

Exposure to interest rate risk – non-trading portfolios

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

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

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

Management of currency risk

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

30 June 2010	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	633,752	1,818,176	44,794	2,496,722
Financial assets at fair value through profit or loss	10,290	34,877	-	45,167
Loans and advances to banks	41,528	2,051	-	43,579
Loans and advances to customers	4,273,606	8,647,557	59,118	12,980,281
Investment securities	779,629	3,210,624	-	3,990,253
Other assets	893,004	488,753	102	1,381,859
Total foreign currency denominated monetary assets	**6,631,809**	**14,202,038**	**104,014**	**20,937,861**
Deposits from banks	55,305	797,403	125	852,833
Deposits from customers	3,449,117	9,119,193	49,551	12,617,861
Obligations under repurchase agreements	-	1,969,562	-	1,969,562
Funds borrowed	2,734,312	2,724,132	40,859	5,499,303
Other liabilities	150,720	148,941	2,896	302,557
Total foreign currency denominated monetary liabilities	**6,389,454**	**14,759,231**	**93,431**	**21,242,116**
Net statement of financial position	**242,355**	**(557,193)**	**10,583**	**(304,255)**
Net off balance sheet position	**(129,711)**	**814,151**	**(2,175)**	**682,265**
Net long/(short) position	**112,644**	**256,958**	**8,408**	**378,010**

31 December 2009	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	1,765,431	1,137,828	39,385	2,942,644
Financial assets at fair value through profit or loss	37,061	4,058	-	41,119
Loans and advances to banks	27,432	-	385	27,817
Loans and advances to customers	7,052,052	3,993,809	63,310	11,109,171
Investment securities	2,814,534	834,463	-	3,648,997
Other assets	950,552	123,958	215	1,074,725
Total foreign currency denominated monetary assets	**12,647,062**	**6,094,116**	**103,295**	**18,844,473**
Deposits from banks	348,016	72,260	61	420,337
Deposits from customers	8,337,742	4,077,546	42,154	12,457,442
Obligations under repurchase agreements	1,418,815	83,909	-	1,502,724
Funds borrowed	2,446,561	1,975,237	45,705	4,467,503
Other liabilities	155,962	131,822	2,710	290,494
Total foreign currency denominated monetary liabilities	**12,707,096**	**6,340,774**	**90,630**	**19,138,500**
Net statement of financial position	**(60,034)**	**(246,658)**	**12,665**	**(294,027)**
Net off balance sheet position	**208,333**	**245,998**	**(3,030)**	**451,301**
Net long/(short) position	**148,299**	**(660)**	**9,635**	**157,274**

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

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk

10 percent devaluation of TL against the following currencies as at and for the six-month periods ended 30 June 2010 and 30 June 2009 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	30 June 2010		30 June 2009	
	Profit or loss	Total comprehensive income	Profit or loss	Total comprehensive income
US Dollar	15,263	23,457	6,898	3,107
EUR	10,418	20,600	32,990	30,070
Other currencies	841	841	1,258	1,258
Total, net	**26,522**	**44,898**	**41,146**	**34,435**

10 percent revaluation of TL against the following currencies as at and for the six-month periods ended 30 June 2010 and 30 June 2009 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	30 June 2010		30 June 2009	
	Profit or loss	Total comprehensive income	Profit or loss	Total comprehensive income
US Dollar	(10,838)	(19,032)	436	4,227
EUR	(10,414)	(20,596)	(31,986)	(29,066)
Other currencies	(83)	(83)	(494)	(494)
Total, net	**(21,335)**	**(39,711)**	**(32,044)**	**(25,333)**

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

Equity price risk

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

The effect on other comprehensive income of the Group as a result of changes in the fair value of equity instruments held as available-for-sale financial assets and equity participations at 30 June 2010 and 30 June 2009 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index	30 June 2010	30 June 2009
ISE – 100 (IMKB100)	10%	8,548	3,579

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Fair value information

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

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

Fair value of performing loans and advances to customers is TL 39,856,871 (31 December 2009: TL 34,818,219), whereas the carrying amount is TL 39,850,163 (31 December 2009: TL 34,819,803) in the accompanying consolidated statement of financial position as at 30 June 2010.

Fair value of held-to-maturity investment securities is TL 5,080,541 (31 December 2009: TL 3,783,271), whereas the carrying amount is TL 4,905,703 (31 December 2009: TL 3,578,218) in the accompanying consolidated statement of financial position as at 30 June 2010.

Classification of fair value measurement

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

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

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

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

30 June 2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	240,465	14,271	-	**254,736**
Derivative financial assets held for trading purpose	-	13,695	-	**13,695**
Investment funds	2,522	-	-	**2,522**
Equity securities	39	-	-	**39**
Investment securities				
Debt securities	14,136,322	407,643	-	**14,543,965**
Equity securities	104,757	-	27,310	**132,067**
Investment in equity participations	3,171	-	-	**3,171**
Total financial assets	**14,487,276**	**435,609**	**27,310**	**14,950,195**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(42,450)	-	**(42,450)**
Total financial liabilities	**-**	**(42,450)**	**-**	**(42,450)**

31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	100,539	15,984	-	**116,523**
Derivative financial assets held for trading purpose	-	21,524	-	**21,524**
Investment funds	2,829	-	-	**2,829**
Equity securities	382	-	-	**382**
Investment securities				
Debt securities	14,850,870	395,414	-	**15,246,284**
Equity securities	91,904	-	28,567	**120,471**
Investment in equity participations	3,118	-	-	**3,118**
Total financial assets	**15,049,642**	**432,922**	**28,567**	**15,511,131**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(42,547)	-	**(42,547)**
Total financial liabilities	**-**	**(42,547)**	**-**	**(42,547)**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the six-month period ended 30 June 2010 is as follows:

Balance at the beginning of the period	28,567
Total gains or losses for the period recognised in profit or loss	-
Total gains or losses for the period recognised in other comprehensive income	(1,257)
Balance at the end of the period	**27,310**

(e) Operational risk

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

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

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

The Group calculated the value of operational risk in accordance with the fourth section regarding the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 June 2007, using gross profit of the last three years 2009, 2008 and 2007. The amount, calculated as TL 541,309 as at 30 June 2010 (31 December 2009: TL 448,797) represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 6,766,363 (31 December 2009: TL 5,609,963) and is calculated as 12.5 times the operational risk.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(f) Capital management – regulatory capital

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

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

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

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 30 June 2010 and 31 December 2009 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

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

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 30 June 2010 and 31 December 2009 was as follows:

	30 June 2010	**31 December 2009**
Tier 1 capital	7,187,527	6,822,116
Tier 2 capital	474,408	490,363
Deductions from capital	(287,965)	(284,016)
Total regulatory capital	7,373,970	7,028,463
Risk-weighted assets	43,838,046	38,684,473
Value at market risk	1,874,088	1,914,000
Operational risk	6,766,363	5,609,963
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.05	15.21
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.70	14.76

5 Insurance risk management

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

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

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

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

Pricing policies

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

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

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

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

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

Management of risks

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

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

Concentration of insurance risk

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

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

5 Insurance risk management *(continued)*

Concentration of insurance risk *(continued)*

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

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

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

Reinsurance

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

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

i) Financial strength,

ii) Long-term relationship approach,

iii) Competitive prices

iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.

v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

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

6. Segment reporting

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking

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

Corporate and commercial banking

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

Investment banking

Includes the Group's trading and corporate finance activities.

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

Insurance

Includes the Group's insurance business.

Leasing

Includes the Group's finance lease business.

Factoring

Includes the Group's factoring business.

Others

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

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

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

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments

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

30 June 2010	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	11,723,791	28,235,099	28,102,719	3,516,866	71,578,475	1,924,723	452,084	900,343	427,555	75,283,180	(1,591,808)	73,691,372
Investments in associates and subsidiaries	-	-	629,659	-	629,659	106,696	2,561	6,160	16,408	761,484	(750,317)	11,167
Total assets	**11,723,791**	**28,235,099**	**28,732,378**	**3,516,866**	**72,208,134**	**2,031,419**	**454,645**	**906,503**	**443,963**	**76,044,664**	**(2,342,125)**	**73,702,539**
Segment liabilities	14,396,616	35,834,481	11,746,402	1,972,961	63,950,460	1,744,295	374,146	837,896	88,873	66,995,670	(1,602,365)	65,393,305
Equity including non-controlling interest	-	-	-	8,257,674	8,257,674	287,124	80,499	68,607	355,090	9,048,994	(739,760)	8,309,234
Total liabilities and equity	**14,396,616**	**35,834,481**	**11,746,402**	**10,230,635**	**72,208,134**	**2,031,419**	**454,645**	**906,503**	**443,963**	**76,044,664**	**(2,342,125)**	**73,702,539**

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments *(continued)*

30 June 2009	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	**128,396**	**90,574**	**513,144**	**9,274**	**741,388**	**14,873**	**5,955**	**8,499**	**5,959**	**776,674**	**(5,620)**	**771,054**
Profit before income tax	128,396	90,574	513,144	9,274	741,388	14,873	5,955	8,499	5,959	776,674	(5,620)	771,054
Income tax expense	(22,824)	(16,101)	(91,218)	(1,648)	(131,791)	(7,723)	9,854	(1,675)	(243)	(131,578)	-	(131,578)
Profit for the period	**105,572**	**74,473**	**421,926**	**7,626**	**609,597**	**7,150**	**15,809**	**6,824**	**5,716**	**645,096**	**(5,620)**	**639,476**

31 December 2009	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	10,248,460	27,205,076	25,522,378	2,264,781	65,240,695	1,918,777	343,997	566,612	444,553	68,514,634	(1,190,875)	67,323,759
Investment in associates and subsidiaries	-	-	559,836	-	559,836	94,555	2,245	6,160	9,922	672,718	(662,064)	10,654
Total assets	**10,248,460**	**27,205,076**	**26,082,214**	**2,264,781**	**65,800,531**	**2,013,332**	**346,242**	**572,772**	**454,475**	**69,187,352**	**(1,852,939)**	**67,334,413**
Segment liabilities	13,922,149	31,578,544	10,683,545	1,769,604	57,953,842	1,684,650	277,867	505,086	92,306	60,513,751	(1,203,751)	59,310,000
Equity including non-controlling interest	-	-	-	7,846,689	7,846,689	328,682	68,375	67,686	362,169	8,673,601	(649,188)	8,024,413
Total liabilities and equity	**13,922,149**	**31,578,544**	**10,683,545**	**9,616,293**	**65,800,531**	**2,013,332**	**346,242**	**572,772**	**454,475**	**69,187,352**	**(1,852,939)**	**67,334,413**

(Currency – Thousands of Turkish Lira (TL))

7. Cash and cash equivalents

As at 30 June 2010 and 31 December 2009, cash and cash equivalents as presented in the consolidated statement of financial position and cash flows are as follows:

	30 June 2010	31 December 2009
Cash on hand	471,068	594,819
Balances with the Central Bank excluding reserve deposits	6,116,455	1,585,067
Receivables from repurchase agreements *(Note 9)*	174	-
Loans and advances to banks with original maturity less than three months	2,621,620	6,721,304
Others	1,276	735
Total cash and cash equivalents in the consolidated statement of financial position	**9,210,593**	**8,901,925**
Accruals on cash and cash equivalents	(29,454)	(24,130)
Blocked bank deposits	(142,604)	(103,501)
Total cash and cash equivalents in the consolidated statement of cash flows	**9,038,535**	**8,774,294**

As at 30 June 2010, loans and advances to banks include blocked accounts of TL 142,604 (31 December 2009: TL 103,501) held against the "Diversified Payment Rights" securitizations and insurance liabilities of the Group in favour of the Turkish Treasury.

As at 30 June 2010, blocked loans and advances to banks includes credit card receivables of insurance subsidiaries blocked by the banks for 28 days amounted to TL 18,413 (31 December 2009: 19,200) which is presented as cash in the consolidated statement of cash flows, since these amounts are convertible to cash when requested.

8. Financial assets at fair value through profit or loss

As at 30 June 2010 and 31 December 2009, financial assets at fair value through profit or loss are as follows:

	30 June 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Government bonds in TL	208,627	213,876	93,292	95,265
Eurobonds issued by the Turkish Government	22,619	31,713	13,728	21,258
Treasury bills in TL	3,067	9,147	-	-
		254,736		**116,523**
Equity and other non-fixed income instruments:				
Derivative financial instruments held for trading purposes		13,695		21,524
Investment funds		2,522		2,829
Equity shares		39		382
		16,256		**24,735**
Total financial assets at fair value through profit or loss		**270,992**		**141,258**

Income from debt instruments held at fair value is reflected in the consolidated statement of comprehensive income as interest on securities. Gains and losses arising on derivative financial instruments held for trading purposes and changes in fair value of other equity and non-fixed income instruments are reflected in net trading income. As at and for the six-month period ended 30 June 2010, net income from trading of financial assets amounting to TL 139,726 (30 June 2009: TL 64,968) which is included in "trading income, (net)".

(Currency – Thousands of Turkish Lira (TL))

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

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

	30 June 2010		31 December 2009	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	167,223	177,232	-	-
Deposited at Istanbul Stock Exchange for repurchase transactions	-		2,117	2,080
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	93	100	97
		177,325		**2,177**

Derivative financial instruments held for trading purposes

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

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

(Currency – Thousands of Turkish Lira (TL))

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

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

	30 June 2010					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Currency swaps:						
Purchases	304,570	-	-	-	-	**304,570**
Sales	305,684	-	-	-	-	**305,684**
Currency forwards:						
Purchases	1,859	34,077	4,975	-	-	**40,911**
Sales	1,858	34,064	4,971	-	-	**40,893**
Cross currency interest rate swaps:						
Purchases	-	-	-	746,209	-	**746,209**
Sales	-	-	-	728,108	-	**728,108**
Interest rate swaps:						
Purchases	-	-	2,041	166,889	117,750	**286,680**
Sales	-	-	2,041	153,973	117,750	**273,764**
Currency options:						
Purchases	73,259	11,457	-	-	-	**84,716**
Sales	73,259	11,457	-	-	-	**84,716**
Security options:						
Purchases	-	-	-	-	2	**2**
Sales	-	-	-	-	-	**-**
Total of purchases	379,688	45,534	7,016	913,098	117,752	**1,463,088**
Total of sales	380,801	45,521	7,012	882,081	117,750	**1,433,165**
Total of transactions	**760,489**	**91,055**	**14,028**	**1,795,179**	**235,502**	**2,896,253**

	31 December 2009					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Currency swaps:						
Purchases	766,057	38,432	-	-	-	**804,489**
Sales	771,379	39,307	-	-	-	**810,686**
Currency forwards:						
Purchases	32,719	51,323	47,897	-	-	**131,939**
Sales	32,713	51,313	47,866	-	-	**131,892**
Cross currency interest rate swaps:						
Purchases	-	-	8,924	291,350	60,959	**361,233**
Sales	-	-	7,774	288,330	68,838	**364,942**
Interest rate swaps:						
Purchases	-	-	-	58,116	-	**58,116**
Sales	-	-	-	45,946	-	**45,946**
Currency options:						
Purchases	160,602	43,631	-	-	-	**204,233**
Sales	160,722	43,512	-	-	-	**204,234**
Security options:						
Purchases	-	-	-	-	2	**2**
Sales	-	-	-	-	-	**-**
Others:						
Purchases	-	14,900	-	-	-	**14,900**
Sales	-	-	-	-	-	**-**
Total of purchases	959,378	148,286	56,821	349,466	60,961	**1,574,912**
Total of sales	964,814	134,132	55,640	334,276	68,838	**1,557,700**
Total of transactions	**1,924,192**	**282,418**	**112,461**	**683,742**	**129,799**	**3,132,612**

(Currency – Thousands of Turkish Lira (TL))

9. Repurchase agreements

The Group lends its extra fund as a result of daily operations to other financial institutions through repurchase agreements. As at 30 June 2010 and 31 December 2009, the Group does not have any asset purchased under repurchase agreements.

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

	30 June 2010		**31 December 2009**	
	Fair value of underlying assets	**Carrying value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying value of corresponding liabilities**
Financial assets at fair value through profit or loss	-	-	2,080	1,970
Investment securities	6,847,422	6,137,678	6,801,397	6,143,382
	6,847,422	**6,137,678**	**6,803,477**	**6,145,352**

Accrued interest on obligations under repurchase agreements amounted to TL 45,257 (31 December 2009: TL 127,054) and is included in the carrying amount of corresponding liabilities.

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

10. Loans and advances to banks

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 30 June 2010 and 31 December 2009:

	30 June 2010			**31 December 2009**		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	15,034	46,933	61,967	-	42,170	42,170
Foreign banks	36	48,412	48,448	548	59,141	59,689
Total	**15,070**	**95,345**	**110,415**	**548**	**101,311**	**101,859**

Loans and advances to banks with more than three months maturity from the date of acquisition does not include blocked accounts as at 30 June 2010 and 31 December 2009.

(Currency – Thousands of Turkish Lira (TL))

11. Loans and advances to customers

As at 30 June 2010 and 31 December 2009, outstanding loans and advances to customers comprise the followings:

	30 June 2010	31 December 2009
Corporate loans	24,586,594	22,249,810
Consumer loans	10,433,488	9,202,303
Loans and advances to financial institutions	2,577,585	1,766,996
Credit cards	1,253,861	1,004,298
Total performing loans	**38,851,528**	**34,223,407**
Non-performing loans	2,473,084	2,294,379
Total gross loans	**41,324,612**	**36,517,786**
Finance lease receivables, net of unearned income *(Note 12)*	304,549	308,027
Factoring receivables	757,742	360,081
Allowance for impairment losses from loans and receivables, finance lease receivables, and factoring receivables *(Note 4)*	(2,371,889)	(2,171,275)
Loans and advances to customers, net	**40,015,014**	**35,014,619**

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

Movements in the allowance for impairment losses from cash loans and receivables:

	30 June 2010	31 December 2009
Allowance at the beginning of the period	2,111,934	1,511,749
Adjustment for currency translation	(1,299)	(1,155)
Charge for the period	540,159	1,115,888
Recoveries	(272,862)	(454,623)
Provision, net of recoveries	2,377,932	2,171,859
Loans written off during the period	(6,043)	(584)
Allowance at the end of the period	**2,371,889**	**2,171,275**

(Currency – Thousands of Turkish Lira (TL))

12. Finance lease receivables

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

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

	30 June 2010	**31 December 2009**
Finance lease receivables, net of unearned incomes	247,070	242,588
Add: non-performing lease receivables	57,479	65,439
Total finance lease receivables *(Note 11)*	304,549	308,027
Less: allowance for possible losses on lease receivables	(57,479)	(65,439)
Finance lease receivables, net	**247,070**	**242,588**

	30 June 2010	**31 December 2009**
Due within one year	87,719	93,221
Due between 1 and 5 years	187,146	192,168
More than five years	7,873	-
Finance lease receivables, gross	282,738	285,389
Unearned income	(35,668)	(42,801)
Finance lease receivables, net	**247,070**	**242,588**
Due within one year	73,271	76,640
Due between 1 and 5 years	166,191	165,948
More than five years	7,608	-
Finance lease receivables, net	**247,070**	**242,588**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities

As at 30 June 2010 and 31 December 2009, investment securities comprised the following:

	30 June 2010	31 December 2009
Available-for-sale financial assets	14,715,128	15,405,611
Held-to-maturity investment securities	4,905,703	3,578,218
Total investment securities	**19,620,831**	**18,983,829**

Available-for-sale financial assets:

	30 June 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in TL	10,313,351	10,561,092	12,236,845	12,035,452
Eurobonds issued by the Turkish Government	1,806,544	2,021,927	1,527,444	1,739,456
Treasury bills in TL	1,340,688	1,327,543	960,075	936,624
Government bonds in foreign currencies	570,326	575,694	461,380	473,873
Bonds issued by foreign banks	39,531	40,631	44,945	45,783
Corporate bonds	17,664	17,078	17,198	15,096
		14,543,965		**15,246,284**
Equity and other non-fixed income instruments:				
Equity shares		171,163		159,327
		171,163		**159,327**
Total available-for-sale financial assets		**14,715,128**		**15,405,611**

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

	30 June 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Central Bank of Turkey for repurchase transactions	1,949,875	2,039,263	3,326,823	3,404,641
Deposited at Central Bank of Turkey for foreign currency money market transactions	1,779,235	1,849,215	1,687,870	1,781,129
Deposited at Central Bank of Turkey for interbank transactions	1,406,000	1,488,108	950,525	1,000,449
Deposited at financial institutions for repurchase transactions	1,174,655	1,332,020	1,467,033	1,582,110
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	18,025	19,695	372,500	413,181
Deposited at Turkish Treasury for insurance operations	-	-	227,193	230,001
Deposited at Turkish Derivative Exchange	-	-	37	34
		6,728,301		**8,411,545**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

Held-to-maturity investment securities:

	30 June 2010			31 December 2009		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
Debt instruments:						
Government bonds in TL	3,802,620	3,451,952	3,487,825	2,662,143	2,075,831	2,152,728
Eurobonds issued by the Turkish Government	1,330,599	1,400,220	1,538,858	1,357,710	1,440,154	1,567,574
Certificate of deposits	37,680	37,692	37,692	35,760	35,766	35,766
Government bonds in foreign currencies	9,640	9,901	10,201	14,958	15,557	16,168
Bonds issued by foreign banks	5,784	5,938	5,965	10,684	10,910	11,035
Total held-to-maturity investment securities		**4,905,703**	**5,080,541**		**3,578,218**	**3,783,271**

In the current period, the Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 1,805,476 to its held-to-maturity investment securities portfolio at their fair values of TL 1,704,319 as at their reclassification dates. The value increases of such securities amounting to TL 159 are recorded under equity as other comprehensive income and started to be amortised by using effective interest method through profit or loss until their maturities.

The Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 675,000 to its held-to-maturity investment securities portfolio at their fair values of TL 610,161 as of their reclassification dates, in 2009. The value increases of such securities amounting TL 1,118 are recorded under equity as other comprehensive income and started to be amortised by using effective interest method through profit or loss until their maturities.

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

	30 June 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at foreign financial institutions for repurchase transactions	3,370,013	3,325,804	1,676,651	1,702,803
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	354,475	379,757	-	-
Deposited at Central Bank of Turkey for interbank transactions	128,500	133,246	572,975	599,394
Deposited at Central Bank of Turkey for foreign currency money market transactions	25,000	26,135	100,500	94,992
Deposited at Turkish Derivative Exchange	37	35	-	-
Others	37,680	37,692	35,760	35,766
		3,902,669		**2,432,955**

(Currency – Thousands of Turkish Lira (TL))

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

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

	30 June 2010	31 December 2009
Unquoted investments:		
Kıbrıs Vakıflar Bankası Ltd.	7,996	7,536
Quoted investments:		
Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ	3,171	3,118
	11,167	**10,654**

15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 30 June 2010 and 1 January to 31 December 2009 are as follows:

Property and equipment	1 January 2010	Currency translation difference	Additions	Disposals	30 June 2010
Cost:					
Land and buildings	908,561	(286)	1,556	(36,239)	873,592
Motor vehicles	32,699	(3)	915	(485)	33,126
Furniture, office equipment and leasehold improvements	597,767	(152)	18,718	(772)	615,561
Other tangibles	37,314	-	8,036	(2,190)	43,160
	1,576,341	**(441)**	**29,225**	**(39,686)**	**1,565,439**
Accumulated depreciation:					
Land and buildings	205,838	(209)	12,446	(6,481)	211,594
Motor vehicles	30,842	(3)	2,311	(605)	32,545
Furniture, office equipment and leasehold improvements	439,211	(113)	17,140	(667)	455,571
Other tangibles	29,535	-	24,069	(2,070)	51,534
	705,426	**(325)**	**55,966**	**(9,823)**	**751,244**
Net book value	**870,915**				**814,195**

Intangible assets	1 January 2010	Currency translation difference	Additions	Disposals	30 June 2010
Cost:					
Software programmes	66,473	(89)	8,470	-	74,854
	66,473	**(89)**	**8,470**	**-**	**74,854**
Accumulated amortisation:					
Software programmes	18,756	(86)	3,890	-	22,560
	18,756	**(86)**	**3,890**	**-**	**22,560**
Net book value	**47,717**				**52,294**

(Currency – Thousands of Turkish Lira (TL))

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

Property and equipment	1 January 2009	Currency translation difference	Additions	Disposals	31 December 2009
Cost:					
Land and buildings	901,792	19	12,383	(5,633)	908,561
Motor vehicles	32,309	-	5,596	(5,206)	32,699
Furniture, office equipment and leasehold improvements	535,867	10	65,218	(3,328)	597,767
Other tangibles	38,061	-	829	(1,576)	37,314
	1,508,029	**29**	**84,026**	**(15,743)**	**1,576,341**
Accumulated depreciation:					
Land and buildings	180,882	14	26,122	(1,180)	205,838
Motor vehicles	31,188	-	4,201	(4,547)	30,842
Furniture, office equipment and leasehold improvements	383,737	7	56,933	(1,466)	439,211
Other tangibles	7,113	-	23,168	(746)	29,535
	602,920	**21**	**110,424**	**(7,939)**	**705,426**
Net book value	**905,109**				**870,915**

Intangible assets	1 January 2009	Currency translation difference	Additions	Disposals	31 December 2009
Cost:					
Software programmes	46,054	5	22,571	(2,157)	66,473
	46,054	**5**	**22,571**	**(2,157)**	**66,473**
Accumulated amortisation:					
Software programmes	12,536	4	6,234	(18)	18,756
	12,536	**4**	**6,234**	**(18)**	**18,756**
Net book value	**33,518**				**47,717**

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

(Currency – Thousands of Turkish Lira (TL))

16. Other assets

	30 June 2010	31 December 2009
Reserve deposit at Central Bank of Turkey	1,066,112	872,785
Individual pension system receivables	601,377	526,802
Receivables from insurance activities	559,059	574,729
Assets held for resale	487,157	470,138
Prepaid expenses	279,910	256,855
Receivables from credit card payments	165,633	113,010
Receivables from term sales of fixed assets	102,320	125,323
Investment properties	55,618	55,452
Deferred acquisition costs for insurance contracts, gross	53,309	63,863
Receivables from derivative financial instruments	46,907	56,006
Miscellaneous receivables	20,356	11,626
Prepaid taxes other than income tax and funds to be refunded	6,432	15,266
Prepaid income taxes	23	2,614
Others	49,190	15,230
Total other assets	**3,493,403**	**3,159,699**

At 30 June 2010, reserve deposits at the Central Bank of Turkey ("CBT") were kept under the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBT.

In accordance with the current legislation, the reserve deposit rates for TL and foreign currency deposits are 5% (31 December 2009: 5%) and 9% (31 December 2009: 9%), respectively. These reserve deposit rates are applicable to both time and demand saving deposits. As at 30 June 2010, the interest rate given by CBT is 5.2% for TL reserve deposits and the interest rate is nil for foreign currency reserve deposits (31 December 2009: TL 5.2%, FC nil).

As at 30 June 2010, TL 487,157 (31 December 2009: TL 470,138) of the other assets is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the six-month period ended 30 June 2010 and for the year ended 31 December 2009, movement of deferred acquisition cost is as follows:

	30 June 2010	31 December 2009
Deferred acquisition cost at the beginning of the period	63,863	61,071
Expenses deferred during the period	37,119	81,240
Amortisation	(47,673)	(78,448)
Deferred acquisition cost at the end of the period	**53,309**	**63,863**

(Currency – Thousands of Turkish Lira (TL))

17. Deposits from banks

As at 30 June 2010 and 31 December 2009, deposits from banks comprise the following:

	30 June 2010	31 December 2009
Payable on demand	10,966	9,372
Time deposits	2,966,348	2,146,773
Total deposits from banks	**2,977,314**	**2,156,145**

18. Deposits from customers

As at 30 June 2010 and 31 December 2009, deposits from customers comprise the following:

	30 June 2010		31 December 2009	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	1,276,114	9,097,659	1,044,253	7,720,411
Foreign currency deposits	1,093,788	12,199,599	1,034,248	12,112,138
Residents in Turkey	*1,058,036*	*11,363,278*	*1,001,966*	*11,201,744*
Residents in abroad	*35,752*	*836,321*	*32,282*	*910,394*
Commercial deposits	1,084,918	10,058,003	955,377	9,091,962
Public sector deposits	1,907,891	4,659,011	1,431,736	4,280,585
Others	1,590,165	3,717,711	1,439,926	3,749,686
Total deposits from customers	**6,952,876**	**39,731,983**	**5,905,540**	**36,954,782**

19. Funds borrowed

As at 30 June 2010 and 31 December 2009, funds borrowed comprise the followings in accordance with their original maturities:

	30 June 2010		31 December 2009	
	TL	Foreign currency	TL	Foreign currency
Short-term funds	*236,416*	*369,647*	*154,675*	*1,403,643*
Short-term portion of long term funds	*2*	*2,582,566*	*513*	*303,050*
Total short-term funds	236,418	2,952,213	155,188	1,706,693
Medium/long term funds	72,627	2,542,910	83,383	2,751,346
Total funds borrowed	**309,045**	**5,495,123**	**238,571**	**4,458,039**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 8.88% (31 December 2009: 7.92%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

On 24 March 2010, the Bank obtained syndication loans in the amounts of US Dollar 170 million and Euro 566.5 million with interest rates of US Libor + 1.50% and Euribor + 1.50%, with the participation of 33 banks under the coordinatorship of West LB AG.

(Currency – Thousands of Turkish Lira (TL))

20. Other liabilities and provisions

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

	30 June 2010	31 December 2009
Blocked accounts against expenditures of credit card holders	1,027,091	702,953
Individual pension system payables	609,642	567,818
Reserve for unearned insurance premiums	409,920	411,770
Reserve for outstanding claims for insurance contracts	328,801	296,715
Long term insurance contracts	159,954	163,332
Reserve for employee severance indemnity	143,999	137,416
Provision for non-cash loans	123,063	115,669
Taxes payable other than income tax	118,455	93,758
Investment contract liabilities	105,404	97,694
Clearing account	92,871	56,643
Reserve for short term employee benefits	78,055	113,670
Unearned income	73,004	87,620
Provision for unused vacations	59,778	57,065
Miscellaneous payables	54,298	63,231
Other provisions	43,346	47,962
Derivative financial instruments held for trading purposes	42,450	42,547
Payables due to insurance activities	34,493	42,752
Payables due to derivative financial instruments	33,973	42,183
Payables to suppliers relating to finance lease activities	29,478	10,195
Deferred commission income for insurance contracts	29,454	34,792
Blocked accounts	25,669	38,147
Transfer orders	9,821	11,078
Other liabilities	130,640	128,448
Total other liabilities and provisions	**3,763,659**	**3,363,458**

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	30 June 2010	31 December 2009
Reserve for unearned insurance premiums, net	258,222	240,684
Reserve for unearned insurance premiums, reinsurer share	151,698	171,086
Reserve for unearned insurance premiums, gross	**409,920**	**411,770**

Reserve for unearned insurance premiums	30 June 2010	31 December 2009
At the beginning of the period	240,684	210,947
Premiums written during the period *(Note 24)*	247,646	451,757
Premiums earned during the period *(Note 24)*	(230,108)	(422,020)
At the end of the period	**258,222**	**240,684**

Provision for outstanding claims	30 June 2010	31 December 2009
Provision for outstanding claims, net	171,388	156,002
Provision for outstanding claims, reinsurer share	157,413	140,713
Provision for outstanding claims, gross	**328,801**	**296,715**

(Currency – Thousands of Turkish Lira (TL))

20. Other liabilities and provisions *(continued)*

Provision for outstanding claims	**30 June 2010**	**31 December 2009**
At the beginning of the period	156,002	123,108
Cash paid for claims settled during the period *(Note 26)*	(170,575)	(376,586)
Increase during the period *(Note 26)*	185,961	409,480
At the end of the period	**171,388**	**156,002**

Long term insurance contracts	**30 June 2010**	**31 December 2009**
At the beginning of the period	261,026	274,958
Entrance during the period	18,895	97,757
Withdrawals during the period	(14,563)	(111,689)
At the end of the period	**265,358**	**261,026**
Long term insurance contracts	159,954	163,332
Investment contract liabilities	105,404	97,694

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

Reserve for employee severance indemnity	**30 June 2010**	**31 December 2009**
At the beginning of the period	137,416	127,012
Currency translation difference	(17)	7
Interest cost	8,444	7,456
Service cost	8,983	7,779
Payment during the period	(7,070)	(20,021)
Actuarial difference	(3,757)	15,183
At the end of the period	**143,999**	**137,416**

21. Income taxes

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

	30 June 2010	**30 June 2009**
Income tax recognised in profit for the period		
Current income tax related to income from operations	(134,951)	(152,957)
Deferred income tax related to income from operations	(9,460)	21,379
	(144,411)	**(131,578)**
Income tax recognised in other comprehensive income		
Current income tax recognised in other comprehensive income	27,130	(19,519)
Deferred income tax recognised in other comprehensive income	8,003	(4,285)
	35,133	**(23,804)**
Income tax expense recognised in the consolidated statement of comprehensive income	**(109,278)**	**(155,382)**

(Currency – Thousands of Turkish Lira (TL))

21. Income taxes *(continued)*

The movement of current tax liabilities is as follows:

	30 June 2010	31 December 2009
At the beginning of the period	84,360	48,585
Current income tax charge	134,951	318,460
Current income tax recognised under equity	(27,130)	40,138
Taxes paid during the period	(170,484)	(322,823)
Current tax liabilities	**21,697**	**84,360**

As further detailed in Note 3(h) – *Income taxes*, temporary Article no. 69, added to Income Tax Law by Law no. 5479, and stating that investment incentive calculated in accordance with the legislative provisions effective as at 31 December 2005 could be only deducted from the profits of 2006, 2007 and 2008 has been amended following a decision taken by the Turkish Constitutional Court on 15 October 2009 since the clause restricting the deduction to 2006, 2007 and 2008 … was in contradiction of Constitutional Law. The Turkish Constitutional Court's decision was published in the 8 January 2010 Official Gazette number 27456. Based on this decision the Group's subsidiary operating in the finance lease business will be able to deduct investment incentives from future taxable profit without any time limitation. Hence, the Group has recognised deferred tax assets amounting to TL 22,439 as at and for the six-month period ended 30 June 2010.

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the six-month periods ended 30 June 2010 and 2009 is as follows:

	30 June 2010	Tax rate (%)	30 June 2009	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**679,581**		**771,054**	
Taxes on income per statutory tax rate	(135,916)	(20.00)	(154,211)	(20.00)
Income not subject to tax	7,750	1.14	24,899	3.23
Investment incentives	1,055	0.16	-	-
Disallowable expenses	(1,255)	(0.18)	(7,406)	(0.96)
Recognition of previously unrecognised deferred tax assets on carried forward tax losses	(5,173)	(0.76)	-	-
Others, net	(10,872)	(1. 61)	5,140	0.67
Income tax expense	**(144,411)**	**(21.25)**	**(131,578)**	**(17.06)**

(Currency – Thousands of Turkish Lira (TL))

21. Income taxes *(continued)*

Deferred tax assets and liabilities at 30 June 2010 and 31 December 2009 are attributable to the items below:

	30 June 2010	31 December 2009
Provision for employee severance indemnity and unused vacations	39,470	38,896
Investment incentive	22,439	21,384
Depreciation rate differences between IFRS and Tax Code	18,396	18,706
Valuation differences of financial assets and liabilities	14,363	18,947
Other provisions	14,145	21,698
Tax losses carried forward	2,046	3,797
Other temporary differences	7,309	3,035
Deferred tax assets	**118,168**	**126,463**
Net-off of the deferred tax assets and liabilities from the same entity	(14,533)	(24,525)
Deferred tax assets, (net)	**103,635**	**101,938**
Valuation differences of financial assets and liabilities	13,783	21,365
Finance lease corrections	3,279	3,342
Depreciation rate differences between IFRS and Tax Code	1,298	2,274
Other temporary differences	103	1,297
Deferred tax liabilities	**18,463**	**28,278**
Net-off of the deferred tax assets and liabilities from the same entity	(14,533)	(24,525)
Deferred tax liabilities, (net)	**3,930**	**3,753**

22. Equity

Share capital

As at 30 June 2010, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2009: TL 2,500,000). The Bank's paid-in capital is divided into 2,500,000,000 shares, each with a nominal value of 1 Turkish Lira. As at 30 June 2010, share capital presented in equity amounts to TL 3,300,146 (31 December 2009: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 30 June 2010 (31 December 2009: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. Accounting in hyperinflationary countries is explained in Note 2 (d).

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

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

(Currency – Thousands of Turkish Lira (TL))

22. Equity *(continued)*

Legal reserves

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

Based on the resolution of the 56th Annual General Assembly held on 19 March 2010, the Bank's profit for the year ended 31 December 2009 amounting to TL 1,251,206 was transferred to legal reserves in the amount of TL 123,104 and to other reserves in the amount of TL 1,007,337; and the remaining profit amounting to TL 120,765 is decided to be distributed as dividends to equity holders of the Bank.

As at 30 June 2010, legal reserves amounts to TL 507,887 (31 December 2009: TL 384,414).

Non-controlling interest

As at 30 June 2010, non-controlling interests amounts to TL 286,456 (31 December 2009: TL 303,345) and analysed as follows:

	30 June 2010	31 December 2009
Capital and other reserves	372,916	370,705
Legal reserves	18,764	25,153
Retained earnings	(81,891)	(90,508)
Profit for the period	(23,333)	(2,005)
Total non-controlling interest	**286,456**	**303,345**

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

	30 June 2010	30 June 2009
Balance at the beginning of the period	388,238	692
Net gains/(losses) from changes in fair values	(30,578)	147,960
Related deferred and current income taxes	17,776	(24,652)
Net losses/(gains) transferred to profit or loss on disposal	(116,455)	18,928
Related deferred and current income taxes	17,268	848
Balance at the end of the period	**276,249**	**143,776**

(Currency – Thousands of Turkish Lira (TL))

23. Related parties

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

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

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

Outstanding balances

	30 June 2010	**31 December 2009**
Cash loans	9,106	9,587
Non-cash loans	270,249	300,038
Deposits taken	1,503,050	1,323,067

Transactions entered into

	30 June 2010	**30 June 2009**
Interest income	514	513
Interest expense	(33,340)	(57,989)
Commission income	121	91
Other operating income	1,049	240
Other operating expense	(16,638)	(26,930)

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

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

Directors' Remuneration

As at and for the six-month period ended 30 June 2010, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 8,844 (30 June 2009: TL 6,794).

24. Other income

As at and for the six-month periods ended 30 June 2010 and 2009, other income comprised the followings:

	30 June 2010	**30 June 2009**
Earned premiums *(Note 20)*	230,108	199,472
Written premium, net of reinsurer share (Note 20)	*247,646*	*201,870*
Change in reserve for unearned premiums, net of reinsurer share	*(17,538)*	*(2,398)*
Excess fee charged to customers for communication expenses	37,616	42,328
Income from sale of fixed assets	13,120	4,994
Individual pension business income	9,750	8,174
Dividend income from equity shares	5,947	5,530
Rent income	3,682	3,683
Income from associates accounted for using the equity method	907	341
Change in long term insurance contracts	-	13,946
Others	72,475	23,873
Total	**373,605**	**302,341**

(Currency – Thousands of Turkish Lira (TL))

25. Salaries and employee benefits

As at and for the six-month periods ended 30 June 2010 and 2009, salaries and employee benefits comprised the following:

	30 June 2010	30 June 2009
Wages and salaries	(181,218)	(160,524)
Other fringe benefits	(149,306)	(126,626)
Employer's share of social security premiums	(48,566)	(52,086)
Provision for short term employee benefits	(36,800)	(40,000)
Provision for employee termination benefits *(Note 20)*	(6,600)	(13,354)
Provision for liability for unused vacations	(2,713)	(11,997)
Total	**(425,203)**	**(404,587)**

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

	30 June 2010	30 June 2009
The Bank	10,299	9,493
Subsidiaries	2,204	2,151
Total	**12,503**	**11,644**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 2,427 and TL (full TL) 2,365 as at 30 June 2010 and 31 December 2009, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010	31 December 2009
Discount rate	5.92%	5.92%
Expected rate of salary/limit increase	4.80%	4.80%
Turnover rate to estimate the probability of retirement	0.94%	0.94%

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

(Currency – Thousands of Turkish Lira (TL))

26. Other expenses

As at and for the six-month periods ended 30 June 2010 and 2009, other expenses comprised the following:

	30 June 2010	30 June 2009
Incurred insurance claims *(Note 20)*	(185,961)	(189,311)
Insurance claims paid, net of reinsurer share	*(170,575)*	*(189,084)*
Change in provision for outstanding claims	*(15,386)*	*(227)*
Banking services promotion expenses	(130,087)	(116,599)
Rent expenses and operating lease charges	(49,258)	(43,088)
Communication expenses	(28,459)	(26,896)
Other provision expenses	(19,889)	(2,941)
Saving Deposit Insurance Fund premiums	(18,900)	(18,400)
Advertising expenses	(15,369)	(20,572)
BRSA participation fee	(14,956)	(7,850)
Change in long term insurance contracts	(14,563)	-
Cleaning service expenses	(14,245)	(13,412)
Energy expenses	(10,708)	(9,623)
Maintenance expenses	(7,371)	(8,954)
Computer usage expenses	(6,957)	(6,641)
Office supplies	(5,983)	(7,650)
Credit card promotion expenses	(4,861)	(5,892)
Transportation expenses	(4,248)	(3,726)
Hosting expenses	(3,125)	(2,449)
Consultancy expenses	(3,170)	(2,919)
Individual pension business expenses	(1,320)	(987)
Loss on sale of assets	(708)	(1,046)
Other various administrative expenses	(90,196)	(91,822)
Total	**(630,334)**	**(580,778)**

27. Commitments and contingencies

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including:

	30 June 2010	31 December 2009
Letters of guarantee	6,628,275	6,205,974
Letters of credit	2,439,445	2,530,593
Acceptance credits	174,722	357,489
Other guarantees	13,729	26,777
Total non-cash loans	9,256,171	9,120,833
Credit card limit commitments	4,166,179	4,043,910
Loan granting commitments	3,156,553	2,841,941
Asset purchase commitments	703,443	298,677
Commitments for cheque payments	689,608	735,839
Commitments for credit card and banking operations promotions	172,898	135,591
Other commitments	173,121	11,656
Total	**18,317,973**	**17,188,447**

(Currency – Thousands of Turkish Lira (TL))

27. Commitments and contingencies *(continued)*

Pending tax audits

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

Litigation

There are various legal cases against the Group for which TL 14,704 (31 December 2009: TL 75,347) has been provided, excluding routine insurance claims.

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

28. Subsidiaries and associates

The table below sets out the subsidiaries and shows their shareholding structure as at 30 June 2010:

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

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

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.

28. Subsidiaries and associates *(continued)*

World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd which was subject to consolidation in previous periods, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. Therefore, the financial statements of the company have not been consolidated as at 30 June 2010, but its equity until the liquidation decision date has been included in the accompanying consolidated interim financial statements.

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

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

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

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

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

As per the resolution of the Board of Directors of the Bank on 22 August 2006, it was decided to merge Vakıf Deniz Finansal Kiralama AŞ and Vakıf Finansal Kiralama AŞ which are both consolidated in these consolidated financial statements. In accordance with the temporary 4th sub-clause of the 1st clause of the "Regulation on Establishment and Operations of Leasing, Factoring and Finance Companies", permission for Vakıf Deniz Finansal Kiralama AŞ to carry on its finance lease business was revoked on 25 June 2009. The application for the merger of Vakıf Finansal Kiralama AŞ with Vakıf Deniz Finansal Kiralama AŞ is not approved by the Capital Markets Board, and hence, activities for the merger have been stopped. The registered name of Vakıf Deniz Finansal Kiralama AŞ was changed to Vakıf Pazarlama ve Ticaret AŞ on 29 September 2009. The firm's head office is in Istanbul.

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

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

28. Subsidiaries and associates *(continued)*

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

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

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

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

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

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

29. Significant events

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

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

  The related tax administration appealed to a higher court and the appeal was partially accepted by the State Council. Based on the decision of the State Council, the exercise of jurisdiction was renewed by the Ankara 5th Tax Court and the related case was partly revoked and partly declined. Consequently, the Bank has filed an appeal against the decision of the Ankara 5th Tax Court which is still in process at the State Council as at the report date. In accordance with the decision of Ankara 5th Tax Court, the Bank paid TL 20,484 accrued by the tax office on 3 December 2009.

(Currency – Thousands of Turkish Lira (TL))

29. Significant events *(continued)*

- As per the 28 May 2010 dated resolution of Board of Directors of the Bank, it is decided to assess the opportunities of establishing a bank or opening a branch or a representative office in Iraq Republic and where appropriate to receive relevant approvals to execute opening procedures.
- As per the resolution of 56th Annual General Assembly of the Bank held on 19 March 2010, it is decided to distribute the net profit of year 2009 as follows, and the distribution has been completed in the current period.

	Profit distribution table
Profit of the year in the stand alone financial statement of the Bank	**1,251,206**
Legal reserves	123,104
Other reserves	1,007,337
Dividends to equity holders of the Bank	**120,765**

30. Subsequent event

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