

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

Consolidated Interim Financial Statements  
As at 30 June 2013

With Independent Auditors' Review Report Thereon

Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik AŞ  
18 September 2013

*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 75 pages.*

# Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

## **TABLE OF CONTENTS:**

|   |
|---|
| Independent Auditors' Report on Review of Consolidated Interim Financial Statements |
| Consolidated Statement of Financial Position  |
| Consolidated Statement of Comprehensive Income                                      |
| Consolidated Statement of Changes in Equity   |
| Consolidated Statement of Cash Flows  |
| Notes to the Consolidated Interim Financial Statements                              |



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## **Independent Auditors' Report on Review of Consolidated Interim Financial Statements**

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

### *Introduction*

We have reviewed the accompanying consolidated interim statement of financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries (the "Group") as at 30 June 2013, the consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 – *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

### *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410 – *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements 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 do not present fairly, in all material respects, the financial position of the Group as at 30 June 2013, 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  
18 September 2013

*KPMG Akis Bağımsız Denetim ve Serbest Mali Müşavirlik A.Ş.*

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**  
**Consolidated Interim Statement of Financial Position**  
**At 30 June 2013**  
*(Currency – Thousands of Turkish Lira (TL))*

|  | Notes | 30 June 2013       | 31 December 2012   |
|--|-------|--------------------|--------------------|
| <b>ASSETS</b>  |       |                    |                    |
| Cash and cash equivalents                                      | 7     | 5,658,060          | 6,694,856          |
| Financial assets at fair value through profit or loss          | 8     | 710,078            | 296,532            |
| Loans and advances to banks                                    | 10    | 427,821            | 315,025            |
| Loans and advances to customers                                | 11,12 | 79,228,002         | 69,826,883         |
| Investment securities  | 13    | 20,348,680         | 18,878,282         |
| Investment in equity-accounted investees                       | 14    | 181,690            | 9,930              |
| Property and equipment   | 15    | 931,570            | 885,067            |
| Intangible assets  | 15    | 115,407            | 100,049            |
| Deferred tax assets  | 24    | 211,196            | 217,757            |
| Other assets   | 16    | 13,629,578         | 10,727,954         |
| <b>Total assets</b>  |       | <b>121,442,082</b> | <b>107,952,335</b> |
| <b>LIABILITIES AND EQUITY</b>                                  |       |                    |                    |
| Trading liabilities  | 17    | 137,745            | 199,692            |
| Deposits from banks  | 18    | 3,515,300          | 4,244,689          |
| Deposits from customers  | 19    | 69,614,919         | 64,219,035         |
| Obligations under repurchase agreements                        | 9     | 13,969,673         | 8,490,891          |
| Funds borrowed   | 20    | 9,423,211          | 8,132,349          |
| Debt securities issued   | 21    | 4,057,032          | 2,372,748          |
| Subordinated liabilities                                       | 22    | 1,766,519          | 1,630,188          |
| Other liabilities and provisions                               | 23    | 6,045,481          | 5,544,112          |
| Current tax liabilities  | 24    | 3,804              | 172,808            |
| Deferred tax liabilities                                       | 24    | 3,264              | 6,678              |
| <b>Total liabilities</b>                                       |       | <b>108,536,948</b> | <b>95,013,190</b>  |
| Share capital  | 26    | 3,300,146          | 3,300,146          |
| Share premium  |       | 724,320            | 724,320            |
| Reserves   | 26    | 1,036,265          | 1,693,647          |
| Retained earnings  |       | 7,456,054          | 6,756,136          |
| <b>Total equity attributable to equity holders of the Bank</b> |       | <b>12,516,785</b>  | <b>12,474,249</b>  |
| <b>Non-controlling interest</b>                                | 26    | <b>388,349</b>     | <b>464,896</b>     |
| <b>Total equity</b>  |       | <b>12,905,134</b>  | <b>12,939,145</b>  |
| <b>Total liabilities and equity</b>                            |       | <b>121,442,082</b> | <b>107,952,335</b> |
| <b>Commitments and contingencies</b>                           | 31    | <b>34,352,564</b>  | <b>28,608,002</b>  |

*The notes on pages 8 to 75 are an integral part of these consolidated interim financial statements.*

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**  
**Consolidated Interim Statement of Comprehensive Income**  
**For the Six-Month Period Ended 30 June 2013**  
*(Currency – Thousands of Turkish Lira (TL))*

|   | Notes | 30 June 2013       | 30 June 2012       |
|---|-------|--------------------|--------------------|
| <b>Interest income</b>                                |       |                    |                    |
| Interest on loans and receivables                     |       | 3,749,443          | 3,360,180          |
| Interest on securities                                |       | 662,338            | 872,198            |
| Interest on deposits at banks                         |       | 34,611             | 38,180             |
| Interest on money market placements                   |       | 611                | 1,270              |
| Other interest income                                 |       | 21,431             | 32,344             |
| <b>Total interest income</b>                          |       | <b>4,468,434</b>   | <b>4,304,172</b>   |
| <b>Interest expense</b>                               |       |                    |                    |
| Interest on deposits                                  |       | (1,518,778)        | (2,096,427)        |
| Interest on money market deposits                     |       | (138,566)          | (215,115)          |
| Interest on funds borrowed                            |       | (76,975)           | (95,402)           |
| Interest expense on securities issued                 |       | (103,285)          | (61,032)           |
| Other interest expense                                |       | (111,559)          | (58,582)           |
| <b>Total interest expense</b>                         |       | <b>(1,949,163)</b> | <b>(2,526,558)</b> |
| <b>Net interest income</b>                            |       | <b>2,519,271</b>   | <b>1,777,614</b>   |
| Fee and commission income                             |       | 505,372            | 297,121            |
| Fee and commission expense                            |       | (144,791)          | (131,502)          |
| <b>Net fee and commission income</b>                  |       | <b>360,581</b>     | <b>165,619</b>     |
| <b>Other operating income</b>                         |       |                    |                    |
| Net trading income                                    | 8     | 188,879            | 55,386             |
| Net foreign exchange gains                            |       | 9,731              | 65,652             |
| Other income  | 28    | 577,084            | 417,644            |
| <b>Total other operating income</b>                   |       | <b>775,694</b>     | <b>538,682</b>     |
| <b>Other operating expense</b>                        |       |                    |                    |
| Salaries and employee benefits                        | 29    | (673,918)          | (578,782)          |
| Provision for possible loan losses, net of recoveries |       | (919,723)          | (176,548)          |
| Depreciation and amortisation                         | 15    | (63,834)           | (64,815)           |
| Taxes other than on income                            |       | (42,982)           | (37,819)           |
| Other expenses  | 30    | (967,669)          | (736,310)          |
| <b>Total other operating expenses</b>                 |       | <b>(2,668,126)</b> | <b>(1,594,274)</b> |
| <b>Share of profit of equity-accounted investees</b>  |       | <b>15,943</b>      | <b>960</b>         |
| <b>Profit before income tax</b>                       |       | <b>1,003,363</b>   | <b>888,601</b>     |
| Income tax expense                                    | 24    | (179,861)          | (164,779)          |
| <b>Profit for the period</b>                          |       | <b>823,502</b>     | <b>723,822</b>     |

*The notes on pages 8 to 75 are an integral part of these consolidated interim financial statements.*

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**  
**Consolidated Interim Statement of Comprehensive Income** *(continued)*  
**For the Six-Month Period Ended 30 June 2013**  
*(Currency – Thousands of Turkish Lira (TL))*

|   | Notes | 30 June 2013     | 30 June 2012   |
|---|-------|------------------|----------------|
| <b>Other comprehensive income for the period, net of income tax</b>                       |       |                  |                |
| <b>Items that are or may be reclassified subsequently to profit or loss:</b>              |       |                  |                |
| Foreign currency translation differences for foreign operations                           |       | 19,884           | (13,010)       |
| Change in fair value of available for sale financial assets                               |       | (695,988)        | 284,689        |
| Change in fair value of available for sale financial assets transferred to profit or loss | 26    | (142,782)        | 19,696         |
| Income tax on other comprehensive income  | 24    | 36,162           | (55,045)       |
| <b>Other comprehensive income for the period, net of income tax</b>                       |       | <b>(782,724)</b> | <b>236,330</b> |
| <b>Total comprehensive income for the period</b>  |       | <b>40,778</b>    | <b>960,152</b> |
| <b>Profit attributable to:</b>  |       |                  |                |
| Equity holders of the Bank  |       | 834,002          | 724,886        |
| Non-controlling interest  | 26    | (10,500)         | (1,064)        |
| <b>Profit for the period</b>  |       | <b>823,502</b>   | <b>723,822</b> |
| <b>Total comprehensive income attributable to:</b>  |       |                  |                |
| Equity holders of the Bank  |       | 129,223          | 961,660        |
| Non-controlling interest  |       | (88,445)         | (1,508)        |
| <b>Total comprehensive income for the period</b>  |       | <b>40,778</b>    | <b>960,152</b> |
| Earnings per 100 shares on profit for the period (full TL)                                | 25    | 0.3336           | 0.2900         |

*The notes on pages 8 to 75 are an integral part of these consolidated interim financial statements.*

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**  
**Consolidated Interim Statement of Changes in Equity**  
**For the Six-Month Period Ended 30 June 2013**  
*(Currency – Thousands of Turkish Lira (TL))*

|   | Attributable to equity holders of the Bank |                  |                |                     |                     |                |                   | Total             | Non-controlling interest | Total equity      |
|---|--|------------------|----------------|---------------------|---------------------|----------------|-------------------|-------------------|--------------------------|-------------------|
|   | Notes                                      | Share capital    | Share premium  | Reserves            |                     |                | Retained earnings |                   |                          |                   |
|   |  |                  |                | Fair value reserves | Translation reserve | Legal reserves |                   |                   |                          |                   |
| <b>Balances at 1 January 2012</b>   |  | <b>3,300,146</b> | <b>724,320</b> | <b>(13,977)</b>     | <b>73,050</b>       | <b>628,383</b> | <b>5,325,432</b>  | <b>10,037,354</b> | <b>422,221</b>           | <b>10,459,575</b> |
| <i><b>Total comprehensive income for the period</b></i>                                     |  |                  |                |                     |                     |                |                   |                   |                          |                   |
| <b>Profit for the period</b>  |  | -                | -              | -                   | -                   | -              | <b>724,886</b>    | <b>724,886</b>    | <b>(1,064)</b>           | <b>723,822</b>    |
| <b>Other comprehensive income</b>   |  |                  |                |                     |                     |                |                   |                   |                          |                   |
| Foreign currency translation differences  |  | -                | -              | -                   | (11,709)            | -              | -                 | (11,709)          | (1,301)                  | (13,010)          |
| Net changes in fair value of available for sale financial assets, net of tax                | 26   | -                | -              | 237,779             | -                   | -              | -                 | 237,779           | 857                      | 238,636           |
| Net losses on available for sale financial assets transferred to profit or loss, net of tax | 26   | -                | -              | 10,704              | -                   | -              | -                 | 10,704            | -                        | 10,704            |
| <b>Total other comprehensive income</b>   |  | -                | -              | <b>248,483</b>      | <b>(11,709)</b>     | -              | -                 | <b>236,774</b>    | <b>(444)</b>             | <b>236,330</b>    |
| <b>Total comprehensive income for the period</b>  |  | -                | -              | <b>248,483</b>      | <b>(11,709)</b>     | -              | <b>724,886</b>    | <b>961,660</b>    | <b>(1,508)</b>           | <b>960,152</b>    |
| <i><b>Transactions with owners, recorded directly in equity</b></i>                         |  |                  |                |                     |                     |                |                   |                   |                          |                   |
| Transfer to reserves  |  | -                | -              | -                   | -                   | 124,395        | (124,395)         | -                 | -                        | -                 |
| Dividends paid  |  | -                | -              | -                   | -                   | -              | (37,000)          | (37,000)          | (507)                    | (37,507)          |
| Other   |  | -                | -              | -                   | -                   | -              | -                 | -                 | (992)                    | (992)             |
| <b>Total contributions by and distributions to owners</b>                                   |  | -                | -              | -                   | -                   | <b>124,395</b> | <b>(161,395)</b>  | <b>(37,000)</b>   | <b>(1,499)</b>           | <b>(38,499)</b>   |
| <b>Balances at 30 June 2012</b>   |  | <b>3,300,146</b> | <b>724,320</b> | <b>234,506</b>      | <b>61,341</b>       | <b>752,778</b> | <b>5,888,923</b>  | <b>10,962,014</b> | <b>419,214</b>           | <b>11,381,228</b> |

*The notes on pages 8 to 75 are an integral part of these consolidated interim financial statements.*

**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**  
**Consolidated Interim Statement of Changes in Equity (continued)**  
**For the Six-Month Period Ended 30 June 2013**  
*(Currency – Thousands of Turkish Lira (TL))*

|   | Attributable to equity holders of the Bank |                  |                |                     |                     |                |                   |                   |                          |                   |
|---|--|------------------|----------------|---------------------|---------------------|----------------|-------------------|-------------------|--------------------------|-------------------|
|   | Notes                                      | Share capital    | Share premium  | Reserves            |                     |                | Retained earnings | Total             | Non-controlling interest | Total equity      |
|   |  |                  |                | Fair value reserves | Translation reserve | Legal reserves |                   |                   |                          |                   |
| <b>Balances at 1 January 2013</b>   |  | <b>3,300,146</b> | <b>724,320</b> | <b>873,807</b>      | <b>67,062</b>       | <b>752,778</b> | <b>6,756,136</b>  | <b>12,474,249</b> | <b>464,896</b>           | <b>12,939,145</b> |
| <b>Total comprehensive income for the period</b>  |  |                  |                |                     |                     |                |                   |                   |                          |                   |
| <b>Profit for the period</b>  |  | -                | -              | -                   | -                   | -              | <b>834,002</b>    | <b>834,002</b>    | <b>(10,500)</b>          | <b>823,502</b>    |
| <b>Other comprehensive income</b>   |  |                  |                |                     |                     |                |                   |                   |                          |                   |
| Foreign currency translation differences  |  | -                | -              | -                   | 17,896              | -              | -                 | 17,896            | 1,988                    | 19,884            |
| Net changes in fair value of available for sale financial assets, net of tax                | 26   | -                | -              | (703,819)           | -                   | -              | 113,234           | (590,585)         | (79,933)                 | (670,518)         |
| Net losses on available for sale financial assets transferred to profit or loss, net of tax | 26   | -                | -              | (132,090)           | -                   | -              | -                 | (132,090)         | -                        | (132,090)         |
| <b>Total other comprehensive income</b>   |  | -                | -              | <b>(835,909)</b>    | <b>17,896</b>       | -              | <b>113,234</b>    | <b>(704,779)</b>  | <b>(77,945)</b>          | <b>(782,724)</b>  |
| <b>Total comprehensive income for the period</b>  |  | -                | -              | <b>(835,909)</b>    | <b>17,896</b>       | -              | <b>947,236</b>    | <b>129,223</b>    | <b>(88,445)</b>          | <b>40,778</b>     |
| <b>Transactions with owners, recorded directly in equity</b>                                |  |                  |                |                     |                     |                |                   |                   |                          |                   |
| Transfer to reserves  |  | -                | -              | -                   | -                   | 147,318        | (147,318)         | -                 | -                        | -                 |
| Dividends paid  |  | -                | -              | -                   | -                   | -              | (100,000)         | (100,000)         | (292)                    | (100,292)         |
| Other   |  | -                | -              | -                   | -                   | 13,313         | -                 | 13,313            | 12,190                   | 25,503            |
| <b>Total contributions by and distributions to owners</b>                                   |  | -                | -              | -                   | -                   | <b>160,631</b> | <b>(247,318)</b>  | <b>(86,687)</b>   | <b>11,898</b>            | <b>(74,789)</b>   |
| <b>Balances at 30 June 2013</b>   |  | <b>3,300,146</b> | <b>724,320</b> | <b>37,898</b>       | <b>84,958</b>       | <b>913,409</b> | <b>7,456,054</b>  | <b>12,516,785</b> | <b>388,349</b>           | <b>12,905,134</b> |

*The notes on pages 8 to 75 are an integral part of these consolidated interim financial statements.*



**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries**  
**Consolidated Interim Statement of Cash Flows**  
**For the Six-Month Period Ended 30 June 2013**  
*(Currency – Thousands of Turkish Lira (TL))*

|   | Notes    | 30 June 2013       | 30 June 2012       |
|---|----------|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>                              |          |                    |                    |
| Profit for the period   |          | 823,502            | 723,822            |
| <i>Adjustments for:</i>   |          |                    |                    |
| Income tax expense  | 24       | 179,861            | 164,779            |
| Provision for possible loan losses, net of recoveries                     |          | 919,723            | 176,548            |
| Depreciation and amortization   | 15       | 63,834             | 64,815             |
| Provision for short term employee benefits                                | 29       | 119,528            | 59,410             |
| Provision for retirement pay liability and unused vacations               | 29       | 20,365             | 17,359             |
| Unearned premium reserve  | 28       | 57,859             | 62,638             |
| Change in provision for outstanding claims                                | 30       | 53,806             | 365                |
| Long term insurance contracts   | 30       | 5,997              | 29,692             |
| Other provision expenses  | 30       | 66,792             | 9,836              |
| Net interest income   |          | (2,519,271)        | (1,777,614)        |
| Share of profit of equity-accounted investees                             |          | (15,943)           | (960)              |
| Income from sale of fixed assets  |          | (4,422)            | -                  |
| Currency translation differences  |          | (19,884)           | (13,010)           |
| Other non-cash adjustments  |          | (417,596)          | (412,111)          |
|   |          | <b>(665,849)</b>   | <b>(894,431)</b>   |
| <i>Changes in operating assets and liabilities:</i>                       |          |                    |                    |
| Loans and advances to banks   |          | (542,705)          | (614,392)          |
| Reserve deposits  |          | (2,403,366)        | (904,220)          |
| Financial assets at fair value through profit or loss                     |          | (417,281)          | 35,033             |
| Loans and advances to customers   |          | (10,160,675)       | (5,081,924)        |
| Other assets  |          | (504,640)          | 24,216             |
| Deposits from banks   |          | (732,768)          | 702,187            |
| Deposits from customers   |          | 5,342,715          | 2,039,355          |
| Obligation under repurchase agreements                                    |          | 5,471,731          | 2,054,593          |
| Other liabilities and provisions  |          | 114,998            | 14,374             |
|   |          | <b>(3,831,991)</b> | <b>(2,625,209)</b> |
| Interest received   |          | 4,225,046          | 4,182,988          |
| Interest paid   |          | (1,726,134)        | (2,377,188)        |
| Taxes paid  | 16,24    | (310,073)          | (105,420)          |
| <b>Cash used in operating activities</b>                                  |          | <b>(2,309,001)</b> | <b>(924,829)</b>   |
| <b>Cash flows from investing activities:</b>                              |          |                    |                    |
| Dividends received  |          | 17,079             | 8,390              |
| Acquisition of property and equipment                                     | 15       | (104,349)          | (42,561)           |
| Proceeds from the sale of property and equipment                          |          | 10,908             | 17,230             |
| Acquisition of intangible assets  | 15       | (22,211)           | (7,680)            |
| Acquisition of investment securities                                      |          | (5,318,317)        | (927,872)          |
| Proceeds from sale of investment securities                               |          | 3,200,086          | 1,501,910          |
| <b>Cash (used in)/provided by investing activities</b>                    |          | <b>(2,216,804)</b> | <b>549,417</b>     |
| <b>Cash flows from financing activities:</b>                              |          |                    |                    |
| Proceeds from issue of subordinated liabilities                           | 22       | -                  | -                  |
| Proceeds from issue of debt securities                                    | 21       | 3,503,715          | 2,784,478          |
| Repayments of debt securities   |          | (1,840,356)        | (496,581)          |
| Proceeds from share capital increase                                      |          | -                  | -                  |
| Repayments of funds borrowed  |          | 3,792,948          | 2,403,051          |
| Proceeds from funds borrowed  |          | (2,294,272)        | (2,617,316)        |
| Dividends paid  |          | (100,292)          | (37,507)           |
| <b>Cash provided by financing activities</b>                              |          | <b>3,061,743</b>   | <b>2,036,125</b>   |
| Effect of foreign exchange rate fluctuations on cash and cash equivalents |          | (2,516)            | 2,032              |
| Net increase/(decrease) in cash and cash equivalents                      |          | (1,466,578)        | 1,662,745          |
| Cash and cash equivalents at the beginning of the period                  | 7        | 5,376,750          | 5,006,441          |
| <b>Cash and cash equivalents at the end of the period</b>                 | <b>7</b> | <b>3,910,172</b>   | <b>6,669,186</b>   |

*The notes on pages 8 to 75 are an integral part of these consolidated interim financial statements.*

## Notes to the consolidated interim financial statements:

| <u>Note description</u>                                 | <u>Page:</u> |
|---|--------------|
| 1 Overview of the Bank                                  | 8            |
| 2 Basis of preparation                                  | 9            |
| 3 Significant accounting policies                       | 13           |
| 4 Financial risk management                             | 32           |
| 5 Insurance risk management                             | 46           |
| 6 Segment reporting                                     | 48           |
| 7 Cash and cash equivalents                             | 51           |
| 8 Financial assets at fair value through profit or loss | 51           |
| 9 Repurchase agreements                                 | 54           |
| 10 Loans and advances to banks                          | 54           |
| 11 Loans and advances to customers                      | 55           |
| 12 Finance lease receivables                            | 55           |
| 13 Investment securities                                | 56           |
| 14 Investment in equity participations                  | 58           |
| 15 Property and equipment and intangible assets         | 59           |
| 16 Other assets   | 61           |
| 17 Trading liabilities                                  | 61           |
| 18 Deposits from banks                                  | 62           |
| 19 Deposits from customers                              | 62           |
| 20 Funds borrowed                                       | 62           |
| 21 Debt securities issued                               | 63           |
| 22 Subordinated liabilities                             | 64           |
| 23 Other liabilities and provisions                     | 65           |
| 24 Income taxes   | 66           |
| 25 Earnings per share                                   | 68           |
| 26 Equity   | 68           |
| 27 Related parties                                      | 69           |
| 28 Other income   | 70           |
| 29 Salaries and employee benefits                       | 70           |
| 30 Other expenses                                       | 71           |
| 31 Commitment and contingencies                         | 72           |
| 32 Subsidiaries and associates                          | 73           |
| 33 Subsequent events                                    | 75           |

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

## **Notes to the Consolidated Interim Financial Statements As at and For the Six-Month Period Ended 30 June 2013**

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

### **1. Overview of the Bank**

#### **(a) Brief History**

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

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

The Bank provides corporate, commercial and retail banking services through a network of 750 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2012: 741 domestic, 3 foreign, in total 744 branches). Additionally, the Bank has control over a bank located in Austria. As at 30 June 2013, the Bank has 13,561 (31 December 2012: 13,463) employees. The Bank’s head office is located at Sanayi Mahallesi, Eski Büyükdere Caddesi, Güler Sokak, No:51, Kağıthane- İstanbul.

#### **(b) Ownership**

The shareholder holding control over the Bank is the General Directorate of the Registered Foundations and Appendant Foundations represented by the General Directorate of the Foundations having 58.45% of the Bank’s outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 1. Overview of the Bank (continued)

#### (b) Ownership (continued)

As at 30 June 2013 and 31 December 2012, The Bank's paid-in capital amounted to TL 2,500,000, divided into 250.000.000.000 shares with a nominal value of 1 Kuruş each (1 TL equals to 100 Kuruş). As at 30 June 2013 and, the Bank's shareholders' structure was as disclosed below:

| Shareholders  | Number of the Shares (100 units) | Nominal Value of the Shares – Thousands of TL | Share Percentage (%) |
|---|----------------------------------|---|----------------------|
| The General Directorate of the Foundations (Group A)                            | 1.075.058.640                    | 1,075,059                                     | 43.00                |
| Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C) | 402.552.666                      | 402,553                                       | 16.10                |
| Appendant foundations (Group B)   | 386.224.784                      | 386,225                                       | 15.45                |
| Other appendant foundations (Group B)   | 3.137.488                        | 3,137   | 0.13                 |
| Other registered foundations (Group B)  | 1.453.085                        | 1,453   | 0.06                 |
| Other real persons and legal entities (Group C)                                 | 1.536.452                        | 1,536   | 0.06                 |
| Publicly traded (Group D)   | 630.036.885                      | 630,037                                       | 25.20                |
| <b>Total</b>  | <b>2.500.000.000</b>             | <b>2,500,000</b>                              | <b>100.00</b>        |

### 2. Basis of preparation

#### (a) Statement of compliance

The accompanying consolidated interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*.

The accompanying consolidated interim financial statements were authorized fair issue by the Bank management on 18 September 2013.

#### (b) Basis of measurement

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

#### (c) Functional currency and presentation currency

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

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **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 judgements**

The preparation of the consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated interim financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

##### ***Impairment***

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3 (i) – *impairment of financial assets*.

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historic loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **2. Basis of preparation (continued)**

#### **(e) Use of estimates and judgements (continued)**

##### ***Impairment (continued)***

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Investments in equity securities were evaluated for impairment on the basis described in Note 3 (i) – *impairment of financial assets*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

##### ***Fair value***

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 3 (i) – *measurement*.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **2. Basis of preparation (continued)**

#### **(e) Use of estimates and judgements (continued)**

##### ***Fair value (continued)***

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised as disclosed in Note 4 (d) – *fair value information*:

##### ***Financial asset and liability classification***

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', the Group has determined that it meets the description of trading assets and liabilities set out in Note 3 (i).
- In designating financial assets or liabilities as at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in Note 3 (i).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 3 (i).

### **3. Significant accounting policies**

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2013.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

#### ***Changes in accounting policies***

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011) (see (a))
- IFRS 11 Joint Arrangements (see (b))
- IFRS 13 Fair Value Measurement (see (c))
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (see (d))
- IAS 19 Employee Benefits (2011) (see (e))
- Annual Improvements to IFRS 2009–2011 Cycle (see (f)).

#### ***(a) Subsidiaries***

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. As a consequence, the change had no significant impact on the consolidated investees of the Group.

#### ***(b) Joint arrangements***

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. The change had no impact on the financial statements of the Group, since the Group has no joint arrangement.

#### ***(c) Fair value measurement***

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.



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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### ***(d) Presentation of items of other comprehensive income***

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its condensed consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

#### ***(e) Defined benefit plans***

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit.

Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The adoption of the amendment to IAS 19 has no significant impact on the recognised assets, liabilities and comprehensive income of the Group.

#### ***(f) Segment information***

The amendment to IAS 34 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The adoption of the amendment to IAS 34 has no significant impact on the disclosure of segment assets and liabilities.

#### **(a) Basis of consolidation**

The consolidated interim financial statements include the accounts of the Bank and the Subsidiaries are presented in Note 32.

Subsidiaries are the entities controlled by the Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(a) Basis of consolidation (continued)**

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **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 interim 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 Associates are presented in note 32.

#### **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.

#### **(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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(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.

#### **(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 (s)) are recognized 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 recognized 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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(g) Leases**

##### ***The Group as the lessee***

###### **Operating leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

###### **Finance leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

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.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

##### ***The Group as the lessor***

###### **Operating leases**

Assets leased out under operating leases are included in investment property in the consolidated interim financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated interim statement of income on a straight-line basis over the lease term.

###### **Finance leases**

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

#### **(h) Income taxes**

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

##### **Corporate tax**

###### ***Turkey***

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

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

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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(h) Income taxes (continued)**

##### **Corporate tax (continued)**

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

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

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

##### **Foreign subsidiary**

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 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.

##### **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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(h) Income taxes (continued)**

##### **Corporate tax (continued)**

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

##### **Investment incentives**

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

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

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

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

#### **(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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(i) Financial instruments (continued)**

##### **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.

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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(i) Financial instruments (continued)**

##### **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.

##### **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.



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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(i) Financial instruments (continued)**

##### **Specific instruments**

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

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

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

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

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

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

##### **Impairment of financial assets**

###### *Assets carried at amortized cost*

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Group is granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(i) Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

##### **Assets carried at cost**

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 3. Significant accounting policies (continued)

#### (i) Financial instruments (continued)

##### *Assets carried at fair value*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement.

#### (j) Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase. 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”.

#### (k) 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:

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

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(l) Investment property**

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

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Group measured all investment property based on the cost model (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.

#### **(m) 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%.

#### **(n) Impairment of non-financial assets**

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

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

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

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

#### **(o) Provisions**

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

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

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 3. Significant accounting policies (continued)

#### (p) Employee benefits

##### Pension and other post-retirement obligations

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

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

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

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

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

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

##### *Pension and medical benefits transferable to SSF:*

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

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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(p) Employee benefits (continued)**

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

On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011; however, it has been extended to 8 May 2013 with the decision of Council of Ministers published in Official Gazette dated 9 April 2011.

*Excess benefit not transferable to SSF:*

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

*Actuarial evaluation:*

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated February 2013 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.

#### **(q) 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.

#### **(r) 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 contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee contracts are 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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(s) Insurance business**

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

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

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

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

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

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

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

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 3. Significant accounting policies (continued)

#### (s) Insurance business (continued)

*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. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends (“Actuarial Chain Ladder Method”). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an ‘each claim-file’ basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

*Receivables from reinsurance activities:* In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. These receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

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

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

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

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

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

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



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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(s) Insurance business (continued)**

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

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

#### **(t) Individual pension business**

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

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

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

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

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

Fees levied on contributions may be deducted over the participants’ contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% 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.

#### **(u) Earnings per share**

Basic earnings per share from continuing operations disclosed in the accompanying consolidated statement of comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There is no dilution of shares. 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.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **3. Significant accounting policies (continued)**

#### **(v) 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.

#### **(w) 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.

#### **(x) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

##### ***IFRS 9 Financial Instruments***

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted.

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **4. Financial risk management**

#### **(a) Introduction and overview**

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

- credit risk,
- liquidity risk,
- market risk,
- operational risk,

#### *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.

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 69 of the Regulation on Internal Systems within the Banks, dated 28 June 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

*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.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (b) Credit risk

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

##### Management of credit risk

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

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

##### Exposure to credit risk

|                               | Loans and advances to customers |                   | Other assets expose to credit risk<br>(inc. financial assets other than loans<br>and advances to customers) |                   |
|-------------------------------|---------------------------------|-------------------|---|-------------------|
|                               | 30 June 2013                    | 31 December 2012  | 30 June 2013  | 31 December 2012  |
| Individually impaired         | 3,412,507                       | 2,925,315         | 69,992  | 70,433            |
| Specific impairment           | (3,043,795)                     | (2,299,686)       | (52,227)  | (51,069)          |
| <b>Carrying amount</b>        | <b>368,712</b>                  | <b>625,629</b>    | <b>17,765</b>   | <b>19,364</b>     |
| Past due but not impaired     | 220,318                         | 195,990           | 17,929  | 19,662            |
| <b>Carrying amount</b>        | <b>220,318</b>                  | <b>195,990</b>    | <b>17,929</b>   | <b>19,662</b>     |
| Neither past due nor impaired | 78,817,411                      | 68,878,575        | 49,164,403  | 43,604,933        |
| Loans with renegotiated terms | 369,090                         | 565,451           | -   | -                 |
| <b>Carrying amount</b>        | <b>79,186,501</b>               | <b>69,444,026</b> | <b>49,164,403</b>   | <b>43,604,933</b> |
| Collective impairment         | (547,529)                       | (438,762)         | -   | -                 |
| <b>Total carrying amount</b>  | <b>79,228,002</b>               | <b>69,826,883</b> | <b>49,200,097</b>   | <b>43,643,959</b> |

As at 30 June 2013 and 31 December 2012, the Group has no allowance for loans and advances to banks and investment securities.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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 2013      |               | 31 December 2012  |               |
|---|-------------------|---------------|-------------------|---------------|
|   | Amount            | %             | Amount            | %             |
| Consumer loans  | 25,023,260        | 31.52         | 21,568,856        | 30.98         |
| <i>Mortgage loans</i>                                   | 12,005,935        | 15.12         | 10,283,389        | 14.77         |
| <i>General purpose loans</i>                            | 8,870,034         | 11.17         | 5,397,477         | 7.75          |
| <i>Overdraft checking accounts</i>                      | 556,502           | 0.70          | 493,103           | 0.71          |
| <i>Auto loans</i>                                       | 909,700           | 1.15          | 904,927           | 1.30          |
| <i>Other consumer loans</i>                             | 2,681,089         | 3.38          | 4,489,960         | 6.45          |
| Manufacturing   | 12,364,448        | 15.57         | 11,027,111        | 15.83         |
| Wholesale and retail trade                              | 11,228,710        | 14.14         | 9,639,881         | 13.84         |
| Transportation and telecommunication                    | 5,616,837         | 7.07          | 4,726,689         | 6.79          |
| Construction  | 5,880,837         | 7.41          | 4,908,520         | 7.05          |
| Credit cards  | 3,837,261         | 4.83          | 3,214,767         | 4.62          |
| Hotel, food and beverage services                       | 1,699,669         | 2.14          | 1,395,202         | 2.00          |
| Financial institutions                                  | 1,343,657         | 1.69          | 1,449,100         | 2.08          |
| Agriculture and stockbreeding                           | 2,016,896         | 2.54          | 1,584,045         | 2.27          |
| Health and social services                              | 814,538           | 1.03          | 524,067           | 0.75          |
| Others  | 9,580,706         | 12.06         | 9,601,778         | 13.79         |
| <b>Total performing loans and advances to customers</b> | <b>79,406,819</b> | <b>100.00</b> | <b>69,640,016</b> | <b>100.00</b> |

#### *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 from 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 consolidated subsidiaries write 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 has 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.

The Bank has not adopted a policy to write-off loans.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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 specific impairment) amounts of individually impaired assets by risk grade.

| 30 June 2013                    | Loans and advances to customers |                | Other assets  |               |
|---------------------------------|---------------------------------|----------------|---------------|---------------|
|                                 | Gross                           | Net            | Gross (*)     | Net (*)       |
| Grade 3 : Individually Impaired | 359,378                         | 250,916        | -             | -             |
| Grade 4 : Individually Impaired | 730,851                         | 38,830         | 4,212         | 3,869         |
| Grade 5 : Individually Impaired | 2,322,278                       | 78,966         | 65,780        | 13,896        |
| <b>Total</b>                    | <b>3,412,507</b>                | <b>368,712</b> | <b>69,992</b> | <b>17,765</b> |

  

| 31 December 2012                | Loans and advances to customers |                | Other assets  |               |
|---------------------------------|---------------------------------|----------------|---------------|---------------|
|                                 | Gross                           | Net            | Gross (*)     | Net (*)       |
| Grade 3 : Individually Impaired | 440,592                         | 329,238        | -             | -             |
| Grade 4 : Individually Impaired | 543,663                         | 130,309        | 2,915         | 2,736         |
| Grade 5 : Individually Impaired | 1,941,060                       | 166,082        | 67,518        | 16,628        |
| <b>Total</b>                    | <b>2,925,315</b>                | <b>625,629</b> | <b>70,433</b> | <b>19,364</b> |

(\*) Impaired insurance receivables are included in “Grade 4” and “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 2013 and 31 December 2012.

The breakdown of performing cash loans and advances to customers and non-cash loans (financial guarantee contracts) by type of collateral are as follows:

| Cash loans   | 30 June 2013      | 31 December 2012  |
|--|-------------------|-------------------|
| Secured loans:   | 57,260,927        | 50,544,148        |
| Secured by mortgages   | 22,065,511        | 19,751,313        |
| Secured by cash collateral   | 136,532           | 587,270           |
| Guarantees issued by financial institutions  | 179,634           | 273,443           |
| Secured by government institutions or government securities                              | 730,603           | 172,801           |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 34,148,647        | 29,759,321        |
| Unsecured loans  | 22,145,892        | 19,095,868        |
| <b>Total performing loans and advances to customers</b>                                  | <b>79,406,819</b> | <b>69,640,016</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (b) Credit risk (continued)

| Non-cash loans (financial guarantee contracts)   | 30 June 2013      | 31 December 2012  |
|--|-------------------|-------------------|
| Secured loans:   | 9,329,096         | 7,669,050         |
| Secured by mortgages   | 2,487,161         | 669,759           |
| Secured by cash collateral   | 146,572           | 123,436           |
| Guarantees issued by financial institutions  | 7,235             | 7,901             |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 6,688,128         | 6,867,954         |
| Unsecured loans  | 11,488,965        | 9,581,987         |
| <b>Total non-cash loans</b>  | <b>20,818,061</b> | <b>17,251,037</b> |

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

|                      | 30 June 2013     | 31 December 2012 |
|----------------------|------------------|------------------|
| Cash collateral (*)  | 1,333            | -                |
| Mortgages            | 1,061,468        | 758,704          |
| Promissory notes (*) | 172              | 172              |
| Others (**)          | 2,349,534        | 2,166,439        |
| <b>Total</b>         | <b>3,412,507</b> | <b>2,925,315</b> |

(\*) 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 and promissory notes amounts are shown as very small / zero in the table.

(\*\*) Sureties obtained for impaired loans are presented in this row to the extent that the amount does not exceed the amount of impaired loans

#### 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 are shown below:

| Sectoral concentration                                      | 30 June 2013     |               | 31 December 2012 |               |
|---|------------------|---------------|------------------|---------------|
|   | Amount           | %             | Amount           | %             |
| Consumer loans  | 593,303          | 17.39         | 479,133          | 16.38         |
| Construction  | 278,616          | 8.16          | 290,347          | 9.93          |
| Textile   | 197,653          | 5.79          | 291,437          | 9.96          |
| Food  | 348,514          | 10.21         | 171,287          | 5.86          |
| Service sector  | 17,858           | 0.52          | 112,017          | 3.83          |
| Agriculture and stockbreeding                               | 79,560           | 2.33          | 37,563           | 1.28          |
| Metal and metal products                                    | 109,858          | 3.22          | 34,150           | 1.17          |
| Durable consumer goods                                      | 68,910           | 2.02          | 10,027           | 0.34          |
| Financial institutions                                      | 9,893            | 0.29          | 8,827            | 0.30          |
| Others  | 1,708,342        | 50.06         | 1,490,527        | 50.95         |
| <b>Total non-performing loans and advances to customers</b> | <b>3,412,507</b> | <b>100.00</b> | <b>2,925,315</b> | <b>100.00</b> |

| Geographical concentration                                  | 30 June 2013     |               | 31 December 2012 |               |
|---|------------------|---------------|------------------|---------------|
|   | Amount           | %             | Amount           | %             |
| Turkey  | 3,391,594        | 99.39         | 2,912,302        | 99.56         |
| Austria   | 20,913           | 0.61          | 12,908           | 0.44          |
| Other   | -                | -             | 105              | -             |
| <b>Total non-performing loans and advances to customers</b> | <b>3,412,507</b> | <b>100.00</b> | <b>2,925,315</b> | <b>100.00</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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).

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 2013  | Demand            | Less than one month | 1-3 months          | 3-12 months       | 1-5 years         | Over 5 years      | Carrying amount    |
|---|-------------------|---------------------|---------------------|-------------------|-------------------|-------------------|--------------------|
| Cash and cash equivalents                             | 4,782,157         | 783,671             | 54,326              | 37,906            | -                 | -                 | 5,658,060          |
| Financial assets at fair value through profit or loss | 10,277            | 343,984             | 11,968              | 125,742           | 200,939           | 17,168            | 710,078            |
| Loans and advances to banks                           | -                 | 52,733              | 271,194             | 103,894           | -                 | -                 | 427,821            |
| Loans and advances to customers                       | 262,913           | 5,952,617           | 554,947             | 13,539,032        | 38,333,186        | 20,585,307        | 79,228,002         |
| Investment securities                                 | 100,558           | 23,127              | 106,807             | 4,829,047         | 7,734,446         | 7,554,695         | 20,348,680         |
| Other assets  | 11,009,839        | 640,083             | 71,338              | 64,968            | 98,404            | 489,138           | 12,373,770         |
| <b>Total assets</b>                                   | <b>16,165,744</b> | <b>7,796,215</b>    | <b>1,070,580</b>    | <b>18,700,589</b> | <b>46,366,975</b> | <b>28,646,308</b> | <b>118,746,411</b> |
| Trading liabilities                                   | -                 | 44,003              | 8,437               | 23,148            | 28,235            | 33,922            | 137,745            |
| Deposits from banks                                   | 67,078            | 2,118,187           | 1,110,366           | 219,669           | -                 | -                 | 3,515,300          |
| Deposits from customers                               | 12,321,883        | 38,994,931          | 13,884,211          | 3,737,968         | 654,496           | 21,430            | 69,614,919         |
| Obligations under repurchase agreements               | -                 | 11,003,087          | 1,098,566           | 1,147,313         | 720,707           | -                 | 13,969,673         |
| Funds borrowed  | -                 | 259,858             | 1,824,096           | 3,650,072         | 2,145,415         | 1,543,770         | 9,423,211          |
| Debt securities issued                                | -                 | 677,802             | 306,649             | 1,045,913         | 2,026,668         | -                 | 4,057,032          |
| Subordinated liabilities                              | -                 | -                   | -                   | 100,533           | 339,777           | 1,326,209         | 1,766,519          |
| Current tax liabilities                               | -                 | -                   | 3,804               | -                 | -                 | -                 | 3,804              |
| Other liabilities and provisions                      | 183,076           | 2,800,865           | 68,305              | -                 | -                 | -                 | 3,052,246          |
| <b>Total liabilities</b>                              | <b>12,572,037</b> | <b>55,898,733</b>   | <b>18,304,434</b>   | <b>9,924,616</b>  | <b>5,915,298</b>  | <b>2,925,331</b>  | <b>105,540,449</b> |
| <b>Net</b>  | <b>3,593,707</b>  | <b>(48,102,518)</b> | <b>(17,233,854)</b> | <b>8,775,973</b>  | <b>40,451,677</b> | <b>25,720,977</b> | <b>13,205,962</b>  |



## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

### Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

#### 4. Financial risk management (continued)

##### (c) Liquidity risk (continued)

| 31 December 2012                                      | Demand            | Less than one month | 1-3 months          | 3-12 months       | 1-5 years         | Over 5 years      | Carrying amount    |
|---|-------------------|---------------------|---------------------|-------------------|-------------------|-------------------|--------------------|
| Cash and cash equivalents                             | 5,653,586         | 851,426             | 189,844             | -                 | -                 | -                 | 6,694,856          |
| Financial assets at fair value through profit or loss | 6,808             | 29,164              | 16,151              | 45,125            | 187,733           | 11,551            | 296,532            |
| Loans and advances to banks                           | -                 | 86,901              | 104,866             | 16,363            | 106,895           | -                 | 315,025            |
| Loans and advances to customers                       | 186,867           | 5,941,765           | 675,850             | 13,265,951        | 32,562,738        | 17,193,712        | 69,826,883         |
| Investment securities                                 | 294,687           | 76,242              | 192,791             | 2,546,067         | 10,702,607        | 5,065,888         | 18,878,282         |
| Other assets  | 8,188,266         | 723,854             | 48,685              | 64,182            | 42,082            | 461,971           | 9,529,040          |
| <b>Total assets</b>                                   | <b>14,330,214</b> | <b>7,709,352</b>    | <b>1,228,187</b>    | <b>15,937,688</b> | <b>43,602,055</b> | <b>22,733,122</b> | <b>105,540,618</b> |
| Trading Liabilities                                   | -                 | 4,094               | 4,657               | 3,710             | 111,521           | 75,710            | 199,692            |
| Deposits from banks                                   | 15,263            | 2,984,819           | 880,011             | 364,596           | -                 | -                 | 4,244,689          |
| Deposits from customers                               | 11,046,766        | 33,882,327          | 15,092,672          | 3,634,010         | 550,332           | 12,928            | 64,219,035         |
| Obligations under repurchase agreements               | -                 | 6,577,257           | 233,673             | 1,679,961         | -                 | -                 | 8,490,891          |
| Funds borrowed  | -                 | 288,231             | 378,116             | 4,256,242         | 2,050,628         | 1,159,132         | 8,132,349          |
| Debt securities issued                                | -                 | 608,070             | 161,954             | 711,587           | 891,137           | -                 | 2,372,748          |
| Subordinated liabilities                              | -                 | -                   | -                   | 179,837           | 544,512           | 905,839           | 1,630,188          |
| Current tax liabilities                               | -                 | -                   | -                   | 172,808           | -                 | -                 | 172,808            |
| Other liabilities and provisions                      | 659,607           | 2,428,673           | 81,950              | 67,658            | -                 | -                 | 3,237,888          |
| <b>Total liabilities</b>                              | <b>11,721,636</b> | <b>46,773,471</b>   | <b>16,833,033</b>   | <b>11,070,409</b> | <b>4,148,130</b>  | <b>2,153,609</b>  | <b>92,700,288</b>  |
| <b>Net</b>  | <b>2,608,578</b>  | <b>(39,064,119)</b> | <b>(15,604,846)</b> | <b>4,867,279</b>  | <b>39,453,925</b> | <b>20,579,513</b> | <b>12,840,330</b>  |

##### Residual contractual maturities of the financial liabilities

| 30 June 2013                            | 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 |
|---|--------------------|-----------------------|-------------------|---------------------|-------------------|--------------------|------------------|-------------------|
| Trading Liabilities                     | 137,745            | 137,745               | -                 | 44,003              | 8,437             | 23,148             | 28,235           | 33,922            |
| Deposits from banks                     | 3,515,300          | 3,527,067             | 67,078            | 2,119,843           | 1,116,492         | 223,654            | -                | -                 |
| Deposits from customers                 | 69,614,919         | 69,983,287            | 12,321,883        | 39,070,378          | 14,004,357        | 3,837,654          | 722,846          | 26,169            |
| Obligations under repurchase agreements | 13,969,673         | 14,243,046            | -                 | 11,007,679          | 1,336,917         | 1,155,063          | 743,387          | -                 |
| Funds borrowed                          | 9,423,211          | 9,964,396             | -                 | 262,470             | 1,840,844         | 3,724,795          | 2,332,273        | 1,804,014         |
| Debt securities issued                  | 4,057,032          | 4,512,978             | -                 | 678,280             | 310,000           | 1,067,674          | 2,457,024        | -                 |
| Subordinated liabilities                | 1,766,519          | 2,984,996             | -                 | 135,167             | 30,695            | 127,542            | 450,592          | 2,241,000         |
| Other financial liabilities             | 3,052,246          | 3,052,246             | 183,076           | 2,800,865           | 68,305            | -                  | -                | -                 |
| <b>Total</b>                            | <b>105,536,645</b> | <b>108,405,761</b>    | <b>12,572,037</b> | <b>56,118,685</b>   | <b>18,716,047</b> | <b>10,159,530</b>  | <b>6,734,357</b> | <b>4,105,105</b>  |

|                       |                   |                   |            |         |           |           |           |         |
|-----------------------|-------------------|-------------------|------------|---------|-----------|-----------|-----------|---------|
| <b>Non-Cash Loans</b> | <b>20,818,061</b> | <b>20,818,061</b> | 10,902,774 | 310,449 | 1,284,311 | 5,008,863 | 2,710,413 | 601,251 |
|-----------------------|-------------------|-------------------|------------|---------|-----------|-----------|-----------|---------|

| 31 December 2012                        | Carrying amount   | Gross nominal outflow | Demand            | Less than one month | 1-3 months        | 3 months to 1 year | 1-5 years        | More than 5 years |
|---|-------------------|-----------------------|-------------------|---------------------|-------------------|--------------------|------------------|-------------------|
| Trading liabilities                     | 199,692           | 199,692               | -                 | 4,094               | 4,657             | 3,710              | 111,521          | 75,710            |
| Deposits from banks                     | 4,244,689         | 4,255,512             | 15,263            | 2,986,648           | 886,791           | 366,810            | -                | -                 |
| Deposits from customers                 | 64,219,035        | 64,723,597            | 11,046,951        | 34,067,776          | 15,251,225        | 3,730,789          | 611,031          | 15,825            |
| Obligations under repurchase agreements | 8,490,891         | 8,514,667             | -                 | 6,581,679           | 234,179           | 1,698,809          | -                | -                 |
| Funds borrowed                          | 8,100,981         | 8,556,970             | -                 | 288,586             | 381,136           | 4,313,607          | 2,230,115        | 1,343,526         |
| Debt securities issued                  | 2,372,748         | 2,623,486             | -                 | 610,517             | 164,324           | 728,357            | 1,120,288        | -                 |
| Subordinated liabilities                | 2,372,748         | 3,583,391             | -                 | -                   | -                 | 195,458            | 781,831          | 2,606,102         |
| Other financial liabilities             | 172,808           | 3,237,888             | 659,607           | 2,428,673           | 81,950            | 67,658             | -                | -                 |
| <b>Total</b>                            | <b>90,173,592</b> | <b>95,695,203</b>     | <b>11,721,821</b> | <b>46,967,973</b>   | <b>17,004,262</b> | <b>11,105,198</b>  | <b>4,854,786</b> | <b>4,041,163</b>  |

|                       |                   |                   |           |           |           |           |           |         |
|-----------------------|-------------------|-------------------|-----------|-----------|-----------|-----------|-----------|---------|
| <b>Non-Cash Loans</b> | <b>17,251,037</b> | <b>17,251,037</b> | 7,631,920 | 1,136,877 | 1,567,553 | 4,183,700 | 2,047,339 | 683,648 |
|-----------------------|-------------------|-------------------|-----------|-----------|-----------|-----------|-----------|---------|

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

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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 optimizing 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 Standardized Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared by using Standardized 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 is based on historical simulation and Monte Carlo simulation.

Average, highest and lowest values of consolidated market risks for the six-month period ended 30 June 2013 and year ended 31 December 2012, 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. 28337 dated 28 June 2012, are as follows:

|                            | 30 June 2013   |                  |                | 31 December 2012 |                  |                |
|----------------------------|----------------|------------------|----------------|------------------|------------------|----------------|
|                            | Average        | Highest          | Lowest         | Average          | Highest          | Lowest         |
| Interest rate risk         | 15,714         | 18,276           | 13,152         | 89,337           | 134,503          | 20,406         |
| Common share risk          | 2,317          | 2,487            | 2,147          | 1,989            | 2,512            | 1,284          |
| Currency risk              | 54,240         | 60,952           | 47,528         | 43,272           | 56,347           | 36,504         |
| Option risk                | -              | -                | -              | 266              | 669              | -              |
| Counter party risk         | 1,758          | 3,516            | -              | 2,637            | 2,808            | 2,465          |
| <b>Total value at risk</b> | <b>925,363</b> | <b>1,065,388</b> | <b>785,338</b> | <b>1,702,270</b> | <b>2,171,075</b> | <b>810,137</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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:

| <b>30 June 2013</b>                     | <b>Less than<br/>one month</b> | <b>1-3 months</b>  | <b>3-12<br/>months</b> | <b>1-5 years</b>  | <b>Over 5<br/>years</b> | <b>Non-interest<br/>bearing</b> | <b>Carrying<br/>amount</b> |
|---|--------------------------------|--------------------|------------------------|-------------------|-------------------------|---------------------------------|----------------------------|
| Cash and cash equivalents               | 1,229,390                      | 54,326             | 37,906                 | -                 | -                       | 4,336,438                       | 5,658,060                  |
| Loans and advances to banks             | 52,733                         | 271,195            | 103,893                | -                 | -                       | -                               | 427,821                    |
| Loans and advances to customers         | 24,518,351                     | 7,795,866          | 22,245,128             | 16,086,176        | 8,319,568               | 262,913                         | 79,228,002                 |
| Investment securities                   | 4,558,780                      | 2,699,009          | 5,828,874              | 2,942,743         | 4,218,716               | 100,558                         | 20,348,680                 |
| Other assets                            | 12,367                         | 192                | 2,222                  | 94,200            | 467                     | 12,270,097                      | 12,379,545                 |
| <b>Total assets</b>                     | <b>30,371,621</b>              | <b>10,820,588</b>  | <b>28,218,023</b>      | <b>19,123,119</b> | <b>12,538,751</b>       | <b>16,970,006</b>               | <b>118,042,108</b>         |
| Trading liabilities                     | 53,878                         | 8,437              | 23,147                 | 18,361            | 33,922                  | -                               | 137,745                    |
| Deposits from banks                     | 2,118,187                      | 1,110,366          | 219,669                | -                 | -                       | 67,078                          | 3,515,300                  |
| Deposits from customers                 | 38,994,931                     | 13,884,211         | 3,737,968              | 654,496           | 21,430                  | 12,321,883                      | 69,614,919                 |
| Obligations under repurchase agreements | 11,003,087                     | 1,098,566          | 1,147,313              | 720,707           | -                       | -                               | 13,969,673                 |
| Funds borrowed                          | 305,459                        | 3,759,162          | 4,577,056              | 534,756           | 246,778                 | -                               | 9,423,211                  |
| Debt securities issued                  | 677,802                        | 306,649            | 1,045,913              | 2,026,668         | -                       | -                               | 4,057,032                  |
| Subordinated liabilities                | -                              | -                  | 100,533                | 339,777           | 1,326,209               | -                               | 1,766,519                  |
| Other liabilities and provisions        | -                              | -                  | -                      | -                 | -                       | 3,619,455                       | 3,619,455                  |
| <b>Total liabilities</b>                | <b>53,153,344</b>              | <b>20,167,391</b>  | <b>10,851,599</b>      | <b>4,294,765</b>  | <b>1,628,339</b>        | <b>16,008,416</b>               | <b>106,103,854</b>         |
| <b>Net</b>                              | <b>(22,781,723)</b>            | <b>(9,346,803)</b> | <b>17,366,424</b>      | <b>14,828,354</b> | <b>10,910,412</b>       | <b>961,590</b>                  | <b>11,938,254</b>          |

  

| <b>31 December 2012</b>                 | <b>Less than<br/>one month</b> | <b>1-3 months</b>  | <b>3-12<br/>months</b> | <b>1-5 years</b>  | <b>Over 5<br/>years</b> | <b>Non-interest<br/>bearing</b> | <b>Carrying<br/>amount</b> |
|---|--------------------------------|--------------------|------------------------|-------------------|-------------------------|---------------------------------|----------------------------|
| Cash and cash equivalents               | 1,760,471                      | 189,844            | -                      | -                 | -                       | 4,744,541                       | 6,694,856                  |
| Loans and advances to banks             | 98,687                         | 183,937            | 32,401                 | -                 | -                       | -                               | 315,025                    |
| Loans and advances to customers         | 21,851,130                     | 15,155,122         | 12,147,486             | 13,407,598        | 7,078,680               | 186,867                         | 69,826,883                 |
| Investment securities                   | 5,133,788                      | 2,874,820          | 2,541,226              | 4,343,318         | 3,690,443               | 294,687                         | 18,878,282                 |
| Other assets                            | 6,646                          | 517                | 7,773                  | 31,963            | 511                     | 9,481,630                       | 9,529,040                  |
| <b>Total assets</b>                     | <b>28,850,722</b>              | <b>18,404,240</b>  | <b>14,728,886</b>      | <b>17,782,879</b> | <b>10,769,634</b>       | <b>14,707,725</b>               | <b>105,244,086</b>         |
| Trading liabilities                     | 13,010                         | 4,633              | 3,847                  | 102,492           | 75,710                  | -                               | 199,692                    |
| Deposits from banks                     | 2,984,819                      | 880,011            | 364,596                | -                 | -                       | 15,263                          | 4,244,689                  |
| Deposits from customers                 | 33,882,327                     | 15,092,672         | 3,634,010              | 550,332           | 12,928                  | 11,046,766                      | 64,219,035                 |
| Obligations under repurchase agreements | 6,577,257                      | 233,673            | 1,679,961              | -                 | -                       | -                               | 8,490,891                  |
| Funds borrowed                          | 1,987,727                      | 3,629,530          | 2,295,949              | 121,510           | 97,633                  | -                               | 8,132,349                  |
| Debt securities issued                  | 608,070                        | 161,954            | 711,587                | 891,137           | -                       | -                               | 2,372,748                  |
| Subordinated liabilities                | -                              | -                  | 179,837                | 544,512           | 905,839                 | -                               | 1,630,188                  |
| Other liabilities and provisions        | -                              | -                  | -                      | -                 | -                       | 3,237,888                       | 3,237,888                  |
| <b>Total liabilities</b>                | <b>46,053,210</b>              | <b>20,002,473</b>  | <b>8,869,787</b>       | <b>2,209,983</b>  | <b>1,092,110</b>        | <b>14,299,917</b>               | <b>92,527,480</b>          |
| <b>Net</b>                              | <b>(17,202,488)</b>            | <b>(1,598,233)</b> | <b>5,859,099</b>       | <b>15,572,896</b> | <b>9,677,524</b>        | <b>407,808</b>                  | <b>12,716,606</b>          |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (d) Market risk (continued)

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the period ended 30 June 2013 and for the year ended 31 December 2012:

| <b>30 June 2013</b>                                   | <b>US Dollar</b> | <b>EUR</b> | <b>TL</b> |
|---|------------------|------------|-----------|
|   | <b>%</b>         | <b>%</b>   | <b>%</b>  |
| Cash and cash equivalents                             | 0.44             | 0.56       | 7.53      |
| Financial assets at fair value through profit or loss | 8.75             | 5.47       | 6.65      |
| Loans and advances to banks                           | 2.78             | 2.43       | 7.37      |
| Loans and advances to customers                       | 5.04             | 4.44       | 12.93     |
| Investment securities                                 | 7.06             | 5.78       | 7.44      |
| Deposits from banks                                   | 1.04             | 1.45       | 7.29      |
| Deposits from customers                               | 2.42             | 2.62       | 6.27      |
| Obligations under repurchase agreements               | 1.16             | 0.44       | 5.65      |
| Debt securities issued                                | 4.66             | 1.00       | 6.14      |
| Subordinated liabilities                              | 6.00             | -          | -         |
| Funds borrowed  | 1.86             | 1.23       | 7.50      |

  

| <b>31 December 2012</b>                               | <b>US Dollar</b> | <b>EUR</b> | <b>TL</b> |
|---|------------------|------------|-----------|
|   | <b>%</b>         | <b>%</b>   | <b>%</b>  |
| Cash and cash equivalents                             | 2.38             | 1.62       | 10.38     |
| Financial assets at fair value through profit or loss | 1.84             | 7.54       | 6.32      |
| Loans and advances to banks                           | 2.82             | 2.34       | 10.21     |
| Loans and advances to customers                       | 5.46             | 4.67       | 15.36     |
| Investment securities                                 | 7.01             | 5.29       | 8.25      |
| Deposits from banks                                   | 1.40             | 1.79       | 6.69      |
| Deposits from customers                               | 3.15             | 3.26       | 8.79      |
| Obligations under repurchase agreements               | 1.31             | 0.43       | 5.57      |
| Debt securities issued                                | 5.75             | -          | 7.64      |
| Subordinated liabilities                              | 6.00             | -          | -         |
| Funds borrowed  | 2.09             | 1.45       | 9.37      |

#### *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 2013 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 30 June 2013. 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 2013.

As at 30 June 2013, 100 bp increase in interest rates would have an effect on the total comprehensive income, without tax effects, of the Group amounting to TL 241,105 (30 June 2012: TL 885), whereas 100 bp decrease in interest rates would have an effect on the total comprehensive income, without tax effects, of the Group amounting to TL (229,568) (30 June 2012: TL 11,397).

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

This analysis don't include the effect of deposits of which interest sensitivity is very short-term mainly based on re-pricing dates as seen on the table above.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (d) Market risk (continued)

*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.

*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 2013 and 31 December 2012 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

|            | Change in index | 30 June 2013 | 31 December 2012 |
|------------|-----------------|--------------|------------------|
| BIST – 100 | 10%             | 19,092       | 8,252            |

*Currency risk*

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

*Management of currency risk*

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

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

| 30 June 2013   | US Dollar          | EUR               | Other currencies   | Total             |
|--|--------------------|-------------------|--------------------|-------------------|
| Cash and cash equivalents                                      | 928,342            | 332,071           | 220,255            | 1,480,668         |
| Financial assets at fair value through profit or loss          | 142,115            | 5,238             | -                  | 147,353           |
| Loans and advances to banks                                    | 300,906            | -                 | -                  | 300,906           |
| Loans and advances to customers                                | 14,274,157         | 6,748,150         | 53,855             | 21,076,162        |
| Investment securities  | 2,822,586          | 848,855           | -                  | 3,671,441         |
| Other assets   | 7,065,538          | 4,299,378         | 2,951,627          | 14,316,543        |
| <b>Total foreign currency denominated monetary assets</b>      | <b>25,533,644</b>  | <b>12,233,692</b> | <b>3,225,737</b>   | <b>40,993,073</b> |
| Deposits from banks  | 1,324,872          | 641,919           | 717                | 1,967,508         |
| Deposits from customers  | 9,545,935          | 6,679,141         | 1,048,756          | 17,273,832        |
| Obligations under repurchase agreements                        | 6,848,541          | 550,187           | -                  | 7,398,728         |
| Funds borrowed   | 5,062,909          | 4,096,105         | 18,719             | 9,177,733         |
| Debt securities issued   | 2,122,432          | 25,058            | 23,603             | 2,171,093         |
| Subordinated liabilities                                       | 1,766,519          | -                 | -                  | 1,766,519         |
| Other liabilities  | 795,392            | 338,199           | 11,822             | 1,145,413         |
| <b>Total foreign currency denominated monetary liabilities</b> | <b>27,466,600</b>  | <b>12,330,609</b> | <b>1,103,617</b>   | <b>40,900,826</b> |
| <b>Net statement of financial position</b>                     | <b>(1,932,956)</b> | <b>(96,917)</b>   | <b>2,122,120</b>   | <b>92,247</b>     |
| <b>Net off balance sheet position</b>                          | <b>2,331,871</b>   | <b>(16,429)</b>   | <b>(2,026,520)</b> | <b>288,922</b>    |
| <b>Net long/(short) position</b>                               | <b>398,915</b>     | <b>(113,346)</b>  | <b>95,600</b>      | <b>381,169</b>    |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (d) Market risk (continued)

| 31 December 2012   | US Dollar          | EUR               | Other currencies   | Total             |
|--|--------------------|-------------------|--------------------|-------------------|
| Cash and cash equivalents                                      | 3,184,333          | 471,793           | 109,122            | 3,765,248         |
| Financial assets at fair value through profit or loss          | 54,074             | 5,218             | -                  | 59,292            |
| Loans and advances to banks                                    | 22,507             | -                 | -                  | 22,507            |
| Loans and advances to customers                                | 12,237,440         | 6,857,782         | 56,031             | 19,151,253        |
| Investment securities  | 3,106,598          | 850,148           | -                  | 3,956,746         |
| Other assets   | 3,210,649          | 2,832,014         | 2,404,798          | 8,447,461         |
| <b>Total foreign currency denominated monetary assets</b>      | <b>21,815,601</b>  | <b>11,016,955</b> | <b>2,569,951</b>   | <b>35,402,507</b> |
| Deposits from banks  | 1,453,817          | 515,449           | 2,177              | 1,971,443         |
| Deposits from customers  | 9,159,675          | 5,556,450         | 859,834            | 15,575,959        |
| Obligations under repurchase agreements                        | 5,838,713          | 545,611           | -                  | 6,384,324         |
| Funds borrowed   | 3,990,731          | 3,813,045         | 25,820             | 7,829,596         |
| Debt securities issued   | 891,137            | -                 | -                  | 891,137           |
| Subordinated liabilities                                       | 1,630,188          | -                 | -                  | 1,630,188         |
| Other liabilities  | 823,844            | 147,125           | 10,644             | 981,613           |
| <b>Total foreign currency denominated monetary liabilities</b> | <b>23,788,105</b>  | <b>10,577,680</b> | <b>898,475</b>     | <b>35,264,260</b> |
| <b>Net statement of financial position</b>                     | <b>(1,972,504)</b> | <b>439,275</b>    | <b>1,671,476</b>   | <b>138,247</b>    |
| <b>Net off balance sheet position</b>                          | <b>2,344,524</b>   | <b>(435,772)</b>  | <b>(1,676,440)</b> | <b>232,312</b>    |
| <b>Net long/(short) position</b>                               | <b>372,020</b>     | <b>3,503</b>      | <b>(4,964)</b>     | <b>370,559</b>    |

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

#### Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the six-month period ended 30 June 2013 and 2012 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

|                   | 30 June 2013   |                            | 30 June 2012   |                            |
|-------------------|----------------|----------------------------|----------------|----------------------------|
|                   | Profit or loss | Total comprehensive income | Profit or loss | Total comprehensive income |
| US Dollar         | 39,892         | 39,892                     | 15,083         | 31,116                     |
| EUR               | (11,335)       | 18,188                     | (2,673)        | 19,917                     |
| Other currencies  | 9,560          | 9,560                      | 1,795          | 1,795                      |
| <b>Total, net</b> | <b>38,117</b>  | <b>67,640</b>              | <b>14,205</b>  | <b>52,828</b>              |

10 percent revaluation of the TL against the following currencies as at and for the six-month period ended 30 June 2013 and 2012 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

|                   | 30 June 2013    |                            | 30 June 2012    |                            |
|-------------------|-----------------|----------------------------|-----------------|----------------------------|
|                   | Profit or loss  | Total comprehensive income | Profit or loss  | Total comprehensive income |
| US Dollar         | (38,257)        | (38,257)                   | (12,713)        | (28,746)                   |
| EUR               | 11,335          | (18,188)                   | 2,673           | (19,917)                   |
| Other currencies  | (8,806)         | (8,806)                    | (937)           | (937)                      |
| <b>Total, net</b> | <b>(35,728)</b> | <b>(65,251)</b>            | <b>(10,977)</b> | <b>(49,600)</b>            |

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

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (d) Market risk (continued)

##### Fair value information

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

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

Fair value of performing loans and advances to customers is TL 79,735,233 (31 December 2012: TL 69,710,816), whereas the carrying amount is TL 79,406,819 (31 December 2012: TL 69,640,016) in the accompanying consolidated statement of financial position as at 30 June 2013.

Fair value of held-to-maturity investment securities is TL 3,348,263 (31 December 2012: TL 4,476,252), whereas the carrying amount is TL 3,297,521 (31 December 2012: TL 4,261,060) in the accompanying consolidated statement of financial position as at 30 June 2013.

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

| 30 June 2013  | Level 1           | Level 2          | Level 3       | Total             |
|---|-------------------|------------------|---------------|-------------------|
| Financial assets at fair value through profit/loss        |                   |                  |               |                   |
| Debt securities   | 136,528           | 94,862           | -             | 231,390           |
| Derivative financial assets held for trading purpose      | -                 | 468,411          | -             | 468,411           |
| Investment funds  | 5,340             | -                | -             | 5,340             |
| Equity securities   | 4,910             | -                | 27            | 4,937             |
| Investment securities – available-for-sale                |                   |                  |               |                   |
| Debt securities   | 15,003,011        | 1,956,335        | -             | 16,959,346        |
| Equity securities   | 2,203             | -                | 41,764        | 43,967            |
| <b>Total financial assets</b>                             | <b>15,151,992</b> | <b>2,519,608</b> | <b>41,791</b> | <b>17,713,391</b> |
| Financial liabilities held for trading purpose            |                   |                  |               |                   |
| Derivative financial liabilities held for trading purpose | -                 | (137,745)        | -             | (137,745)         |
| <b>Total financial liabilities</b>                        | <b>-</b>          | <b>(137,745)</b> | <b>-</b>      | <b>(137,745)</b>  |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 4. Financial risk management (continued)

#### (d) Market risk (continued)

| 31 December 2012  | Level 1           | Level 2          | Level 3       | Total             |
|---|-------------------|------------------|---------------|-------------------|
| Financial assets at fair value through profit/loss        |                   |                  |               |                   |
| Debt securities   | 148,155           | 52,144           | -             | 200,299           |
| Derivative financial assets held for trading purpose      | -                 | 89,425           | -             | 89,425            |
| Investment funds  | 4,099             | -                | -             | 4,099             |
| Equity securities   | 2,682             | -                | 27            | 2,709             |
| Investment securities – available-for-sale                |                   |                  |               |                   |
| Debt securities   | 14,320,383        | 2,152            | -             | 14,322,535        |
| Equity securities   | 212,936           | -                | 42,649        | 255,585           |
| <b>Total financial assets</b>                             | <b>14,688,255</b> | <b>143,721</b>   | <b>42,676</b> | <b>14,874,652</b> |
| Financial liabilities held for trading purpose            |                   |                  |               |                   |
| Derivative financial liabilities held for trading purpose | -                 | (199,692)        | -             | (199,692)         |
| <b>Total financial liabilities</b>                        | <b>-</b>          | <b>(199,692)</b> | <b>-</b>      | <b>(199,692)</b>  |

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

|   | 30 June 2013  | 31 December 2012 |
|---|---------------|------------------|
| Balance at the beginning of the period  | 42,676        | 30,851           |
| Total gains or losses for the period recognized in profit or loss             | -             | -                |
| Total gains or losses for the period recognized in other comprehensive income | (885)         | 11,825           |
| <b>Balance at the end of the period</b>                                       | <b>41,791</b> | <b>42,676</b>    |

#### (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 behavior. 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 at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in 28 June 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at 30 June 2013, value of operational risk amounted to TL 9,561,025 (31 December 2012: TL 8,564,338).



## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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 analyzed 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 categorized 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 commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at 30 June 2013 and 31 December 2012 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

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

The Bank's regulatory capital position on a consolidated basis at 30 June 2013 and at 31 December 2012 is as follows:

|   | 30 June 2013 | 31 December 2012 |
|---|--------------|------------------|
| Tier 1 capital  | 11,799,468   | 10,953,352       |
| Tier 2 capital  | 2,905,627    | 2,936,593        |
| Deductions from capital   | (259,435)    | (294,438)        |
| Total regulatory capital  | 14,445,660   | 13,595,507       |
| Risk-weighted assets  | 92,140,700   | 77,990,988       |
| Value at market risk  | 1,114,963    | 810,138          |
| Operational risk  | 9,561,025    | 8,564,338        |
| Capital ratios  |              |                  |
| Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk | 14.05        | 15.56            |
| Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk     | 11.48        | 12.54            |

### 5 Insurance risk management

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

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

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

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **5 Insurance risk management (continued)**

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 behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

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

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

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

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Interim Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 5 Insurance risk management (continued)

#### 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.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

## 6. Segment reporting (continued)

### Information about operating segments

| 30 June 2013                 | Retail Banking | Corporate Banking | Investment Banking | Unallocated      | Total Banking  | Insurance      | Leasing      | Factoring    | Others         | Combined       | Eliminations  | Total            |
|------------------------------|----------------|-------------------|--------------------|------------------|----------------|----------------|--------------|--------------|----------------|----------------|---------------|------------------|
| <b>Operating profit</b>      | <b>737,603</b> | <b>9,193</b>      | <b>375,106</b>     | <b>(177,635)</b> | <b>944,267</b> | <b>(5,786)</b> | <b>4,692</b> | <b>1,343</b> | <b>(8,017)</b> | <b>936,499</b> | <b>66,864</b> | <b>1,003,363</b> |
| Profit before income tax     | 737,603        | 9,193             | 375,106            | (177,635)        | 944,267        | (5,786)        | 4,692        | 1,343        | (8,017)        | 936,499        | 66,864        | 1,003,363        |
| Income tax expense           | (144,226)      | (1,798)           | (73,345)           | 34,592           | (184,777)      | 5,837          | (412)        | (268)        | (241)          | (179,861)      | -             | (179,861)        |
| <b>Profit for the period</b> | <b>593,377</b> | <b>7,395</b>      | <b>301,761</b>     | <b>(143,043)</b> | <b>759,490</b> | <b>51</b>      | <b>4,280</b> | <b>1,075</b> | <b>(8,258)</b> | <b>756,638</b> | <b>66,864</b> | <b>823,502</b>   |

| 30 June 2013                               | Retail Banking    | Corporate Banking | Investment Banking | Unallocated       | Total Banking      | Insurance        | Leasing          | Factoring      | Others         | Combined           | Eliminations       | Total              |
|--|-------------------|-------------------|--------------------|-------------------|--------------------|------------------|------------------|----------------|----------------|--------------------|--------------------|--------------------|
| Segment assets                             | 27,449,848        | 50,821,233        | 25,576,937         | 14,503,133        | 118,351,151        | 1,854,092        | 1,014,142        | 161,584        | 598,146        | 121,979,115        | (718,723)          | 121,260,392        |
| Investments in associates and subsidiaries | -                 | -                 | 1,253,553          | -                 | 1,253,553          | 169,789          | 3,922            | 2,322          | 25,928         | 1,455,514          | (1,273,824)        | 181,690            |
| <b>Total assets</b>                        | <b>27,449,848</b> | <b>50,821,233</b> | <b>26,830,490</b>  | <b>14,503,133</b> | <b>119,604,704</b> | <b>2,023,881</b> | <b>1,018,064</b> | <b>163,906</b> | <b>624,074</b> | <b>123,434,629</b> | <b>(1,992,547)</b> | <b>121,442,082</b> |
| Segment liabilities                        | 27,328,126        | 46,137,807        | 27,316,625         | 5,733,433         | 106,515,991        | 1,661,681        | 906,396          | 74,313         | 336,619        | 109,495,000        | (958,052)          | 108,536,948        |
| Equity including non-controlling interest  | -                 | -                 | -                  | 13,088,713        | 13,088,713         | 362,200          | 111,668          | 89,593         | 287,455        | 13,939,629         | (1,034,495)        | 12,905,134         |
| <b>Total liabilities and equity</b>        | <b>27,328,126</b> | <b>46,137,807</b> | <b>27,316,625</b>  | <b>18,822,146</b> | <b>119,604,704</b> | <b>2,023,881</b> | <b>1,018,064</b> | <b>163,906</b> | <b>624,074</b> | <b>123,434,629</b> | <b>(1,992,547)</b> | <b>121,442,082</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

## 6. Segment reporting (continued)

### Information about operating segments (continued)

| 30 June 2012               | Retail Banking | Corporate Banking | Investment Banking | Unallocated      | Total Banking    | Insurance    | Leasing      | Factoring    | Others       | Combined         | Eliminations     | Total          |
|----------------------------|----------------|-------------------|--------------------|------------------|------------------|--------------|--------------|--------------|--------------|------------------|------------------|----------------|
| <b>Operating profit</b>    | <b>414,570</b> | <b>376,612</b>    | <b>350,630</b>     | <b>(125,431)</b> | <b>1,016,381</b> | <b>(962)</b> | <b>5,104</b> | <b>6,020</b> | <b>6,804</b> | <b>1,033,347</b> | <b>(144,746)</b> | <b>888,601</b> |
| Profit before income tax   | 414,570        | 376,612           | 350,630            | (125,431)        | 1,016,381        | (962)        | 5,104        | 6,020        | 6,804        | 1,033,347        | (144,746)        | 888,601        |
| Income tax expense         | (53,279)       | (71,372)          | (66,448)           | 23,770           | (167,329)        | 4,534        | (977)        | (1,204)      | 197          | (164,779)        | -                | (164,779)      |
| <b>Profit for the year</b> | <b>361,291</b> | <b>305,240</b>    | <b>284,182</b>     | <b>(101,661)</b> | <b>849,052</b>   | <b>3,572</b> | <b>4,127</b> | <b>4,816</b> | <b>7,001</b> | <b>868,568</b>   | <b>(144,746)</b> | <b>723,822</b> |

| 31 December 2012                           | Retail Banking    | Corporate Banking | Investment Banking | Unallocated       | Total Banking      | Insurance        | Leasing        | Factoring      | Others         | Combined           | Eliminations       | Total              |
|--|-------------------|-------------------|--------------------|-------------------|--------------------|------------------|----------------|----------------|----------------|--------------------|--------------------|--------------------|
| Segment assets                             | 24,277,414        | 52,957,260        | 24,386,603         | 3,567,971         | 105,189,248        | 1,776,722        | 802,987        | 272,501        | 683,489        | 108,724,947        | (782,542)          | 107,942,405        |
| Investments in associates and subsidiaries | -                 | -                 | 1,037,789          | -                 | 1,037,789          | 173,855          | 3,922          | 2,322          | 27,928         | 1,245,816          | (1,235,886)        | 9,930              |
| <b>Total assets</b>                        | <b>24,277,414</b> | <b>52,957,260</b> | <b>25,424,392</b>  | <b>3,567,971</b>  | <b>106,227,037</b> | <b>1,950,577</b> | <b>806,909</b> | <b>274,823</b> | <b>711,417</b> | <b>109,970,763</b> | <b>(2,018,428)</b> | <b>107,952,335</b> |
| Segment liabilities                        | 43,653,412        | 25,091,124        | 20,287,320         | 4,089,562         | 93,121,418         | 1,559,612        | 699,509        | 186,305        | 205,951        | 95,772,795         | (759,605)          | 95,013,190         |
| Equity including non-controlling interest  | -                 | -                 | -                  | 13,105,619        | 13,105,619         | 390,965          | 107,400        | 88,518         | 505,466        | 14,197,968         | (1,258,823)        | 12,939,145         |
| <b>Total liabilities and equity</b>        | <b>43,653,412</b> | <b>25,091,124</b> | <b>20,287,320</b>  | <b>17,195,181</b> | <b>106,227,037</b> | <b>1,950,577</b> | <b>806,909</b> | <b>274,823</b> | <b>711,417</b> | <b>109,970,763</b> | <b>(2,018,428)</b> | <b>107,952,335</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 7. Cash and cash equivalents

As at 30 June 2013 and 31 December 2012, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

|  | 30 June 2013     | 31 December 2012 |
|--|------------------|------------------|
| Cash on hand   | 851,827          | 983,077          |
| Balances with the CBT excluding reserve deposits   | 3,088,052        | 3,214,344        |
| Receivables from repurchase agreements ( <i>Note 9</i> )                                   | 1,000            | 3,701            |
| Loans and advances to banks with original maturity less than three months                  | 1,678,747        | 2,464,934        |
| Others   | 38,434           | 28,800           |
| <b>Total cash and cash equivalents in the consolidated statement of financial position</b> | <b>5,658,060</b> | <b>6,694,856</b> |
| Accruals on cash and cash equivalents  | (3,333)          | (3,460)          |
| Blocked bank deposits  | (1,744,555)      | (1,314,646)      |
| <b>Total cash and cash equivalents in the consolidated statement of cash flows</b>         | <b>3,910,172</b> | <b>5,376,750</b> |

As at 30 June 2013, TL 1,540,000 (31 December 2012: TL 1,068,000) of TL 1,744,555 blocked bank deposits (31 December 2012: TL 1,314,646) comprises the additional reserve requirements of Central Bank of Turkey (“CBT”) as explained below. Remaining TL 204,555 blocked bank deposits consists of TL 83,664 held against the “Diversified Payment Rights” securitizations and TL 120,891 held against insurance liabilities of the Group in favour of the Turkish Treasury.

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

### 8. Financial assets at fair value through profit or loss

As at 30 June 2013 and 31 December 2012, financial assets at fair value through profit or loss are as follows:

|  | 30 June 2013 |                | 31 December 2012 |                |
|--|--------------|----------------|------------------|----------------|
|  | Face Value   | Carrying Value | Face Value       | Carrying Value |
| <i>Debt instruments held at fair value:</i>                        |              |                |                  |                |
| Government bonds in TL   | 110,768      | 118,789        | 109,999          | 121,695        |
| Asset-backed securities  | 94,740       | 90,978         | 29,900           | 24,994         |
| Eurobonds issued by the Turkish Government                         | 11,829       | 14,248         | 11,267           | 14,820         |
| Corporate bonds in TL  | 4,806        | 4,857          | 4,700            | 5,255          |
| Bonds issued by banks  | 2,503        | 2,518          | 28,971           | 33,535         |
|  |              | <b>231,390</b> |                  | <b>200,299</b> |
| <i>Equity and other non-fixed income instruments:</i>              |              |                |                  |                |
| Derivative financial instruments held for trading purposes         |              | 468,411        |                  | 89,425         |
| Investment funds   |              | 5,340          |                  | 4,099          |
| Equity shares  |              | 4,937          |                  | 2,709          |
|  |              | <b>478,688</b> |                  | <b>96,233</b>  |
| <b>Total financial assets at fair value through profit or loss</b> |              | <b>710,078</b> |                  | <b>296,532</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

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

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the six-month period ended 30 June 2013, net income from trading of financial assets (including investment securities) amounting to TL 188,879 (30 June 2012: TL 55,386) is included in “trading income, (net)”

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

|   | 30 June 2013 |                | 31 December 2012 |                |
|---|--------------|----------------|------------------|----------------|
|   | Face Value   | Carrying Value | Face Value       | Carrying Value |
| Deposited at Turkish Treasury for insurance operations                        | 38,594       | 40,962         | 55,409           | 63,141         |
| Deposited at Istanbul Stock Exchange for repurchase transactions              | 1,622        | 1,617          | 991              | 983            |
| Deposited at Istanbul Stock Exchange for Capital Markets Board certifications | 100          | 101            | 100              | 98             |
|   |              | <b>42,680</b>  |                  | <b>64,222</b>  |

#### 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 underlying items, 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 mainly include currency forwards, interest rate swaps, currency swaps and currency options.

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.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

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

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

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

|                                     | 30 June 2013     |                  |                  |                  |                  | Total             |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
|                                     | Up to 1 month    | 1 to 3 months    | 3 to 12 months   | 1 to 5 years     | Over 5 years     |                   |
| Currency swaps:                     |                  |                  |                  |                  |                  |                   |
| Purchases                           | 4,048,921        | 338,013          | 460,996          | 70,976           | -                | 4,918,906         |
| Sales                               | 1,782,802        | 338,476          | 461,381          | 65,626           | -                | 2,648,285         |
| Currency forwards:                  |                  |                  |                  |                  |                  |                   |
| Purchases                           | 150,759          | 281,920          | 563,319          | 7,884            | -                | 1,003,882         |
| Sales                               | 150,701          | 281,777          | 562,992          | 7,880            | -                | 1,003,350         |
| Cross currency interest rate swaps: |                  |                  |                  |                  |                  |                   |
| Purchases                           | -                | -                | 317,625          | 946,107          | -                | 1,263,732         |
| Sales                               | -                | -                | 250,998          | 875,521          | -                | 1,126,519         |
| Interest rate swaps:                |                  |                  |                  |                  |                  |                   |
| Purchases                           | -                | -                | -                | 892,236          | 819,795          | 1,712,031         |
| Sales                               | -                | -                | -                | 892,236          | 819,795          | 1,712,031         |
| Currency options:                   |                  |                  |                  |                  |                  |                   |
| Purchases                           | 178,322          | 38,398           | 19,244           | -                | -                | 235,964           |
| Sales                               | 178,930          | 37,790           | 19,244           | -                | -                | 235,964           |
| Other:                              |                  |                  |                  |                  |                  |                   |
| Purchases                           | -                | -                | -                | -                | 2                | 2                 |
| Sales                               | 2,001,899        | -                | -                | -                | -                | 2,001,899         |
| <b>Total of purchases</b>           | <b>4,378,002</b> | <b>658,331</b>   | <b>1,361,184</b> | <b>1,917,203</b> | <b>819,797</b>   | <b>9,134,517</b>  |
| <b>Total of sales</b>               | <b>4,114,332</b> | <b>658,043</b>   | <b>1,294,615</b> | <b>1,841,263</b> | <b>819,795</b>   | <b>8,728,048</b>  |
| <b>Total of transactions</b>        | <b>8,492,334</b> | <b>1,316,374</b> | <b>2,655,799</b> | <b>3,758,466</b> | <b>1,639,592</b> | <b>17,862,565</b> |

|                                     | 31 December 2012 |                |                  |                  |                  | Total             |
|-------------------------------------|------------------|----------------|------------------|------------------|------------------|-------------------|
|                                     | Up to 1 month    | 1 to 3 months  | 3 to 12 months   | 1 to 5 years     | Over 5 years     |                   |
| Currency swaps:                     |                  |                |                  |                  |                  |                   |
| Purchases                           | 2,905,537        | 175,123        | 397,452          | 101,297          | -                | 3,579,409         |
| Sales                               | 1,207,110        | 175,022        | 390,123          | 101,114          | -                | 1,873,369         |
| Currency forwards:                  |                  |                |                  |                  |                  |                   |
| Purchases                           | 1,028,194        | 144,204        | 124,587          | -                | -                | 1,296,985         |
| Sales                               | 1,044,008        | 144,156        | 124,548          | -                | -                | 1,312,712         |
| Cross currency interest rate swaps: |                  |                |                  |                  |                  |                   |
| Purchases                           | -                | 106,800        | 44,500           | 1,175,757        | -                | 1,327,057         |
| Sales                               | -                | 90,990         | 38,250           | 1,131,559        | -                | 1,260,799         |
| Interest rate swaps:                |                  |                |                  |                  |                  |                   |
| Purchases                           | -                | -              | -                | 766,705          | 696,726          | 1,463,431         |
| Sales                               | -                | -              | -                | 766,705          | 696,726          | 1,463,431         |
| Currency options:                   |                  |                |                  |                  |                  |                   |
| Purchases                           | 444,751          | 61,477         | 32,067           | -                | -                | 538,295           |
| Sales                               | 444,746          | 61,483         | 32,067           | -                | -                | 538,296           |
| Other:                              |                  |                |                  |                  |                  |                   |
| Purchases                           | -                | -              | -                | -                | 2                | 2                 |
| Sales                               | 1,671,932        | -              | -                | -                | -                | 1,671,932         |
| <b>Total of purchases</b>           | <b>4,378,482</b> | <b>487,604</b> | <b>598,606</b>   | <b>2,043,759</b> | <b>696,728</b>   | <b>8,205,179</b>  |
| <b>Total of sales</b>               | <b>4,367,796</b> | <b>471,651</b> | <b>584,988</b>   | <b>1,999,378</b> | <b>696,726</b>   | <b>8,120,539</b>  |
| <b>Total of transactions</b>        | <b>8,746,278</b> | <b>959,255</b> | <b>1,183,594</b> | <b>4,043,137</b> | <b>1,393,454</b> | <b>16,325,718</b> |



## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(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 reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

|                               | 30 June 2013                    |  | 31 December 2012                |  |
|-------------------------------|---------------------------------|--|---------------------------------|--|
|                               | Fair value of underlying assets | Carrying Value of corresponding assets | Fair value of underlying assets | Carrying Value of corresponding assets |
| Reverse repurchase agreements | 1,101                           | 1,000                                  | 3,801                           | 3,701                                  |

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-earning assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

|   | 30 June 2013                    |   | 31 December 2012                |   |
|---|---------------------------------|---|---------------------------------|---|
|   | 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 | 1,622                           | 1,617                                       | 983                             | 955   |
| Investment securities- Available for sale portfolio   | 12,963,924                      | 11,608,256                                  | 7,797,052                       | 6,213,724                                   |
| Investment securities- Held to maturity portfolio     | 2,530,326                       | 2,359,800                                   | 2,184,752                       | 2,276,212                                   |
|   | <b>15,495,872</b>               | <b>13,969,673</b>                           | <b>9,982,787</b>                | <b>8,490,891</b>                            |

Accrued interest on obligations under repurchase agreements amounted to TL 22,571 (31 December 2012: TL 15,520) 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 2013 and 31 December 2012:

|                | 30 June 2013   |                |                | 31 December 2012 |                |                |
|----------------|----------------|----------------|----------------|------------------|----------------|----------------|
|                | TL             | FC             | Total          | TL               | FC             | Total          |
| Domestic banks | 157,176        | 58,961         | 216,137        | 191,992          | 84,324         | 276,316        |
| Foreign banks  | -              | 211,684        | 211,684        | -                | 38,709         | 38,709         |
| <b>Total</b>   | <b>157,176</b> | <b>270,645</b> | <b>427,821</b> | <b>191,992</b>   | <b>123,033</b> | <b>315,025</b> |

As at 30 June 2013, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL 93,977 (31 December 2012: TL 157,894) held against the insurance liabilities of the Group in favour of the Turkish Treasury.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 11. Loans and advances to customers

As at 30 June 2013 and 31 December 2012, outstanding loans and advances to customers comprise the followings:

|   | 30 June 2013      | 31 December 2012  |
|---|-------------------|-------------------|
| Corporate loans   | 48,275,621        | 42,544,577        |
| Consumer loans  | 25,023,260        | 21,568,856        |
| Credit cards  | 4,177,733         | 3,214,767         |
| Loans to financial institutions   | 887,864           | 1,449,100         |
| Finance lease receivables, net of unearned income (Note 12)             | 883,614           | 676,919           |
| Factoring receivables   | 158,727           | 185,797           |
| <b>Total performing loans</b>   | <b>79,406,819</b> | <b>69,640,016</b> |
| Non-performing loans  | 3,412,507         | 2,925,315         |
| <b>Total gross loans</b>  | <b>82,819,326</b> | <b>72,565,331</b> |
| Allowance for possible loan losses from loans and advances to customers | (3,591,324)       | (2,738,448)       |
| <i>Specific impairment</i>  | (3,043,795)       | (2,299,686)       |
| <i>Collective impairment</i>  | (547,529)         | (438,762)         |
| <b>Loans and advances to customers, net</b>                             | <b>79,228,002</b> | <b>69,826,883</b> |

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

Movements in the allowance for possible loan losses are as follows:

|   | 30 June 2013     | 31 December 2012 |
|---|------------------|------------------|
| Reserve at the beginning of the year                        | 2,738,448        | 2,109,487        |
| Adjustment for currency translation                         | (984)            | (644)            |
| Reserve for possible loan losses provided during the period | 1,112,219        | 1,071,971        |
| Recoveries  | (258,246)        | (430,467)        |
| Provision, net of recoveries                                | <b>3,591,437</b> | <b>2,750,347</b> |
| Loans written off during the year                           | (113)            | (11,899)         |
| <b>Reserve at the end of the year</b>                       | <b>3,591,324</b> | <b>2,738,448</b> |

### 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 2013   | 31 December 2012 |
|--|----------------|------------------|
| Finance lease receivables, net of unearned incomes (Note 11) | 883,614        | 676,919          |
| Add: non-performing lease receivables                        | 63,275         | 59,785           |
| Total finance lease receivables                              | 946,889        | 736,704          |
| Less: allowance for possible losses on lease receivables     | (35,932)       | (27,462)         |
| <b>Finance lease receivables, net</b>                        | <b>910,957</b> | <b>709,242</b>   |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 12. Finance lease receivables (continued)

|                                       | 30 June 2013   | 31 December 2012 |
|---------------------------------------|----------------|------------------|
| Due within one year                   | 377,136        | 356,267          |
| Due between 1 and 5 years             | 584,223        | 407,351          |
| More than five years                  | 62,707         | 45,397           |
| Finance lease receivables, gross      | 1,024,066      | 809,015          |
| Unearned income                       | (113,109)      | (99,773)         |
| <b>Finance lease receivables, net</b> | <b>910,957</b> | <b>709,242</b>   |
| Due within one year                   | 325,015        | 310,152          |
| Due between 1 and 5 years             | 525,765        | 356,394          |
| More than five years                  | 60,177         | 42,696           |
| <b>Finance lease receivables, net</b> | <b>910,957</b> | <b>709,242</b>   |

### 13. Investment securities

As at 30 June 2013 and 31 December 2012, investment securities comprise the following:

|  | 30 June 2013      | 31 December 2012  |
|--|-------------------|-------------------|
| Available-for-sale financial assets    | 17,051,159        | 14,617,222        |
| Held-to-maturity investment securities | 3,297,521         | 4,261,060         |
| <b>Total investment securities</b>     | <b>20,348,680</b> | <b>18,878,282</b> |

*Available-for-sale financial assets:*

|   | 30 June 2013 |                   | 31 December 2012 |                   |
|---|--------------|-------------------|------------------|-------------------|
|   | Face Value   | Carrying Value    | Face Value       | Carrying Value    |
| <i>Debt and other instruments available-for-sale:</i> |              |                   |                  |                   |
| Government bonds in TL                                | 12,632,624   | 13,111,385        | 9,492,659        | 10,275,713        |
| Eurobonds issued by the Turkish Government            | 3,183,967    | 3,599,398         | 3,127,544        | 3,854,663         |
| Bonds issued by banks                                 | 145,236      | 127,116           | 119,048          | 108,887           |
| Government bonds in foreign currencies                | 116,636      | 120,600           | 75,769           | 83,272            |
| Treasury bills in TL                                  | -            | -                 | -                | -                 |
| Corporate bonds                                       | 1,254        | 847               | -                | -                 |
|   |              | <b>16,959,346</b> |                  | <b>14,322,535</b> |
| <i>Equity and other non-fixed income instruments:</i> |              |                   |                  |                   |
| Equity shares   |              | 91,813            |                  | 294,687           |
|   |              | <b>91,813</b>     |                  | <b>294,687</b>    |
| <b>Total available-for-sale financial assets</b>      |              | <b>17,051,159</b> |                  | <b>14,617,222</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 13. Investment securities (continued)

As at 30 June 2013 and 31 December 2012, equity shares comprised the following:

|   | 30 June 2013   | 31 December 2012 |
|---|----------------|------------------|
| <i>Quoted investments:</i>                    |                |                  |
| T. Sınai Kalkınma Bankası AŞ <sup>(*)</sup>   | -              | 211,440          |
| <i>Unquoted investments:</i>                  |                |                  |
| Güney Ege Enerji Ltd Şti                      | 209,738        | 209,738          |
| Vakıf Pazarlama Sanayi ve Ticaret AŞ          | 103,942        | 102,797          |
| Bayek Tedavi ve Sağlık Hizmetleri AŞ          | 33,954         | 33,954           |
| Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş. | 19,609         | 20,494           |
| İMKB Takas ve Saklama Bankası AŞ              | 18,345         | 9,600            |
| Vakıf İnşaat Restorasyon AŞ                   | 10,838         | 8,504            |
| Roketsan Roket Sanayi ve Ticaret AŞ           | 7,593          | 7,593            |
| Mastercard Incorporated                       | 6,562          | 6,562            |
| İzmir Enternasyonal AŞ                        | 6,178          | 6,178            |
| Visa Inc.                                     | 4,188          | 4,188            |
| Others  | 14,441         | 13,087           |
|   | <b>435,388</b> | <b>422,695</b>   |
| Impairment                                    | (343,575)      | (339,448)        |
| <b>Total investment securities</b>            | <b>91,813</b>  | <b>294,687</b>   |

<sup>(\*)</sup> The Management has reassessed the investment in this entity and it is concluded that the Group has significant influence in the investment. This investment is reclassified from available-for-sale financial assets to investment in equity-accounted investees based on the Management's reassessment in 2013.

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

|   | 30 June 2013      |                   | 31 December 2012 |                  |
|---|-------------------|-------------------|------------------|------------------|
|   | Face Value        | Carrying Value    | Face Value       | Carrying Value   |
| Deposited at financial institutions for repurchase transactions | 9,226,925         | 10,450,708        | 6,859,678        | 7,773,894        |
| Deposited at other institutions for repurchase transactions     | 2,529,352         | 2,513,216         | 21,947           | 23,158           |
| Others  | 613,403           | 616,197           | 247,684          | 286,922          |
|   | <b>13,580,121</b> | <b>13,580,121</b> | <b>8,083,974</b> | <b>8,083,974</b> |

*Held-to-maturity investment securities:*

|   | 30 June 2013     |                  |                  | 31 December 2012 |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
|   | Face Value       | Carrying Value   | Fair Value       | Face Value       | Carrying Value   | Fair Value       |
| <i>Debt instruments:</i>                            |                  |                  |                  |                  |                  |                  |
| Government bonds in TL                              | 3,044,475        | 3,230,019        | 3,280,616        | 3,984,475        | 4,198,301        | 4,412,937        |
| Certificate of deposits                             | 57,750           | 57,785           | 57,783           | 53,400           | 53,447           | 53,457           |
| Eurobonds issued by the Turkish Government          | 9,450            | 9,717            | 9,864            | 8,834            | 9,312            | 9,858            |
| <b>Total held-to-maturity investment securities</b> | <b>3,297,521</b> | <b>3,297,521</b> | <b>3,348,263</b> | <b>4,261,060</b> | <b>4,261,060</b> | <b>4,476,252</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 13. Investment securities (continued)

Movements of held to maturity investment securities are as follows:

|  | Current period   | Previous period  |
|--|------------------|------------------|
| <b>At the beginning of the period</b>        | <b>4,261,060</b> | <b>5,979,238</b> |
| Effect of change in foreign exchange rate    | 24,221           | (114,339)        |
| Purchases during the tear                    | 74,100           | 210,825          |
| Transfers to available for sale portfolio(*) | -                | (1,474,294)      |
| Disposals through sales/redemptions          | (1,061,687)      | (275,294)        |
| Change in amortized cost                     | (173)            | (65,076)         |
| <b>At the end of the period</b>              | <b>3,297,521</b> | <b>4,261,060</b> |

(\*) In the scope of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" which is effective from 1 July 2012, the credit risk weight of foreign currency denominated debt securities has changed and therefore the Bank reclassified certain investment securities that were previously classified in held-to-maturity portfolio with total face value of USD 706,011,000 (full US Dollar) and EUR 60,002,000 (full EURO) to its available-for-sale investment securities portfolio. The securities reclassified from held-to-maturity portfolio with amortized cost of TL 1,422,452 and fair value of TL 1,733,819 in total to available-for-sale investment securities portfolio as at the reclassification date.

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

|   | 30 June 2013     |                | 31 December 2012 |                |
|---|------------------|----------------|------------------|----------------|
|   | Face Value       | Carrying Value | Face Value       | Carrying Value |
| Deposited at financial and other institutions for repurchase transactions         | 1,537,040        | 1,776,334      | 231,650          | 239,380        |
| Deposited at Central Bank of Turkey for repurchase transactions                   | 633,379          | 707,241        | 1,832,452        | 1,945,372      |
| Deposited at Central Bank of Turkey for interbank transactions                    | 273,041          | 274,972        | 471,648          | 505,059        |
| Deposited at Istanbul Stock Exchange for the transaction of financial instruments | 220,110          | 226,410        | 220,110          | 228,790        |
| Deposited at Turkish Derivative Exchange  | 30               | 31             | 30               | 31             |
| Others  | 57,750           | 57,785         | 53,400           | 53,447         |
|   | <b>3,042,773</b> |                | <b>2,972,079</b> |                |

### 14. Investment in equity-accounted investees

As at 30 June 2013 and 31 December 2012 investments in equity participations accounted for using the equity method are as follows:

|                                 | 30 June 2013   | 31 December 2012 |
|---------------------------------|----------------|------------------|
| <i>Unquoted investments:</i>    |                |                  |
| Kıbrıs Vakıflar Bankası Ltd.    | 10,103         | 9,930            |
| T. Sınai Kalkınma Bankası AŞ(*) | 171,587        | -                |
|                                 | <b>181,690</b> | <b>9,930</b>     |

(\*) The Management has reassessed the investment in this entity and it is concluded that the Group has significant influence in the investment. This investment is reclassified from available-for-sale financial assets to investment in equity-accounted investees based on the Management's reassessment in 2013.

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

**15. Property and equipment and intangible assets**

Movements in property and equipment and intangible assets from 1 January to 30 June 2013 and 1 January to 31 December 2012 are as follows:

| <b>Property and equipment</b>                             | <b>1 January<br/>2013</b> | <b>Currency<br/>translation<br/>difference</b> | <b>Additions</b> | <b>Disposals</b> | <b>30 June<br/>2013</b> |
|---|---------------------------|--|------------------|------------------|-------------------------|
| <i>Cost:</i>  |                           |  |                  |                  |                         |
| Land and buildings  | 890,654                   | (266)  | 26,373           | (32)             | 916,729                 |
| Motor vehicles  | 55,132                    | (3)  | 2,704            | (1,099)          | 56,734                  |
| Furniture, office equipment and<br>leasehold improvements | 548,584                   | (136)  | 13,098           | (1,832)          | 559,714                 |
| Other tangibles   | 312,813                   | -  | 62,174           | (1,088)          | 373,899                 |
|   | <b>1,807,183</b>          | <b>(405)</b>                                   | <b>104,349</b>   | <b>(4,051)</b>   | <b>1,907,076</b>        |
| <i>Accumulated depreciation:</i>                          |                           |  |                  |                  |                         |
| Land and buildings  | 272,360                   | (193)  | 15,630           | (4)              | 287,793                 |
| Motor vehicles  | 33,428                    | (2)  | 4,640            | (1,994)          | 36,072                  |
| Furniture, office equipment and<br>leasehold improvements | 428,839                   | (114)  | 18,352           | (322)            | 446,755                 |
| Other tangibles   | 187,489                   | -  | 18,396           | (999)            | 204,886                 |
|   | <b>922,116</b>            | <b>(309)</b>                                   | <b>57,018</b>    | <b>(3,319)</b>   | <b>975,506</b>          |
| <b>Net book value</b>                                     | <b>885,067</b>            |  |                  |                  | <b>931,570</b>          |
|   |                           |  |                  |                  |                         |
| <b>Intangible assets</b>                                  | <b>1 January<br/>2013</b> | <b>Currency<br/>translation<br/>difference</b> | <b>Additions</b> | <b>Disposals</b> | <b>30 June<br/>2013</b> |
| <i>Cost:</i>  |                           |  |                  |                  |                         |
| Software programmes                                       | 148,914                   | (74)   | 22,211           | (21,462)         | 149,589                 |
|   | <b>148,914</b>            | <b>(74)</b>                                    | <b>22,211</b>    | <b>(21,462)</b>  | <b>149,589</b>          |
| <i>Accumulated amortization:</i>                          |                           |  |                  |                  |                         |
| Software programmes                                       | 48,865                    | (70)   | 6,816            | (21,429)         | 34,182                  |
|   | <b>48,865</b>             | <b>(70)</b>                                    | <b>6,816</b>     | <b>(21,429)</b>  | <b>34,182</b>           |
| <b>Net book value</b>                                     | <b>100,049</b>            |  |                  |                  | <b>115,407</b>          |

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

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

| Property and equipment                                    | 1 January<br>2012 | Currency<br>translation<br>difference | Transfers      | Additions      | Disposals       | 31 December<br>2012 |
|---|-------------------|---------------------------------------|----------------|----------------|-----------------|---------------------|
| <i>Cost:</i>  |                   |                                       |                |                |                 |                     |
| Land and buildings  | 770,273           | (162)                                 | 100,516        | 33,173         | (13,146)        | 890,654             |
| Motor vehicles  | 57,386            | (1)                                   | -              | 2,601          | (4,854)         | 55,132              |
| Furniture, office equipment and<br>leasehold improvements | 530,732           | (70)                                  | -              | 45,350         | (27,428)        | 548,584             |
| Other tangibles   | 284,631           | -                                     | -              | 50,207         | (22,025)        | 312,813             |
|   | <b>1,643,022</b>  | <b>(233)</b>                          | <b>100,516</b> | <b>131,331</b> | <b>(67,453)</b> | <b>1,807,183</b>    |
| <i>Accumulated depreciation:</i>                          |                   |                                       |                |                |                 |                     |
| Land and buildings  | 266,247           | (98)                                  | (2,899)        | 22,056         | (12,946)        | 272,360             |
| Motor vehicles  | 30,160            | (1)                                   | -              | 7,700          | (4,431)         | 33,428              |
| Furniture, office equipment and<br>leasehold improvements | 403,078           | (57)                                  | -              | 53,246         | (27,428)        | 428,839             |
| Other tangibles   | 162,837           | -                                     | -              | 32,667         | (8,015)         | 187,489             |
|   | <b>862,322</b>    | <b>(156)</b>                          | <b>(2,899)</b> | <b>115,669</b> | <b>(52,820)</b> | <b>922,116</b>      |
| <b>Net book value</b>                                     | <b>780,700</b>    |                                       |                |                |                 | <b>885,067</b>      |
|   |                   |                                       |                |                |                 |                     |
| Intangible assets   | 1 January<br>2012 | Currency<br>translation<br>difference | Transfers      | Additions      | Disposals       | 31 December<br>2012 |
| <i>Cost:</i>  |                   |                                       |                |                |                 |                     |
| Software programmes                                       | 117,046           | (38)                                  | -              | 31,962         | (56)            | 148,914             |
|   | <b>117,046</b>    | <b>(38)</b>                           |                | <b>31,962</b>  | <b>(56)</b>     | <b>148,914</b>      |
| <i>Accumulated amortization:</i>                          |                   |                                       |                |                |                 |                     |
| Software programmes                                       | 36,975            | (37)                                  | -              | 11,973         | (46)            | 48,865              |
|   | <b>36,975</b>     | <b>(37)</b>                           |                | <b>11,973</b>  | <b>(46)</b>     | <b>48,865</b>       |
| <b>Net book value</b>                                     | <b>80,071</b>     |                                       |                |                |                 | <b>100,049</b>      |

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

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 16. Other assets

|  | 30 June 2013      | 31 December 2012  |
|--|-------------------|-------------------|
| Reserve deposit at Central Bank of Turkey                    | 10,512,179        | 8,108,813         |
| Assets held for resale                                       | 621,662           | 627,109           |
| Prepaid expenses   | 506,779           | 412,840           |
| Receivables from reinsurance activities                      | 495,070           | 482,067           |
| Receivables from credit card payments                        | 459,352           | 387,146           |
| Guarantees given for repurchase agreements                   | 443,294           | 9,707             |
| Receivables from insurance activities                        | 251,462           | 272,071           |
| Receivables from term sales of fixed assets                  | 109,448           | 47,410            |
| Deferred acquisition costs for insurance contracts, gross    | 81,134            | 77,015            |
| Collaterals for derivative financial instruments             | 30,944            | 134,520           |
| Investment properties  | 19,805            | 55,041            |
| Prepaid income taxes   | 11,181            | 418               |
| Prepaid taxes other than income tax and funds to be refunded | 6,026             | 18,654            |
| Others   | 81,242            | 95,143            |
| <b>Total other assets</b>                                    | <b>13,629,578</b> | <b>10,727,954</b> |

As at 30 June 2013, reserve deposits at the CBT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBT.

In accordance with “Announcement on Reserve Deposits” of CBT numbered 2005/1, all banks operating in Turkey shall provide a reserve rate of 11% for demand deposits, and the rates decrease to 5% as maturities get longer (31 December 2012: 11% for demand deposits, and the rates decrease to 5% as maturities get longer). For foreign currency liabilities, all banks shall provide a reserve rate of 11% in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 6% as maturities get longer (31 December 2012: 11% in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 6% as maturities get longer).

As at 30 June 2013, TL 621,662 (31 December 2012: TL 627,109) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the six-month period ended 30 June 2013 and for the year ended 31 December 2012, movement of deferred acquisition cost is as follows:

|   | 30 June 2013  | 31 December 2012 |
|---|---------------|------------------|
| Deferred acquisition cost at the beginning of the period  | 77,015        | 79,501           |
| Addition  | 79,705        | 141,841          |
| Transfer to profit/loss                                   | (75,586)      | (144,327)        |
| <b>Deferred acquisition cost at the end of the period</b> | <b>81,134</b> | <b>77,015</b>    |

### 17. Trading liabilities

As at 30 June 2013 and 31 December 2012, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

|              | 30 June 2013   | 31 December 2012 |
|--------------|----------------|------------------|
| Forwards     | 25,811         | 4,197            |
| Swaps        | 110,019        | 195,040          |
| Options      | 1,915          | 455              |
| <b>Total</b> | <b>137,745</b> | <b>199,692</b>   |



## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 18. Deposits from banks

As at 30 June 2013 and 31 December 2012, deposits from banks comprise the following:

|                                  | 30 June 2013     | 31 December 2012 |
|----------------------------------|------------------|------------------|
| Demand deposits                  | 67,078           | 15,263           |
| Time deposits                    | 3,448,222        | 4,229,426        |
| <b>Total deposits from banks</b> | <b>3,515,300</b> | <b>4,244,689</b> |

### 19. Deposits from customers

As at 30 June 2013 and 31 December 2012, deposits from customers comprise the following:

|                                      | 30 June 2013      |                   | 31 December 2012  |                   |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                      | Demand Deposit    | Time Deposit      | Demand Deposit    | Time Deposit      |
| Saving deposits                      | 2,762,612         | 16,272,765        | 2,046,323         | 15,044,654        |
| Foreign currency deposits            | 1,735,494         | 16,076,869        | 1,900,858         | 14,238,501        |
| <i>Residents in Turkey</i>           | <i>1,356,386</i>  | <i>13,283,361</i> | <i>1,524,471</i>  | <i>11,825,163</i> |
| <i>Residents in abroad</i>           | <i>379,108</i>    | <i>2,793,508</i>  | <i>376,387</i>    | <i>2,413,338</i>  |
| Commercial deposits                  | 1,587,222         | 11,460,977        | 1,297,414         | 9,740,311         |
| Public sector deposits               | 2,707,925         | 9,572,840         | 2,706,233         | 9,013,912         |
| Others                               | 3,528,630         | 3,909,585         | 3,095,938         | 5,134,891         |
| <b>Total deposits from customers</b> | <b>12,321,883</b> | <b>57,293,036</b> | <b>11,046,766</b> | <b>53,172,269</b> |

### 20. Funds borrowed

As at 30 June 2013 and 31 December 2012, funds borrowed comprise the followings in accordance with their original maturities:

|  | 30 June 2013   |                  | 31 December 2012 |                  |
|--|----------------|------------------|------------------|------------------|
|  | TL             | Foreign currency | TL               | Foreign Currency |
| <i>Short-term funds</i>                      | <i>120,668</i> | <i>5,036,911</i> | <i>252,656</i>   | <i>4,744,060</i> |
| <i>Short-term portion of long term funds</i> | <i>52,997</i>  | <i>538,312</i>   | <i>41,985</i>    | <i>43,714</i>    |
| Total short-term funds                       | 173,665        | 5,575,223        | 294,641          | 4,787,774        |
| Medium/long term funds                       | 71,813         | 3,602,510        | 8,112            | 3,041,822        |
| <b>Total funds borrowed</b>                  | <b>245,478</b> | <b>9,177,733</b> | <b>302,753</b>   | <b>7,829,596</b> |

On 1 September 2010, the Bank obtained a syndication loan at the amount of US Dollar 135 million with interest rate of Libor + 1.30% and Euro 408 million with interest rate of Euribor + 1.30% at 1 year maturity; and syndication loan at the amount of US Dollar 10 million with interest rate of Libor + 1.75% and Euro 45 million with interest rates of Euribor + 1.75% at 2 years maturity with the participation of 32 banks under the coordination of West LB AG. The Bank has repaid the part of the loan with one year maturity on 6 September 2011. On 6 September 2011, repayment of loan's one year maturity segments was realized. On 31 August 2012, two years maturity segments were paid off.

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **20. Funds borrowed (continued)**

This loan has been renewed with a syndicated loan at the amount of US Dollar 145 million and Euro 433 million with interest rates of US Libor + 1.00 % and Euribor + 1.00 % at a maturity of one year, with the participation of 26 banks under the coordination of ING Bank NV on 7 September 2011. The syndicated loan's repayment was realized on 10 September 2012. This loan has been renewed with a syndicated loan at the amount of US Dollar 151 million and Euro 444.5 million with the interest rate of US Libor + 1.35% and Euribor + 1.35% at a maturity of one year, with the participation of 24 banks with the coordination and agency of ING Bank N.V. on 18 September 2012.

On 28 March 2011, the Bank has obtained syndication loan of US Dollar 192.5 million and Euro 573.5 million with one year maturity at the cost Libor + 1.10% for US Dollar and Euribor + 1.10% for Euro, with the participation of 34 banks under the coordination of West LB AG, the loan was repaid on 29 March 2012. This loan has been renewed with a syndicated loan at the amount of US Dollar 152 million and Euro 586.7 million with interest rates of US Libor + 1.45 % and Euribor + 1.45 % at a maturity of one year, with the participation of 41 banks under the coordination of Wells Fargo Bank NA on 10 April 2012. Repayment of the loan obtained on 10 April 2012 was realized on 12 April 2013. This loan has been renewed with a syndicated loan amounting to US Dollar 251.5 million and Euro 555.2 million with interest rates of US Libor + 1.00 % and Euribor + 1.00 % at a maturity of one year, with the participation of 38 banks, Sumitomo Mitsui Banking Corporation and Brussels Branch acting as agent banks and under the coordination of Bank of America Merrill Lynch on 11 April 2013.

### **21. Debt securities issued**

On 27 November 2012, the Bank has issued discounted bond with nominal value of TL 150,000 and 346 days maturity. The nominal value of the bond is determined as TL 53,373 with respect to book-building process. As at 30 June 2013, the carrying amount of the related bond is TL 50,985.

On 24 April 2012, the Bank has issued the bond with a nominal value of US Dollar 500 million and with the maturity date of 24 April 2017. 36% of the bond has been sold in Europe, 27% in the United States, 27% in England, 10% in Asia and the Middle East. Furthermore, with respect to purchaser parties 64% of the bond was purchased by fund managers, 18% was purchased by banks, 14% by private banks and 4% by insurance and pension funds. As of 30 June 2013, the carrying amount of the bond is TL 964,623.

On 18 January 2013, the Bank has issued discounted bonds with nominal values of TL 600,000 and with 168 days maturity and TL 150,000 and 364 days maturity. The nominal values of the bonds were determined as TL 734,314 and TL 150,000 with respect to the book-building process. As at 30 June 2013, the carrying amounts of the related bonds are TL 677,801 and TL 136,912.

On 15 March 2013, the Bank has issued a bond with nominal value of TL 310,000 and with 175 days maturity. As at 30 June 2013, the carrying amount of the bond is TL 306,649.

In the framework of GMTN (Global Medium Term Notes) program, the Bank has issued bond that has been sold in abroad with a nominal value of US dollar 600 million, with return rate of 3.87% and coupon rate of 3.75%, 15 April 2018 maturity date (5 years of maturity with once every six months payment). As at 15 April 2013, issue value of the bond has been transferred to the Bank's accounts. As at 30 June 2013, the carrying amount of the bond is TL 1,157,784.

In the framework of GMTN program, the Bank has issued bonds with nominal values of Euro 10 million and CHF 12 million. As at 30 June 2013, the carrying amounts of the bonds are TL 23,616 and TL 25,070 respectively.

On 17 May 2013, the Bank has issued discounted bonds with nominal values of TL 600,000 and with 175 days maturity and TL 150,000 and 364 days maturity. The nominal values of the bonds were determined as TL 684,412 and TL 65,588 with respect to the book-building process. As at 30 June 2013, the carrying amounts of the related bonds are TL 654,083 and TL 59,509.

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **21. Debt securities issued (continued)**

On 31 January 2012, the Bank has issued discounted bonds with a nominal value of TL 1,000,000 and 178 days maturity. The bond has matured as at 27 July 2012.

On 1 June 2012, the Bank has issued discounted bonds with a nominal value of TL 500,000 and 179 days maturity. The bond has matured as at 27 November 2012.

On 27 July 2012, the Bank has issued discounted bond with a nominal value of TL 500,000 and with 175 days maturity. The bond has matured as at 18 January 2013.

On 21 September 2012, the Bank has issued discounted bonds with nominal values of TL 200,000 and 175 days maturity, TL 100,000 and 91 days maturity. The bonds have matured as at 15 March 2013 and 21 December 2012.

On 27 November 2012, the Bank has issued discounted bond with a nominal value of TL 400,000 and with 171 days maturity. The bond has matured as at 17 May 2013.

On 27 July 2012, the Bank has issued discounted bond with a nominal value of TL 200,000 and with 318 days maturity. The bond has matured as at 10 June 2013.

On 1 June 2012, the Bank has issued floating-rate bond with monthly coupon payment with a nominal value of TL 200,000 and 374 days maturity. The bond has matured as at 10 June 2013.

On 18 January 2013, the Bank has issued discounted bond with a nominal value of TL 250,000 and with 143 days maturity. The bond has matured as at 10 June 2013.

### **22. Subordinated liabilities**

The Bank has issued bond having the secondary subordinated debt quality to be sold non-resident natural and legal persons. The bond has been issued at the nominal value of USD 500 million, with maturity of 10 years and 6.0% coupon rate.

In addition to the issuance of the bond having the secondary subordinated debt realized on 1 November 2012, the Bank, has realized second tranche in issuance of the bond having the secondary subordinated debt quality to be sold in foreign bond markets. The bond has been issued at nominal value of USD 400 million, has the same maturity with previous bond and 5.5% coupon rate.

The Bank has obtained written permission of the BRSA for accounting these bonds as secondary subordinated debt and accordingly considering in the calculation of supplementary capital in compliance with the “Regulation on Capitals of the Banks” published on “ November 2006 dated and 26333 numbered Official Gazette.

As at 30 June 2013, carrying value of subordinated liabilities amount to TL 1,766,519.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 23. Other liabilities and provisions

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

|  | 30 June 2013     | 31 December 2012 |
|--|------------------|------------------|
| Accounts against expenditures of credit card holders       | 2,210,613        | 2,027,044        |
| Reserve for unearned insurance premiums                    | 574,842          | 510,300          |
| Import letter of credit                                    | 567,209          | 486,243          |
| Reserve for outstanding claims for insurance contracts     | 480,671          | 436,409          |
| Payables due to derivative financial instruments           | 262,922          | 20,979           |
| Reserve for employee severance indemnity                   | 256,109          | 243,602          |
| Unearned income  | 229,398          | 183,242          |
| Long term insurance contracts                              | 192,978          | 152,463          |
| Miscellaneous payables                                     | 155,686          | 139,788          |
| Investment contract liabilities                            | 135,517          | 169,611          |
| Taxes payable other than income tax                        | 133,241          | 171,559          |
| Payables to suppliers relating to finance lease activities | 122,842          | 90,571           |
| Reserve for short term employee benefits                   | 122,244          | 165,638          |
| Other provisions   | 120,904          | 127,324          |
| Payables due to insurance activities                       | 81,046           | 106,624          |
| Clearing account   | 78,049           | 237,941          |
| Provision for unused vacations                             | 75,754           | 67,383           |
| Deferred commission income for insurance contracts         | 46,141           | 42,520           |
| Provision for non-cash loans                               | 45,094           | 36,173           |
| Blocked accounts   | 33,993           | 36,351           |
| Other liabilities  | 120,228          | 92,347           |
| <b>Total other liabilities and provisions</b>              | <b>6,045,481</b> | <b>5,544,112</b> |

Insurance contract liabilities are detailed in the tables below:

| Reserve for unearned insurance premiums                  | 30 June 2013   | 31 December 2012 |
|--|----------------|------------------|
| Reserve for unearned insurance premiums, net             | 338,078        | 280,219          |
| Reserve for unearned insurance premiums, reinsurer share | 236,764        | 230,081          |
| <b>Reserve for unearned insurance premiums, gross</b>    | <b>574,842</b> | <b>510,300</b>   |

| Reserve for unearned insurance premiums (net) | 30 June 2013   | 31 December 2012 |
|---|----------------|------------------|
| At the beginning of the period                | 280,219        | 208,247          |
| Premiums written during the period (Note 28)  | 443,391        | 655,323          |
| Premiums earned during the period (Note 28)   | (385,532)      | (583,351)        |
| <b>At the end of the period</b>               | <b>338,078</b> | <b>280,219</b>   |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 23. Other liabilities and provisions (continued)

| <b>Provision for outstanding claims</b>                           | <b>30 June 2013</b> | <b>31 December 2012</b> |
|---|---------------------|-------------------------|
| Provision for outstanding claims, net                             | 258,836             | 205,030                 |
| Provision for outstanding claims, reinsurer share                 | 221,835             | 231,379                 |
| <b>Provision for outstanding claims, gross</b>                    | <b>480,671</b>      | <b>436,409</b>          |
| <b>Provision for outstanding claims (net)</b>                     | <b>30 June 2013</b> | <b>31 December 2012</b> |
| At the beginning of the period                                    | 205,030             | 185,121                 |
| Cash paid for claims settled during the period (Note 30)          | (289,833)           | (376,707)               |
| Increase during the period (Note 30)                              | 343,639             | 396,616                 |
| <b>At the end of the period</b>                                   | <b>258,836</b>      | <b>205,030</b>          |
| <b>Long term insurance contracts</b>                              | <b>30 June 2013</b> | <b>31 December 2012</b> |
| At the beginning of the period                                    | 322,074             | 291,164                 |
| Entrance during the period  | 28,881              | 37,994                  |
| Withdrawals during the period                                     | (22,460)            | (10,488)                |
| Change in fair value of investments held for investment contracts | -                   | 3,404                   |
| <b>At the end of the period</b>                                   | <b>328,495</b>      | <b>322,074</b>          |
| <i>Long term insurance contracts</i>                              | <i>192,978</i>      | <i>152,463</i>          |
| <i>Investment contract liabilities</i>                            | <i>135,517</i>      | <i>169,611</i>          |

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

| <b>Reserve for employee severance indemnity</b> | <b>30 June 2013</b> | <b>31 December 2012</b> |
|---|---------------------|-------------------------|
| At the beginning of the period                  | 243,602             | 186,920                 |
| Currency translation difference                 | 24                  | (8)                     |
| Interest cost                                   | 15,175              | 19,133                  |
| Service cost                                    | 8,222               | 15,165                  |
| Payment during the period                       | (10,914)            | (20,713)                |
| Actuarial difference                            | -                   | 43,105                  |
| <b>At the end of the period</b>                 | <b>256,109</b>      | <b>243,602</b>          |

### 24. Income taxes

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

|  | <b>30 June 2013</b> | <b>30 June 2012</b> |
|--|---------------------|---------------------|
| <b>Income tax recognized in profit for the year</b>  |                     |                     |
| Current income tax related to income from operations                                       | (196,273)           | (164,536)           |
| Deferred income tax related to income from operations                                      | 16,412              | (243)               |
|  | <b>(179,861)</b>    | <b>(164,779)</b>    |
| <b>Income tax recognized in other comprehensive income</b>                                 |                     |                     |
| Current income tax recognized in other comprehensive income                                | 55,204              | (30,160)            |
| Deferred income tax recognized in other comprehensive income                               | (19,042)            | (24,885)            |
|  | <b>36,162</b>       | <b>(55,045)</b>     |
| <b>Income tax expense recognized in the consolidated statement of comprehensive income</b> | <b>(143,699)</b>    | <b>(219,824)</b>    |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 24. Income taxes (continued)

The movement of current tax liabilities is as follows:

|  | 30 June 2013 | 31 December 2012 |
|--|--------------|------------------|
| At the beginning of the year               | 172,808      | 22,898           |
| Current income tax charge                  | 196,273      | 494,309          |
| Current income tax recognized under equity | (55,204)     | 30,160           |
| Taxes paid during the year                 | (310,073)    | (374,559)        |
| <b>Current tax liabilities</b>             | <b>3,804</b> | <b>172,808</b>   |

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 periods ended 30 June 2013 and 2012 is as follows:

|  | 30 June<br>2013  | Tax rate<br>(%) | 30 June<br>2012  | Tax rate<br>(%) |
|--|------------------|-----------------|------------------|-----------------|
| Profit from ordinary activities before income tax and non-controlling interest | <b>1,003,363</b> |                 | <b>888,601</b>   |                 |
| Taxes on income per statutory tax rate   | (200,673)        | (20.00)         | (177,720)        | (20.00)         |
| Income not subject to tax  | 6,054            | 0.60            | 9,827            | 1.11            |
| Investment incentives  | 2,099            | 0.21            | (876)            | (0.10)          |
| Disallowable expenses  | 11,004           | 1.10            | (1,325)          | (0.15)          |
| Others, net  | 1,655            | 0.16            | 5,315            | 0.60            |
| <b>Income tax expense</b>  | <b>(179,861)</b> | <b>(17.93)</b>  | <b>(164,779)</b> | <b>(18.54)</b>  |

Deferred tax assets and liabilities at 30 June 2013 and 31 December 2012 are attributable to the items below:

|   | 30 June 2013   | 31 December 2012 |
|---|----------------|------------------|
| Other provisions  | 160,527        | 77,390           |
| Provision for employee severance indemnity and unused vacations         | 66,970         | 61,827           |
| Investment incentive  | 23,952         | 26,052           |
| Valuation difference for property and equipment                         | 13,036         | 14,522           |
| Valuation differences of financial assets and liabilities               | 88,488         | 56,803           |
| Tax losses carried forward  | 23,215         | 13,479           |
| Other temporary differences   | 1,883          | 2,674            |
| <b>Deferred tax assets</b>  | <b>378,071</b> | <b>252,747</b>   |
| Net-off of the deferred tax assets and liabilities from the same entity | (166,875)      | (34,990)         |
| <b>Deferred tax assets, (net)</b>                                       | <b>211,196</b> | <b>217,757</b>   |
| Valuation differences of financial assets and liabilities               | 164,296        | 36,274           |
| Other temporary differences   | 5,843          | 5,394            |
| <b>Deferred tax liabilities</b>   | <b>170,139</b> | <b>41,668</b>    |
| Net-off of the deferred tax assets and liabilities from the same entity | (166,875)      | (34,990)         |
| <b>Deferred tax liabilities, (net)</b>                                  | <b>3,264</b>   | <b>6,678</b>     |

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **25. Earnings per share**

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

There is no dilution of shares as at 30 June 2013 and 2012.

The following reflects the basic earnings per share computations:

|  | <b>30 June 2013</b> | <b>30 June 2012</b> |
|--|---------------------|---------------------|
| Net profit attributable for the period                     | 834,002             | 724,886             |
| Number of 100 ordinary shares for basic earnings per share | 2.500.000.000       | 2.500.000.000       |
| Basic earnings per 100 share                               | 0.3336              | 0.2900              |

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

### **26. Equity**

#### **Share capital**

As at 30 June 2013, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2012: TL 2,500,000). The Bank's paid-in capital is divided into 250.000.000.000 shares, each with a nominal value of 1 Kuruş. As at 30 June 2013, share capital presented in equity amounts to TL 3,300,146 (31 December 2012: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 30 June 2013 (31 December 2012: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

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

#### **Legal reserves**

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

Based on the resolution of the 59<sup>th</sup> Annual General Assembly held on 29 March 2013, the Bank's statutory profit for the year ended 31 December 2012 amounting to TL 1,460,080 has been transferred to legal reserves amounting to TL 143,166 and to other reserves amounting to TL 1,216,914; and the remaining profit amounting to TL 100,000 has been decided to be distributed as dividends to equity holders of the Bank.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 26. Equity (continued)

#### Non-controlling interest

As at 30 June 2013, non-controlling interest is analysed as follows:

|                                       | 30 June 2013   | 31 December 2012 |
|---------------------------------------|----------------|------------------|
| Capital and other reserves            | 413,602        | 484,583          |
| Legal reserves                        | 23,781         | 22,847           |
| Retained earnings                     | (38,534)       | (44,537)         |
| Profit for the period                 | (10,500)       | 2,003            |
| <b>Total non-controlling interest</b> | <b>388,349</b> | <b>464,896</b>   |

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

|   | 30 June 2013  | 31 December 2012 |
|---|---------------|------------------|
| Balance at the beginning of the period              | 873,807       | (13,977)         |
| Net gains/(losses) from changes in fair values      | (729,289)     | 1,004,177        |
| Related deferred and current income taxes           | 25,470        | (76,391)         |
| Net gains transferred to profit or loss on disposal | (142,782)     | (33,821)         |
| Related deferred and current income taxes           | 10,692        | (6,181)          |
| <b>Balance at the end of the period</b>             | <b>37,898</b> | <b>873,807</b>   |

### 27. 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 2013 | 31 December 2012 |
|----------------|--------------|------------------|
| Cash loans     | 27,932       | 9,372            |
| Non-cash loans | 634,251      | 603,228          |
| Deposits taken | 1,140,618    | 1,221,935        |

#### Transactions entered into

|                         | 30 June 2013 | 30 June 2012 |
|-------------------------|--------------|--------------|
| Interest income         | 342          | 122          |
| Interest expense        | (15,457)     | (38,057)     |
| Commission income       | 453          | 162          |
| Other operating income  | 7,570        | 1,829        |
| Other operating expense | (3,814)      | (4,784)      |

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

There are no non performing loans from related parties.

#### Directors' Remuneration

As at and for the six-month period ended 30 June 2013, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 11,189 (30 June 2012: TL 10,306).



## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 28. Other income

As at and for the six-month period ended 30 June 2013 and 2012, other income comprised the followings:

|  | 30 June 2013   | 30 June 2012   |
|--|----------------|----------------|
| Earned premiums (Note 23)                                  | 385,532        | 236,249        |
| Written premiums (Note 23)                                 | 443,391        | 298,887        |
| Change in reserve for unearned premiums                    | (57,859)       | (62,638)       |
| Excess fee charged to customers for communication expenses | 42,977         | 37,883         |
| Income from sale of fixed assets                           | 35,825         | 17,293         |
| Individual pension business income                         | 17,883         | 16,054         |
| Dividend income from equity shares                         | 17,079         | 8,390          |
| Rent income  | 591            | 15,519         |
| Others   | 77,197         | 86,256         |
| <b>Total</b>   | <b>577,084</b> | <b>417,644</b> |

### 29. Salaries and employee benefits

As at and for the six-month periods ended 30 June 2013 and 2012, salaries and employee benefits comprised the following:

|  | 30 June 2013     | 30 June 2012     |
|--|------------------|------------------|
| Wages and salaries                                     | (272,273)        | (238,624)        |
| Other fringe benefits                                  | (182,014)        | (193,774)        |
| Employer's share of social security premiums           | (79,714)         | (69,615)         |
| Provision for short term employee benefits             | (119,528)        | (59,410)         |
| Provision for employee termination benefits (Note 23)  | (12,507)         | (16,031)         |
| Change in provision for liability for unused vacations | (7,882)          | (1,328)          |
| <b>Total</b>   | <b>(673,918)</b> | <b>(578,782)</b> |

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

|              | 30 June 2013  | 30 June 2012  |
|--------------|---------------|---------------|
| The Bank     | 13,224        | 12,408        |
| Subsidiaries | 2,021         | 1,942         |
| <b>Total</b> | <b>15,245</b> | <b>14,350</b> |

### 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) 3,129 and TL (full TL) 3,034 as at 30 June 2013 and 31 December 2012, respectively.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 29. Salaries and employee benefits (continued)

#### Reserve for employee severance indemnity (continued)

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 30 June 2013 and 31 December 2012 are as follows:

|   | 30 June 2013 | 31 December 2012 |
|---|--------------|------------------|
| Discount rate   | 1.91%        | 1.91%            |
| Expected rate of salary/limit increase                  | 5.00%        | 5.00%            |
| Turnover rate to estimate the probability of retirement | 1.9%         | 1.9%             |

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

### 30. Other expenses

As at and for the six-month periods ended 30 June 2013 and 2012, other expenses comprised the following:

|  | 30 June 2013     | 30 June 2012     |
|--|------------------|------------------|
| Incurring insurance claims (Note 23)       | (343,639)        | (187,209)        |
| Insurance claims paid (Note 23)            | (289,833)        | (186,844)        |
| Change in provision for outstanding claims | (53,806)         | (365)            |
| Banking services promotion expenses        | (197,565)        | (182,777)        |
| Rent expenses and operating lease charges  | (79,043)         | (70,540)         |
| Other provision expenses                   | (66,792)         | (9,836)          |
| Advertising expenses                       | (43,326)         | (36,273)         |
| Saving Deposit Insurance Fund premiums     | (39,210)         | (28,200)         |
| Communication expenses                     | (33,595)         | (36,162)         |
| Loss on sale of assets                     | (25,682)         | (63)             |
| Cleaning service expenses                  | (15,414)         | (20,807)         |
| Credit card promotion expenses             | (10,812)         | (183)            |
| Energy expenses                            | (8,166)          | (13,051)         |
| Maintenance expenses                       | (7,819)          | (9,126)          |
| Change in long term insurance contracts    | (5,997)          | (29,692)         |
| BRSA participation fee                     | (5,458)          | (8,918)          |
| Hosting expenses                           | (5,153)          | (3,348)          |
| Office supplies                            | (4,819)          | (8,486)          |
| Transportation expenses                    | (2,059)          | (6,748)          |
| Computer usage expenses                    | (2,000)          | (6,371)          |
| Consultancy expenses                       | (1,755)          | (4,348)          |
| Individual pension business expenses       | (1,715)          | (1,665)          |
| Other various administrative expenses      | (67,650)         | (72,507)         |
| <b>Total</b>                               | <b>(967,669)</b> | <b>(736,310)</b> |

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 31. 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 2013      | 31 December 2012  |
|---|-------------------|-------------------|
| Letters of guarantee  | 15,940,352        | 12,640,503        |
| Letters of credit   | 3,959,811         | 3,774,709         |
| Acceptance credits  | 904,739           | 805,832           |
| Other guarantees  | 13,159            | 29,993            |
| <b>Total non-cash loans (financial guarantee contracts)</b>   | <b>20,818,061</b> | <b>17,251,037</b> |
| Credit card limit commitments                                 | 5,870,463         | 4,938,035         |
| Loan granting commitments                                     | 6,058,698         | 4,958,548         |
| Commitments for cheque payments                               | 1,307,654         | 1,154,273         |
| Commitments for credit card and banking operations promotions | 297,688           | 306,109           |
| <b>Total commitments</b>                                      | <b>13,534,503</b> | <b>11,356,965</b> |
| <b>Total commitments and contingencies</b>                    | <b>34,352,564</b> | <b>28,608,002</b> |

#### Contingent assets and liabilities

There are various legal cases against the Group for which TL 14,898 (31 December 2012: TL 16,581) 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.

#### 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.

## Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### 32. Subsidiaries and associates

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

|  | <b>Direct<br/>Shareholding<br/>Interest (%)</b> | <b>Indirect<br/>Shareholding<br/>Interest (%)</b> |
|--|---|---|
| <b>Subsidiaries:</b>                               |   |   |
| Güneş Sigorta AŞ                                   | 36.35   | 36.35   |
| Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ | 11.75   | 21.77   |
| Vakıf Emeklilik AŞ                                 | 53.90   | 75.30   |
| Vakıf Enerji ve Madencilik AŞ                      | 65.50   | 84.96   |
| Taksim Otelcilik AŞ                                | 51.00   | 51.52   |
| Vakıf Finans Factoring Hizmetleri AŞ               | 78.39   | 86.99   |
| Vakıf Finansal Kiralama AŞ                         | 58.71   | 64.40   |
| Vakıf Yatırım Menkul Değerler AŞ                   | 99.00   | 99.44   |
| Vakıf Portföy Yönetimi AŞ                          | 99.99   | 99.99   |
| Vakıfbank International AG                         | 90.00   | 90.00   |
| Vakıf Gayrimenkul Yatırım Ortaklığı AŞ             | 27.63   | 29.49   |
| World Vakıf UBB Ltd. (*)                           | 82.00   | 85.25   |
| VB Diversified Payment Rights Finance Company (**) | -   | -   |
| <b>Associates:</b>                                 |   |   |
| Kıbrıs Vakıflar Bankası Ltd.                       | 15.00   | 15.00   |
| T. Sınai Kalkınma Bankası AŞ                       | 8.38  | 8.38  |

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **32. Subsidiaries and associates (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

As at and For the Six-Month Period Ended 30 June 2013

(Currency – Thousands of Turkish Lira (TL))

### **32. Subsidiaries and associates (continued)**

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

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

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

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

### **33. Subsequent events**

None.