Yapı ve Kredi Bankası A.Ş.

Interim condensed consolidated financial statements at June 30, 2011 together with independent auditor's review report

Report on review of interim condensed consolidated financial statements

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Yapı ve Kredi Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2011, comprising of the interim consolidated statement of financial position as at June 30, 2011 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently it 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

August 10, 2011
İstanbul, Turkey

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(These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

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Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of financial position at June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated.
These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	December 31, 2010
Assets			
Cash and balances with central banks		9,915,744	6,034,426
Loans and advances to banks		2,896,346	3,372,107
Financial assets held for trading			
- Trading securities		556,161	376,591
- Derivative financial instruments	4	376,749	693,524
Loans and advances to customers	6	67,546,055	57,804,154
Hedging derivatives	4	84,531	38,201
Investment securities			
- Available-for-sale	7	7,757,096	5,881,756
- Held-to-maturity	7	12,251,274	12,974,944
Investment in associates and joint ventures accounted for using the equity method		111,300	94,171
Goodwill		1,023,528	1,023,528
Other intangible assets		269,374	263,667
Property and equipment		1,125,124	1,163,080
Deferred income tax assets	12	508,987	476,189
Other assets		1,768,573	1,613,895
Total assets		**106,190,842**	**91,810,233**
Liabilities			
Deposits from banks	8	10,389,667	4,935,470
Customer deposits	9	57,654,065	53,490,950
Funds borrowed	10	14,777,097	12,614,942
Debt securities in issue	11	2,247,074	1,394,904
Derivative financial instruments	4	360,795	359,168
Current income taxes payable		130,243	122,526
Deferred income tax liabilities	12	1,704	2,132
Hedging derivatives	4	289,049	453,663
Other provisions	13	431,932	457,185
Retirement benefit obligations		942,642	939,736
Insurance technical reserves		1,012,583	930,707
Other liabilities		5,873,856	5,165,086
Total liabilities		**94,110,707**	**80,866,469**
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	14	348,049	306,192
Retained earnings		6,850,648	5,756,268
Equity attributable to equity holders of the parent		**12,020,956**	**10,884,719**
Equity attributable to non-controlling interests		59,179	59,045
Total equity		**12,080,135**	**10,943,764**
Total liabilities and equity		**106,190,842**	**91,810,233**

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of income for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	June 30, 2010
Interest income		3,629,177	3,226,469
Interest expense		(2,123,820)	(1,548,465)
Net interest income		**1,505,357**	**1,678,004**
Fee and commission income		1,210,806	1,040,146
Fee and commission expense		(247,198)	(143,609)
Net fee and commission income		**963,608**	**896,537**
Foreign exchange gains, net		75,102	38,509
Net trading, hedging and fair value income / (loss)	15	76,874	(43,874)
Gains from investment securities, net	15	9,368	39,822
Insurance technical income, net		62,677	43,791
Other operating income		54,662	116,745
Operating income		**2,747,648**	**2,769,534**
Impairment (losses) / reversal on loans, investment securities and credit related commitments, net		2,199	(39,576)
Provision for retirement benefit obligations		(16,401)	(12,745)
Other provisions	13	(53,112)	(69,411)
Other operating expenses	16	(1,223,991)	(1,175,727)
Operating profit		**1,456,343**	**1,472,075**
Share of profit of associates and joint ventures accounted for using the equity method		7,904	2,593
Profit before income tax		**1,464,247**	**1,474,668**
Income tax expense	12	(264,595)	(295,610)
Profit for the period		**1,199,652**	**1,179,058**
Attributable to:			
Equity holders of the parent		1,197,394	1,176,739
Non-controlling interest		2,258	2,319
		1,199,652	**1,179,058**
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	20	2.75	2.71

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of comprehensive income
for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	June 30, 2010
Profit for the period		**1,199,652**	**1,179,058**
Exchange differences on translation of foreign operations		98,216	(42,228)
Net gains / (losses) on available-for-sale financial assets			
- Unrealised net gains / (losses) arising during the period, before tax		(151,644)	(2,187)
- Net amount reclassified to the statement of income, before tax		(4,544)	(1,463)
Net investment hedges			
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		(66,730)	44,460
- Net amount reclassified to the statement of income, before tax		-	-
Cash flow hedges			
- Net losses arising on hedges recognized in other comprehensive income, before tax		(61,189)	(123,142)
- Net amount reclassified to the statement of income, before tax		87,835	18,423
Income tax relating to components of other comprehensive income	**14**	**36,583**	**13,808**
Other comprehensive income for the period, net of tax		**(61,473)**	**(92,329)**
Total comprehensive income for the period		**1,138,179**	**1,086,729**
Total comprehensive income attributable to:			
Equity holders of the parent (total)		1,136,237	1,084,629
Non-controlling interest (total)		1,942	2,100

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Attributable to equity holders of the parent						
	Share capital	Share premium	Other reserves (Note 14)	Retained earnings (Note 14)	Total	Non-controlling interest	Total equity
Balance at January 1, 2010	**4,286,580**	**535,679**	**235,993**	**3,594,934**	**8,653,186**	**53,217**	**8,706,403**
Total comprehensive income for the period	-	-	(92,110)	1,176,739	1,084,629	2,100	1,086,729
Dividends paid	-	-	-	-	-	(693)	(693)
Transfer to statutory reserves	-	-	67,739	(67,739)	-	-	-
Balance at June 30, 2010	**4,286,580**	**535,679**	**211,622**	**4,703,934**	**9,737,815**	**54,624**	**9,792,439**
Balance at January 1, 2011	**4,286,580**	**535,679**	**306,192**	**5,756,268**	**10,884,719**	**59,045**	**10,943,764**
Total comprehensive income for the period	-	-	(61,157)	1,197,394	1,136,237	1,942	1,138,179
Dividends paid	-	-	-	-	-	(1,808)	(1,808)
Transfer to statutory reserves	-	-	103,014	(103,014)	-	-	-
Balance at June 30, 2011	**4,286,580**	**535,679**	**348,049**	**6,850,648**	**12,020,956**	**59,179**	**12,080,135**

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flows
for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	June 30, 2010
Cash flows from operating activities			
Net profit		1,199,652	1,179,058
Adjustments for:			
Unrealized gain on financial assets held for trading, net		31,289	22,586
Impairment losses / (reversal) on loans, investment securities and credit related commitments	6,13	(2,199)	39,576
Measurement of derivative financial instruments at fair value	4	107,458	629,775
Share of profit of associates and joint ventures		(7,904)	(2,593)
Amortization of other intangible assets		28,747	21,221
Depreciation of property and equipment		75,349	69,705
(Reversal of) impairment charge on property and equipment		-	(1,246)
(Reversal of) impairment charge on intangible assets		-	(2,770)
Provision for current and deferred income taxes	12	264,595	295,610
Other provisions	13	53,112	69,411
Provision for retirement benefit obligations		16,401	12,745
Other liabilities		(55,346)	(48,878)
Unearned commission income		909	8,795
Dividend income		(5,891)	(927)
Interest income, net		(1,505,357)	(1,678,004)
Interest paid		(2,027,929)	(1,504,479)
Interest received		3,640,819	3,260,761
Effect of exchange rates on financing activities		1,411,121	(633,248)
Other, net		(320,480)	124,059
Cash flows from operating activities before changes in operating assets and liabilities		**2,904,346**	**1,861,157**
Changes in operating assets and liabilities:			
Net(increase) in cash balances with central banks		(3,475,663)	(661,099)
Net decrease / (increase) in loans and advances to banks		41,047	(362,028)
Net decrease / (increase) in trading securities		(210,859)	124,378
Net (increase) in loans and advances to customers		(9,647,764)	(7,950,709)
Net (increase) in other assets		(824,513)	(941,715)
Net increase in deposits from banks		5,456,977	1,659,748
Net (increase in customer deposits		4,112,668	5,793,429
Net increase in other liabilities and provisions		644,563	663,456
Income taxes paid		(253,521)	(299,347)
Net cash (used in) operating activities		**(1,252,719)**	**(112,730)**
Cash flows from investing activities			
(Purchase of) property and equipment		(42,269)	(29,198)
Net book value of property and equipment disposed		6,541	16,039
(Purchase of) intangible assets, net		(34,193)	(36,383)
(Purchase of) held-to-maturity securities		(571,776)	(401,646)
Redemption or sale of held-to-maturity securities		1,755,111	1,131,841
(Purchase of) available-for-sale securities		(3,023,667)	(4,654,384)
Sale or redemption of available-for-sale securities		1,248,405	3,362,880
Dividends received		5,891	927
Other, net		(9,574)	6,226
Net cash (used in) investing activities		**(665,531)**	**(603,698)**
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(6,079,908)	(3,569,268)
Proceeds from borrowed funds and debt securities		7,523,574	4,838,363
Dividend paid to minority		(1,808)	(693)
Net cash from financing activities		**1,441,858**	**1,268,402**
Net increase / (decrease) in cash and cash equivalents		**(476,392)**	**551,974**
Effects of foreign exchange rate changes on cash and cash equivalents		299,813	(72,839)
Cash and cash equivalents at beginning of period		4,361,992	5,078,426
Cash and cash equivalents at end of period	**5**	**4,185,413**	**5,557,561**

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as the "Group" in these interim condensed consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its incorporation. The Group provides retail, corporate and private banking, credit cards, insurance, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan and Russia.

The Group's immediate parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCI") and Koç Group. KFS was established as a financial holding company on March 16, 2001 to combine Koç Group financial services companies under one organization. As of October 22, 2002, Koç Group established a strategic partnership with UCI over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of June 30, 2011, 18.20% of the shares of the Bank are publicly traded (December 31, 2010 - 18.20%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on the London Stock Exchange.

At June 30, 2011, the Group has 16,917 employees (December 31, 2010 - 16,780 employees). The Bank has 886 branches operating in Turkey and 1 branch in an off-shore region (December 31, 2010 - 867 branches operating in Turkey, 1 branch in an off-shore region) and 14,547 employees (December 31, 2010 - 14,411 employees).

There is no change in the consolidation structure of the Group since December 31, 2010.

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

The interim condensed consolidated financial statements have been reviewed, not audited.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 10, 2011.

2. Summary of significant accounting policies

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 2011 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2010.

2. Summary of significant accounting policies (continued)

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2010, except for the adoption of the new standards and interpretations as of January 1, 2011 noted below:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
- IAS 32 Classifications on Rights Issues (Amended)
- IAS 24 Related Party Disclosures (Revised)

The adoption of these standards, amendments, and interpretations did not have any effect on the financial performance or position of the Group.

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments that are effective as at January 1, 2011 are as follows:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programs

New standards and interpretations not yet adopted

Up to the date of approval of the interim condensed consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted, as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the interim condensed consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

- IFRS 9 Financial Instruments – Phase 1 financial instruments, classification and measurement
- IAS 12 Deferred Taxes: Recovery of Underlying Assets (Amendment)
- IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 19 Employee Benefits (Amended)
- IAS 1 Presentation of Financial Statements (Amended)

The Group is currently assessing the impact of adopting IFRS 9, IFRS 10, IFRS 12, IFRS 13 and IAS 1. Other than these the adoption of the above standards, amendments, and interpretations are not expected to have any material effect on the financial performance or position of the Group.

The interim condensed consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira (“TL”).

2. Summary of significant accounting policies (continued)

The interim condensed consolidated financial statements have been prepared on a historical cost basis; except for available-for-sale investments, derivative financial instruments and other financial assets held for trading, which have all been measured at fair value.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated November 1, 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdiction. Consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

3. Changes to critical accounting estimates and judgements in applying accounting policies

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

The Group calculates collective (IBNR) provision with intrinsic elements such as loss confirmation periods, probability of default and loss given defaults along with expert views. Taking into consideration the historical loss experience, the Bank has reassessed the parameters for different segments. As of June 30, 2011, as a result of such reassessment, TL 106 million is recorded as income.

Apart from the change stated above, in preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that are applied in the annual consolidated financial statements for the year ended December 31, 2010.

4. Financial risk management

The Group’s risk management functions are independent from the commercial operations along with committees such as Executive Committee and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group’s fulfillment of requirements stipulated by the Banking Law in a manner consistent with shareholders’ risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Banking Law.

4. Financial risk management (continued)

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities (‘trading exposures’), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

The Group manages credit risk through the following implementations:

(a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;
(b) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area, etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;
(c) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);
(d) evaluation of new credit products, changes to existing ones and monitoring them to ensure the risk profile is coherent with the risk appetite and reputational risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, work-out procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);
(e) enhancement and monitoring of the rating and scoring models (probability of default (“PD”), exposure at default (“EAD”) and loss given default (“LGD”)) as well as pricing models for all segments. This includes:

    - methodological documentation,
    - technical specification for IT implementation and support to local use,
    - definition of process guidelines regarding models usage and use tests,
    - validation,
    - definition of rating override process,
    - definition of credit data warehouse,
    - cooperation with UniCredit Group for internal validation and credit risk Value-at-Risk (“VaR”) model development and calculation;

(f) preparation of credit risk budget in line with predefined lending targets;
(g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio for maintaining the asset quality;
(h) definition of provisioning methodologies in line with BRSA and IFRS requirements.

Credit policies reflect the general credit risk principles to be followed throughout the Group’s lending activities and the related strategies and goals, as well as shareholders’ risk appetites. The credit policy guideline is prepared by the Group’s credit risk management department and approved by the Board of Directors.

4. Financial risk management (continued)

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate and foreign exchange risk.

The Market Risk Policy of the Group identifies risk management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities, sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for keeping the market maker status.

The trading activity of the Group is realized mainly in FX and securities, which is tolerated within predefined limits. Risk limits are set on an intra-day and end-of-day position basis, as well as on Value at Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is supposed to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value (“BPV”) methods are used to measure the structural interest rate risk.

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 4F). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group’s risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group’s assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

June 30, 2011

	Foreign currency					
	US$	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	1,805,499	2,999,423	79,070	4,883,992	5,031,752	9,915,744
Loans and advances to banks	1,376,078	698,671	63,693	2,138,442	757,904	2,896,346
Financial assets held for trading						
- Trading securities	7,963	4,964	-	12,927	543,234	556,161
- Derivative financial instruments	69,106	17,463	1,168	87,737	289,012	376,749
Loans and advances to customers (1)	16,864,010	10,752,493	843,047	28,459,550	39,086,505	67,546,055
Hedging derivatives	11,317	833	-	12,150	72,381	84,531
Investment securities						
- Available-for-sale	1,115,427	296,415	66,306	1,478,148	6,278,948	7,757,096
- Held-to-maturity	7,594,465	624,294	-	8,218,759	4,032,515	12,251,274
Investment in associates and joint ventures	-	-	90,132	90,132	21,168	111,300
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,367	1,367	268,007	269,374
Property and equipment	-	646	17,116	17,762	1,107,362	1,125,124
Deferred income tax assets	-	-	1,548	1,548	507,439	508,987
Other assets	453,631	323,164	244,213	1,021,008	747,565	1,768,573
Total assets	**29,297,496**	**15,718,366**	**1,407,660**	**46,423,522**	**59,767,320**	**106,190,842**
Liabilities						
Deposits from banks	4,603,064	1,085,153	49,952	5,738,169	4,651,498	10,389,667
Customer deposits	17,182,870	6,960,595	985,949	25,129,414	32,524,651	57,654,065
Funds borrowed	4,035,347	8,552,957	90,853	12,679,157	2,097,940	14,777,097
Debt securities in issue	756,554	555,385	-	1,311,939	935,135	2,247,074
Derivative financial instruments	70,245	38,414	1,142	109,801	250,994	360,795
Current income taxes payable	-	-	176	176	130,067	130,243
Deferred income tax liabilities	-	1,704	-	1,704	-	1,704
Hedging derivatives	138,659	-	-	138,659	150,390	289,049
Other provisions	-	471	57	528	431,404	431,932
Retirement benefit obligations	-	3,138	-	3,138	939,504	942,642
Insurance technical reserves	252,498	67,702	30	320,230	692,353	1,012,583
Other liabilities	532,320	457,752	26,302	1,016,374	4,857,482	5,873,856
Total liabilities	**27,571,557**	**17,723,271**	**1,154,461**	**46,449,289**	**47,661,418**	**94,110,707**
Net position on statement of financial position	**1,725,939**	**(2,004,905)**	**253,199**	**(25,767)**	**12,105,902**	**12,080,135**
Off balance sheet derivative instruments net notional position (2)	(3,533,763)	2,388,592	1,820	(1,143,351)	376,494	(766,857)
Net currency position	**(1,807,824)**	**383,687**	**255,019**	**(1,169,118)**	**12,482,396**	**11,313,278**

(1) Collective impairment allowance of TL 658,097 calculated on TL and foreign currency denominated loans is presented as TL balance in the above currency position table.
(2) Foreign exchange purchase commitments with the future value dates amounting to TL 1,296,950 booked under commitments are not included

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

December 31, 2010

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	580,667	2,799,528	95,920	3,476,115	2,558,311	6,034,426
Loans and advances to banks	1,218,798	397,656	73,069	1,689,523	1,682,584	3,372,107
Financial assets held for trading						
- Trading securities	10,229	50,969	-	61,198	315,393	376,591
- Derivative financial instruments	49,625	14,871	6,250	70,746	622,778	693,524
Loans and advances to customers (1)	15,060,611	8,443,658	682,800	24,187,069	33,617,085	57,804,154
Hedging derivatives	3,738	-	-	3,738	34,463	38,201
Investment securities						
- Available-for-sale	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
- Held-to-maturity	6,880,673	774,441	-	7,655,114	5,319,830	12,974,944
Investment in associates and joint ventures	-	-	71,906	71,906	22,265	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,214	1,214	262,453	263,667
Property and equipment	-	607	16,379	16,986	1,146,094	1,163,080
Deferred income tax assets	-	-	1,589	1,589	474,600	476,189
Other assets	348,546	333,668	255,369	937,583	676,312	1,613,895
Total assets	**25,475,993**	**12,891,725**	**1,258,176**	**39,625,894**	**52,184,339**	**91,810,233**
Liabilities						
Deposits from banks	2,736,367	1,409,572	251,314	4,397,253	538,217	4,935,470
Customer deposits	13,874,813	7,076,309	749,046	21,700,168	31,790,782	53,490,950
Funds borrowed	3,355,373	6,778,604	57,961	10,191,938	2,423,004	12,614,942
Debt securities in issue	844,040	550,864	-	1,394,904	-	1,394,904
Derivative financial instruments	50,258	8,482	6,206	64,946	294,222	359,168
Current income taxes payable	-	180	-	180	122,346	122,526
Deferred income tax liabilities	-	2,132	-	2,132	-	2,132
Hedging derivatives	101,638	-	-	101,638	352,025	453,663
Other provisions	-	412	-	412	456,773	457,185
Retirement benefit obligations	-	2,737	-	2,737	936,999	939,736
Insurance technical reserves	257,022	59,204	12	316,238	614,469	930,707
Other liabilities	486,280	457,858	12,904	957,042	4,208,044	5,165,086
Total liabilities	**21,705,791**	**16,346,354**	**1,077,443**	**39,129,588**	**41,736,881**	**80,866,469**
Net balance sheet position	**3,770,202**	**(3,454,629)**	**180,733**	**496,306**	**10,447,458**	**10,943,764**
Off-balance sheet derivative instruments net notional position	(4,821,403)	4,390,714	(22,028)	(452,717)	4,459,888	4,007,171
Net foreign currency position	**(1,051,201)**	**936,085**	**158,705**	**43,589**	**14,907,346**	**14,950,935**

(1) Collective impairment allowance of TL 306,393 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

At June 30, 2011, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.58940= US$1, and TL 2.29040 = EUR 1 (December 31, 2010 - TL 1.50730 = US$1 and TL 1.99780 = EUR 1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

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4. Financial risk management (continued)

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of an economic value sensitivity limit and Basis Point Value ("BPV") limit. Economic value sensitivity analysis is performed according to a scenario of 2% shift in FX yield curve and 4% shift in TL yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank's Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bps change in interest rates.

The table below summarizes the Group's exposure to interest rate risk at June 30, 2011 and December 31, 2010. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

June 30, 2011	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	9,915,744	9,915,744
Loans and advances to banks	1,407,119	717,591	271,969	2,643	497,024	2,896,346
Financial assets held for trading						
- Trading securities	34,925	37,872	366,320	45,004	72,040	556,161
- Derivative financial instruments	184,468	152,344	38,814	1,123	-	376,749
Loans and advances to customers	17,238,476	16,302,247	20,621,968	11,349,596	2,033,768	67,546,055
Hedging derivatives	50,009	34,522	-	-	-	84,531
Investment securities						
- Available-for-sale	1,153,490	555,984	2,859,075	3,165,822	22,725	7,757,096
- Held-to-maturity	2,564,552	1,255,079	2,116,178	6,315,465	-	12,251,274
Investment in associates and joint ventures	-	-	-	-	111,300	111,300
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	269,374	269,374
Property and equipment	-	-	-	-	1,125,124	1,125,124
Deferred income tax assets	-	-	-	-	508,987	508,987
Other assets	551,013	5,636	-	-	1,211,924	1,768,573
Total assets	**23,184,052**	**19,061,275**	**26,274,324**	**20,879,653**	**16,791,538**	**106,190,842**
Liabilities						
Deposits from banks	7,850,881	1,935,542	304,142	112,436	186,666	10,389,667
Customer deposits	44,671,243	2,412,679	352,262	35,591	10,182,290	57,654,065
Funds borrowed	8,763,448	5,226,931	127,366	567,588	91,764	14,777,097
Debt securities in issue	1,310,723	936,351	-	-	-	2,247,074
Derivative financial instruments	166,293	172,990	18,733	2,779	-	360,795
Current income taxes payable	-	-	-	-	130,243	130,243
Deferred income tax liabilities	-	-	-	-	1,704	1,704
Hedging derivatives	215,139	73,910	-	-	-	289,049
Other provisions	-	-	-	-	431,932	431,932
Retirement benefit obligations	-	-	-	-	942,642	942,642
Insurance technical reserves	38,072	101,705	295,428	119,551	457,827	1,012,583
Other liabilities	-	11,487	2,321	-	5,860,048	5,873,856
Total liabilities	**63,015,799**	**10,871,595**	**1,100,252**	**837,945**	**18,285,116**	**94,110,707**
Net interest repricing gap	**(39,831,747)**	**8,189,680**	**25,174,072**	**20,041,708**	**(1,493,578)**	**12,080,135**
Off-balance sheet derivative instruments net notional position	13,715,199	2,572,394	(16,143,609)	(889,467)	-	(745,483)

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4. Financial risk management (continued)

December 31, 2010	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	6,034,426	6,034,426
Loans and advances to banks	2,282,807	385,433	402,066	2,710	299,091	3,372,107
Financial assets held for trading						
- Trading securities	68,801	55,803	62,147	125,441	64,399	376,591
- Derivative financial instruments	591,743	76,975	23,581	1,225	-	693,524
Loans and advances to customers	18,082,302	14,479,584	16,445,317	7,766,566	1,030,385	57,804,154
Hedging derivatives	9,298	28,903	-	-	-	38,201
Investment securities						
- Available-for-sale	837,277	793,347	2,234,835	1,989,900	26,397	5,881,756
- Held-to-maturity	4,194,347	822,733	2,169,162	5,788,702	-	12,974,944
Investment in associates and joint ventures	-	-	-	-	94,171	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	263,667	263,667
Property and equipment	-	-	-	-	1,163,080	1,163,080
Deferred income tax assets	-	-	-	-	476,189	476,189
Other assets	516,252	6,005	-	-	1,091,638	1,613,895
Total assets	**26,582,827**	**16,648,783**	**21,337,108**	**15,674,544**	**11,566,971**	**91,810,233**
Liabilities						
Deposits from banks	3,712,332	688,154	238,299	103,662	193,023	4,935,470
Customer deposits	42,833,680	933,971	366,958	30,530	9,325,811	53,490,950
Funds borrowed	7,741,590	4,028,093	312,164	533,095	-	12,614,942
Debt securities in issue	1,375,419	-	-	19,033	452	1,394,904
Derivative financial instruments	138,469	207,065	13,634	-	-	359,168
Current income taxes payable	-	-	-	-	122,526	122,526
Deferred income tax liabilities	-	-	-	-	2,132	2,132
Hedging derivatives	173,886	279,777	-	-	-	453,663
Other provisions	-	-	-	-	457,185	457,185
Retirement benefit obligations	-	-	-	-	939,736	939,736
Insurance technical reserves	30,695	76,694	297,790	123,616	401,912	930,707
Other liabilities	2,605,539	3,734	1,135	-	2,554,678	5,165,086
Total liabilities	**58,611,610**	**6,217,488**	**1,229,980**	**809,936**	**13,997,455**	**80,866,469**
Net interest repricing gap	**(32,028,783)**	**10,431,295**	**20,107,128**	**14,864,608**	**(2,430,484)**	**10,943,764**
Off-balance sheet derivative instruments net notional position	7,624,835	423,157	(7,757,173)	(500,565)	-	(209,746)

The table below summarizes weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2011 and December 31, 2010 based on yearly contractual rates.

	June 30, 2011			December 31, 2010		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	-	-	-	-	-	-
Loans and advances to banks	1.76	1.51	8.77	2.09	0.36	8.05
Financial assets held for trading	4.33	2.60	7.43	2.86	7.05	8.11
Investment securities						
- Available-for-sale	6.77	5.68	9.11	6.98	5.94	7.85
- Held-to-maturity	6.71	5.02	9.07	6.76	5.69	10.05
Loans and advances to customers	4.72	5.38	12.78	4.63	5.13	12.78
Liabilities						
Deposits from banks	0.75	3.47	6.19	1.36	1.14	7.29
Customer deposits	4.26	3.39	9.39	2.80	2.57	8.70
Debt securities in issue	1.11	2.16	8.86	1.33	1.77	-
Funds borrowed	2.39	3.00	11.94	2.50	2.48	9.15

4. Financial risk management (continued)

C. Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk is managed within the Asset and Liability Management strategy in accordance with the market risk policies. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held to fulfill the obligations associated with financial liabilities. During the monthly meetings of the Executive Committee, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Liquidity risk is closely monitored within the Group and particular attention is paid to keeping enough cash and cash-equivalent instruments to fund increases in assets or unexpected decreases in liabilities, and to meet legal requirements, thereby optimizing the cost of carrying any excess liquidity. The Liquidity Policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Within the Group, the following definitions apply to the components of Liquidity Risk:

1. ***Liquidity Mismatch Risk*** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;

2. ***Liquidity Contingency Risk*** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the Group. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and

3. ***Market Liquidity Risk*** refers to the risk that the Group may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to not sufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Office (“CRO”) division and is not a focus of the Liquidity Policy.

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management considers the events that will impact upon the Group’s liquidity position from one day up to three months. Structural liquidity positions consider the events effecting the Group’s liquidity position in the long-term. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimizing the cost of funding.

According to the BRSA communiqué on liquidity, banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. Risk Management performs the calculation of the mentioned ratios on a daily basis and shares the results with Treasury department and senior management.

4. Financial risk management (continued)

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Group's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Group's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 26333 dated November 1, 2006, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2010, 2009 and 2008. As of June 30, 2011, the total amount subject to operational risk is calculated as TL 9,764,669 (December 31, 2010 - TL 8,999,966) and the amount of the related capital requirement is TL 781,174 (December 31, 2010 - TL 719,998).

E. Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-statement of financial position exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)), its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

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4. Financial risk management (continued)

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2011 and December 31, 2010 was as follows:

	June 30, 2011	December 31, 2010
Tier I capital	10,539,504	9,276,491
Tier II capital	2,751,436	3,037,830
Deductions	(417,229)	(86,551)
Total regulatory capital	12,873,711	12,227,770
Risk-weighted assets (including market and operational risk)	93,575,360	79,249,650
Capital adequacy ratio (%)	**13.76**	**15.43**

F. Derivative financial instruments and hedging activities

The Group utilizes the following derivative instruments with the general purpose of minimizing market risk carried by balance sheet instruments and/or meeting customer demand.

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

"Options" are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Group's option book activity stems from the clients' needs; therefore to meet the client demands Group actively runs an option book on the residual open positions which are not fully covered. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

"Interest rate cap and floor arrangements" provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

As of June 30, 2011, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and "credit default swaps". Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily while credit linked notes are valued monthly.

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4. Financial risk management (continued)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

June 30, 2011

	Contract/ notional amount (aggregate of buy and sell)	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	7,834,176	80,654	35,251
Currency swaps	15,235,312	53,977	86,240
Over the counter ("OTC") currency options	12,384,808	130,550	117,841
Total OTC foreign exchange derivatives	**35,454,296**	**265,181**	**239,332**
Interest rate derivatives:			
Interest rate swaps	6,811,970	37,175	72,296
Cross-currency interest rate swaps	2,721,585	48,001	37,243
OTC interest rate options	1,871,520	118	1,580
Total OTC interest rate derivatives	**11,405,075**	**85,294**	**111,119**
Other derivatives[(1)]	**1,491,630**	**26,274**	**10,344**
Total derivative assets/ liabilities held for trading	**48,351,001**	**376,749**	**360,795**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	3,826,525	59,438	135,912
Derivatives designated as cash flow hedges:			
Interest rate swaps	23,331,379	25,093	153,137
Total derivative assets/ liabilities used for hedging	**27,157,904**	**84,531**	**289,049**
Total recognized derivative assets/ liabilities	**75,508,905**	**461,280**	**649,844**
Current		322,257	212,568
Non-current		139,023	437,276
Total recognized derivative assets/ liabilities	**75,508,905**	**461,280**	**649,844**

(1) Other derivatives include credit default swaps and security options. As at June 30, 2011 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

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4. Financial risk management (continued)

December 31, 2010

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	5,287,933	24,255	33,661
Currency swaps	24,093,958	314,657	195,156
OTC currency options	10,928,414	77,679	75,371
Total OTC foreign exchange derivatives	**40,310,305**	**416,591**	**304,188**
Interest rate derivatives:			
Interest rate swaps	3,541,598	29,705	36,885
Cross-currency interest rate swaps	3,274,251	240,306	8,640
Total OTC interest rate derivatives	**6,815,849**	**270,011**	**45,525**
Other derivatives[1]	**918,313**	**6,922**	**9,455**
Total derivative assets/ (liabilities) held for trading	**48,044,467**	**693,524**	**359,168**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps	8,527,020	3,739	139,746
Total derivative assets/ (liabilities) used for hedging	**12,844,258**	**38,201**	**453,663**
Total recognized derivative assets/ (liabilities)	**60,888,725**	**731,725**	**812,831**
Current		664,284	188,316
Non-current		67,441	624,515
Total recognized derivative assets/ (liabilities)	**60,888,725**	**731,725**	**812,831**

(1) Other derivatives include credit default swaps and security options.

Fair value hedges

Starting from March 1, 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funds borrowed using cross-currency interest rate swaps. The net carrying value of hedging instruments at June 30, 2011 is a liability amounting to TL 76,474 (December 31, 2010 – TL 279,455). At June 30, 2011, the mark to market difference of the hedging instruments since the inception date of the hedge relationship is TL 120,085 (December 31, 2010 – TL 240,233) and the fair value difference of the hedged item is TL 114,129 (December 31, 2010 – TL 224,429).

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

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4. Financial risk management (continued)

In order to hedge its cash flow risk from liabilities, the Group started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits and repos.

Net gain on cash flow hedges reclassified to the statement of income

The net gain / (loss) on cash flow hedges reclassified to the statement of income during the six month period ended June 30, 2011 was as follows:

	June 30, 2011	June 30, 2010
Net interest income / (expense)	(87,835)	(18,423)
Taxation	17,567	3,685

In the first six months of 2011, a loss of TL 373 (June 30, 2010 - TL 1,451) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 2011 losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 80,512 (June 30, 2010 - TL 83,775).

There were no transactions for which cash flow hedge accounting had to be ceased in 2011 or 2010 as a result of the highly probable cash flows no longer being expected to occur.

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at June 30, 2011 is EUR 228 million (December 31, 2010 – EUR 203 million). The foreign exchange loss of TL 53,384 (June 30, 2010 – TL 35,568 gain), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in "other reserves" in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (June 30, 2010 – none).

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flow

	June 30, 2011	June 30, 2010
Cash and cash equivalents	888,134	587,748
Balances with central banks	9,027,610	4,297,673
Reserve deposits with central banks (-)	(7,862,585)	(3,520,570)
Loans and advances to banks (with original maturity less than 90 days) (+)	2,036,758	4,050,795
Other cash equivalents (+)	95,496	141,915
Total	**4,185,413**	**5,557,561**

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

6. Loans and advances to customers

June 30, 2011	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	42,142,808	11,264,284	9,022,458	2,093,386	1,650,837	66,173,773
Watch listed loans	852,978	372,568	195,369	158,040	-	1,578,955
Loans under legal follow-up	979,365	355,882	508,409	265,701	18,700	2,128,057
Gross	**43,975,151**	**11,992,734**	**9,726,236**	**2,517,127**	**1,669,537**	**69,880,785**
Specific allowance for impairment	(882,591)	(216,745)	(389,875)	(169,795)	(17,627)	(1,676,633)
Collective allowance for impairment	(434,604)	(86,525)	(119,791)	(10,507)	(6,670)	(658,097)
Total allowance for impairment	**(1,317,195)**	**(303,270)**	**(509,666)**	**(180,302)**	**(24,297)**	**(2,334,730)**
Net	**42,657,956**	**11,689,464**	**9,216,570**	**2,336,825**	**1,645,240**	**67,546,055**
Current						33,661,539
Non-current						33,884,516

December 31, 2010	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	35,151,219	9,264,955	8,244,469	1,674,713	1,824,229	56,159,585
Watch listed loans	927,771	444,659	305,017	193,801	-	1,871,248
Loans under legal follow - up	973,892	378,569	471,482	313,781	18,044	2,155,768
Gross	**37,052,882**	**10,088,183**	**9,020,968**	**2,182,295**	**1,842,273**	**60,186,601**
Specific allowance for impairment	(848,030)	(228,111)	(419,342)	(195,100)	(17,381)	(1,707,964)
Collective allowance for impairment	(471,452)	(78,899)	(109,330)	(8,296)	(6,506)	(674,483)
Total allowance for impairment	**(1,319,482)**	**(307,010)**	**(528,672)**	**(203,396)**	**(23,887)**	**(2,382,447)**
Net	**35,733,400**	**9,781,173**	**8,492,296**	**1,978,899**	**1,818,386**	**57,804,154**
Current						29,997,872
Non-current						27,806,282

Fair value of collateral:

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

June 30, 2011	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	304,232	145,446	-	76,809	-	526,487
Loans under legal follow-up	178,354	78,347	-	87,981	-	344,682
Total	**482,586**	**223,793**	**-**	**164,790**	**-**	**871,169**

December 31, 2010	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	372,980	174,571	-	107,818	-	655,369
Loans under legal follow - up	190,853	80,735	-	101,858	-	373,446
Total	**563,833**	**255,306**	**-**	**209,676**	**-**	**1,028,815**

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

6. Loans and advances to customers (continued)

Included in the performing loans and advances to consumers, are loans amounting to TL 1,822,003 at amortized cost) which have been designated as hedged items in fair value hedges as of June 30, 2011 (December 31, 2010 – TL 2,072,176). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Reconciliation of impairment allowance account for losses on loans and advances by class is as follows:

	2011						2010
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total	Total
At January 1	**1,319,482**	**307,010**	**528,672**	**203,396**	**23,887**	**2,382,447**	**3,104,169**
Provision for loan impairment	122,885	191,114	108,763	35,657	680	459,099	680,918
Amounts recovered during the year	(130,313)	(195,009)	(127,775)	(17,801)	(274)	(471,172)	(666,436)
Loans written-off during the period as uncollectible (-)	(218)	-	-	(40,950)	-	(41,168)	(710,834)
Exchange differences	5,359	155	6	-	4	5,524	1,255
At June 30	**1,317,195**	**303,270**	**509,666**	**180,302**	**24,297**	**2,334,730**	**2,409,072**

During the six-month period ended June 30, 2011 the Group sold some of its non-performing leasing receivables with principal amounting to TL 37,753, for a total consideration of TL 800 and realized pre-tax income of TL 800. The impairment provisions that were released in relation to these sales amounted to TL 37,753 and are included in “loans written-off” in the table above.

During the six-month period ended June 30, 2010, the Group sold non-performing loans portfolios with principal amounting to TL 770,182 (net-of previously written-off amounts) for a total consideration of TL 77,617 and realized pre-tax income before legal expenses amounting to approximately TL 16,837. The impairment provisions that were released in relation to these sales amounted to TL 709,402 and are included in “loans written-off” in the table above.

The calculation of net investment in direct finance leases is as follows:

	June 30, 2011	December 31, 2010
Gross investment in direct finance leases	2,866,173	2,457,776
Unearned finance income	(404,857)	(341,839)
	2,461,316	**2,115,937**
Interest accrual on receivables	28,888	29,760
Receivables from outstanding lease payments	26,923	36,598
Provision for impaired lease receivables	(180,302)	(203,396)
Net investment in direct finance leases	**2,336,825**	**1,978,899**

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6. Loans and advances to customers (continued)

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	June 30, 2011	December 31, 2010
Less than 1 year	518,459	821,382
More than 1 year but not later than 5 years	1,879,737	1,145,620
Later than 5 years	100,047	49,551
Less: unearned finance income	(404,857)	(341,840)
Investment in performing lease receivables	**2,093,386**	**1,674,713**

7. Investment securities

(i) Securities available-for-sale

	June 30, 2011	December 31, 2010
Debt securities - at fair value:		
Government bonds and treasury bills	2,427,801	3,402,886
Eurobonds	994,087	869,249
Government and corporate bonds and treasury bills sold under repurchase agreements	2,637,959	212,492
Other	1,674,524	1,374,753
Equity securities - at fair value		
Listed	-	240
Unlisted	22,725	22,136
Total securities available-for-sale	**7,757,096**	**5,881,756**
Current	361,115	259,165
Non-current	7,395,981	5,622,591

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and credit linked notes, cross maturity swaps and other bonds issued by domestic and foreign financial institutions.

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7. Investment securities (continued)

(ii) Securities held-to-maturity

	June 30, 2011	December 31, 2010
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	1,493,510	5,248,357
Eurobonds	2,873,647	3,992,525
Government bonds and treasury bills sold under repurchase agreements	2,539,005	224,251
Eurobonds sold under repurchase agreements	5,190,061	3,409,920
Foreign government bonds[1]	155,051	99,891
Total securities held-to-maturity	**12,251,274**	**12,974,944**
Current	787,071	2,218,609
Non-current	11,464,203	10,756,335

(1) Necessary impairment provision has been provided for foreign government securities of Eurozone sovereign countries held in Group companies where the Group has insignificant amount of exposure.

8. Deposits from banks

	June 30, 2011			December 31, 2010		
	Demand	Term	Total	Demand	Term	Total
Foreign currency:						
Domestic banks	6,457	530,205	536,662	3,567	467,915	471,482
Foreign banks	19,704	889,327	909,031	30,770	743,408	774,178
Funds deposited under repurchase agreements	-	4,292,476	4,292,476	-	3,151,593	3,151,593
	26,161	**5,712,008**	**5,738,169**	**34,337**	**4,362,916**	**4,397,253**
TL:						
Domestic banks	120,016	108,961	228,977	65,954	92,353	158,307
Foreign banks	40,489	16,314	56,803	92,732	287,178	379,910
Funds deposited under repurchase agreements	-	4,365,718	4,365,718	-	-	-
	160,505	**4,490,993**	**4,651,498**	**158,686**	**379,531**	**538,217**
	186,666	**10,203,001**	**10,389,667**	**193,023**	**4,742,447**	**4,935,470**
Current	186,666	9,236,376	9,423,042	193,023	4,169,376	4,362,399
Non-current	-	966,625	966,625	-	573,071	573,071

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9. Customer deposits

			June 30,2011			December 31, 2010
	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:						
Saving deposits	2,082,310	8,562,018	10,644,328	1,967,201	7,541,958	9,509,159
Commercial deposits	2,646,645	11,838,441	14,485,086	2,785,429	9,405,580	12,191,009
	4,728,955	**20,400,459**	**25,129,414**	**4,752,630**	**16,947,538**	**21,700,168**
TL deposits:						
Saving deposits	2,054,936	18,530,365	20,585,301	1,812,758	15,843,209	17,655,967
Commercial deposits	2,570,934	7,838,945	10,409,879	2,439,527	11,230,188	13,669,715
Funds deposited under repurchase agreements	-	699,925	699,925	-	67,825	67,825
Public sector deposits	827,465	2,081	829,546	320,896	76,379	397,275
	5,453,335	**27,071,316**	**32,524,651**	**4,573,181**	**27,217,601**	**31,790,782**
	10,182,290	**47,471,775**	**57,654,065**	**9,325,811**	**44,165,139**	**53,490,950**
Current	10,182,290	47,000,670	57,182,960	9,325,811	43,767,691	53,093,502
Non-current	-	471,105	471,105	-	397,448	397,448

10. Funds borrowed

	June 30, 2011	December 31, 2010
Foreign institutions and banks		
Syndication loans	4,392,823	3,385,043
Subordinated debt	2,425,266	2,110,274
Other	6,217,610	5,248,988
Total foreign	**13,035,699**	**10,744,305**
Domestic banks	1,101,868	1,439,039
Interbank money market	639,530	431,598
Total domestic	**1,741,398**	**1,870,637**
	14,777,097	**12,614,942**
Current	9,381,300	7,761,132
Non-current	5,395,797	4,853,810

During the first six months of 2011, the Bank renewed a syndication loan from international banks from 19 countries, 47 banks, consisting of 2 credit tranches with 1 year maturity; one tranche amounting to USD 301 million (equivalent of TL 478 million) with total cost of Libor+1,1% and the other tranche amounting to EUR 795 million (equivalent of TL 1,827 million) with total cost of Euribor+1,1%. The agreement was signed on April 19, 2011.

During the first six month period of 2011, the Bank repaid TL 5,880,340 of funds borrowed.

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11. Debt securities in issue

The details of YKB's debt secury in issue including diversified payment rights securitization transaction and domestic bonds are as follows:

			Average interest rate (%)[1]	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
USD175,000,000 Series 2006-A Floating Rate Notes Due 2014	194,066	211,335	0.51	0.53
USD200,000,000 Series 2006-B Floating Rate Notes Due 2014	55,596	60,261	0.48	0.50
USD114,000,000 Series 2006-C Floating Rate Notes Due 2013	103,444	117,728	0.61	0.63
€279,846,000 Series 2006-D Floating Rate Notes Due 2014	84,519	84,223	2.03	1.26
€67,215,000 Series 2007-A Floating Rate Notes Due 2015	48,243	47,673	1.61	1.22
USD199,000,000 of Series 2007-B Floating Rate Notes Due 2015	94,301	101,361	0.45	0.47
USD112,080,000 of Series 2010-A Floating Rate Notes Due 2015	156,023	169,111	0.89	0.92
USD7,500,000 of Series 2010-B Floating Rate Notes Due 2015	9,943	11,316	0.90	0.92
€179,440,811 of Series 2010-C Floating Rate Notes Due 2015	361,334	359,154	2.07	1.68
€29,659,900 of Series 2010-D Floating Rate Notes Due 2015	60,073	59,362	2.03	1.64
USD102,000,000 of Series 2010-E Floating Rate Notes Due 2015	143,181	153,895	0.85	0.88
Other	1,216	19,485	-	-
TL 1,000,000 domestic bonds	935,135	-	8.86	-
	2,247,074	**1,394,904**		
Current	1,318,781	348,969		
Non-current	928,293	1,045,935		
	2,247,074	**1,394,904**		

(1) The premium rates paid to monoline companies are excluded from the interest rates.

The repayment of these debt securities commenced in 2010 and during the six-month period ended June 30, 2011, the Group repaid TL 181,298 of debt securities in issue (TL 345,191 in full year 2010).

On June 8, 9 and 10, 2011, YKB issued discounted bonds amounting to TL 1.000.000 (nominal) at an interest rate of 8.67% with 175 days maturity. These bonds can be re-purchased according to related legislation.

12. Taxation

Consolidated statement of income

	June 30, 2011	June 30, 2010
Current tax expense	(261,238)	(388,314)
Deferred tax income / (expense)	(3,357)	92,704
	(264,595)	**(295,610)**

As at June 30, 2011, the Bank has submitted its application to Boğaziçi Corporate Tax Authority and Taxpayers Office to claim for the benefit of the tax amnesty (the Law numbered 6111) regarding 6 tax penalties resulting from tax inspectors' review of 2005, 2006, 2007, 2009 and 2010 fiscal years. As a result of this application, the restructured tax payable amounting to TL 1,332 is paid on due date at once.

In addition, Group companies which have submitted application regarding this law have paid amounts of no significance.

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

12. Taxation (continued)

Deferred income taxes

For all domestic subsidiaries and the Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in fiscal year 2011 under the liability method using a principal tax rate of 20% at June 30, 2011 (June 30, 2010 - 20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rates at June 30, 2011 and 2010 which are as follows:

Country of incorporation		Tax rate (%)
	June 30, 2011	June 30, 2010
Russia	20.00	20.00
The Netherlands	25.50	25.50
Azerbaijan	20.00	20.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax returns in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Impairment on assets	710,685	709,041	75,550	75,221
Allowance for loan impairment	929,422	966,336	185,166	192,730
Pension benefits transferable to the Social Security Instution (“SSI”)	838,036	838,036	167,607	167,607
Reserve for employment termination benefits	104,606	101,700	20,921	20,486
Revaluation of derivative instruments at fair value	649,836	812,831	124,240	158,262
Valuation differences on investment securities	57,292	29,367	11,466	5,883
Other	700,804	863,813	140,128	174,434
Deferred income tax assets	**3,990,681**	**4,321,124**	**725,078**	**794,623**
Difference between carrying value and tax base of property and equipment	927,452	944,583	93,752	97,174
Valuation differences on investment securities	1,553	130,270	311	25,704
Revaluation of derivative instruments at fair value	582,113	956,156	109,641	186,416
Other	69,454	53,253	14,091	11,272
Deferred income tax liabilities	**1,580,572**	**2,084,262**	**217,795**	**320,566**
Deferred income tax assets, net	**2,410,109**	**2,236,862**	**507,283**	**474,057**

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

13. Other provisions

	June 30, 2011	December 31, 2010
Provision for losses on credit related commitments	181,195	189,660
Tax and other legal provisions	141,566	124,712
Provisions on credit cards and promotion campaigns	39,701	39,697
Provision on export commitment estimated liability	36,103	39,486
Other	33,367	63,630
	431,932	**457,185**
Current	25,139	52,722
Non-current	406,793	404,463

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized provision of TL 181,195 (December 31, 2010 – TL 189,660).

Tax and other legal provisions

At June 30, 2011, the Group is involved in a number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognized a provision of TL 43,094 (December 31, 2010 - TL 35,886) as the best estimate of the amount to settle these potential obligations.

The Group recorded a total provision of TL 98,472 (December 31, 2010 - TL 88,826) against potential tax risks in the form of possible tax duties and penalties in the interim condensed consolidated financial statements for the six-month period ended June 30, 2011.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognized provision of TL 36,103 (December 31, 2010 - TL 39,486).

Movement in other provisions is as follows:

	Provision for credit related commitments	Tax and other legal provisions	Provisions on credit cards and promotion campaigns	Export commitment provisions	Other	June 30, 2011 Total	June 30, 2010 Total
At January 1	**189,660**	**124,712**	**39,697**	**39,486**	**63,630**	**457,185**	**397,871**
Provision charged / (released)	(8,539)	19,251	55,343	(3,383)	(18,099)	44,573	94,505
Provision used	-	(2,397)	(55,339)	-	(12,206)	(69,942)	(66,759)
Translation difference	74	-	-	-	42	116	(698)
Balance at June 30	**181,195**	**141,566**	**39,701**	**36,103**	**33,367**	**431,932**	**424,919**

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

14. Retained earnings and other reserves

	June 30, 2011	December 31, 2010
Statutory reserves	266,998	163,984
Translation reserves	203,347	105,131
Revaluation reserve for available-for-sale investments	63,750	191,056
Hedging reserves	(186,046)	(153,979)
Total other reserves	**348,049**	**306,192**
Retained earnings	**6,850,648**	**5,756,268**

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2011	**163,984**	**191,056**	**105,131**	**(153,979)**	**306,192**
Net change in available-for-sale investments, before tax	-	(127,306)	-	-	(127,306)
Losses on hedges of a net investment in a foreign operation	-	-	-	(53,384)	(53,384)
Gains on cash flow hedges	-	-	-	21,317	21,317
Currency translation differences	-	-	98,216	-	98,216
Transfer to statutory reserves	103,014	-	-	-	103,014
At June 30, 2011	**266,998**	**63,750**	**203,347**	**(186,046)**	**348,049**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2010	**96,245**	**94,469**	**113,017**	**(67,738)**	**235,993**
Net change in available-for-sale investments, before tax	-	(1,675)	-	-	(1,675)
Gains on hedges of a net investment in a foreign operation	-	-	-	35,568	35,568
Losses on cash flow hedges	-	-	-	(83,775)	(83,775)
Currency translation differences	-	-	(42,228)	-	(42,228)
Transfer to statutory reserves	67,739	-	-	-	67,739
At June 30, 2010	**163,984**	**92,794**	**70,789**	**(115,945)**	**211,622**

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

14. Retained earnings and other reserves (continued)

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

The Group's share in the total legal reserves and extraordinary reserves of the consolidated subsidiaries amounting to TL 502,769 (June 30, 2010 - TL 380,805) and TL 5,425,773 (June 30, 2010 - TL 3,367,865), respectively, have been presented under retained earnings.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

15. Net trading, hedging and fair value income and net gains / losses from investment securities

	June 30, 2011	**June 30, 2010**
Foreign exchange:		
- Translation gains less losses of trading securities	3,121	6,338
- Transaction gains less losses	(139,080)	102,191
Interest rate instruments	208,004	(152,665)
Equities	(2,562)	262
Credit derivatives	7,391	-
	76,874	**(43,874)**

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, money market instruments, interest rate and cross currency interest rate swaps, options, hedge items and other derivatives.

Net gains from investment securities amounting to TL 9,368 (2010 - TL 39,822 gains) comprise of net results on disposals of available-for-sale and held-to-maturity financial assets.

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

16. Other operating expenses

	June 30, 2011	June 30, 2010
Staff costs	**(665,809)**	**(594,364)**
Depreciation on property and equipment	(75,349)	(69,705)
Amortization of intangible assets	(28,747)	(21,221)
Depreciation and amortization	**(104,096)**	**(90,926)**
(Impairment charge) / reversal of impairment on property and equipment	-	1,246
(Impairment charge) / reversal of impairment on other intangible assets	-	2,770
Impairment (charge) / reversal	**-**	**4,016**
Sundry taxes and duties	(40,619)	(72,086)
Rent expenses	(70,559)	(60,959)
Communication expenses	(47,360)	(45,498)
Marketing and advertisement costs	(32,893)	(42,916)
Payments to Saving Deposit Insurance Fund	(33,915)	(31,604)
Utilities	(17,856)	(18,119)
Repair and maintenance expenses	(12,852)	(10,811)
Charities	(333)	(2,584)
Other expenses	(197,699)	(209,876)
General administrative expenses	**(454,086)**	**(494,453)**
Total	**(1,223,991)**	**(1,175,727)**

17. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	June 30, 2011		December 31, 2010	
	Assets	Related liability	Assets	Related liability
Trading securities	-	-	43,734	32,914
Investment securities	10,528,738	9,507,784	3,846,663	3,186,504
Other assets pledged [1]	522,401	-	497,616	-
Total	**11,051,139**	**9,507,784**	**4,388,013**	**3,219,418**

[1] Other assets pledged are the collaterals given to the counter parties of the derivative transactions and the additional collaterals given in relation to the funds obtained under repurchase agreements.

17. Assets pledged and restricted (continued)

Available-for-sale, held-to-maturity and trading securities whose total carrying amount is TL 10,528,738 as of June 30, 2011 (December 31, 2010 – TL 3,890,397) are pledged to banks and other financial institutions against borrowed funds and funds obtained under repurchase agreements and total return swap transactions. Total amount of funds obtained under repurchase agreements and total return swaps is TL 9,507,784 as of June 30, 2011 (December 31, 2010 – TL 3,219,418). In accordance with the terms of the agreements with these financial institutions (“transferees”), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the Central Bank of Republic of Turkey (CBRT), Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 3,600,937 (December 31, 2010 – 2,048,906).

As of June 30, 2011, the Group’s reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 7,862,585 (December 31, 2010 – TL 4,389,977). There is also TL 95,057 blocked amount in foreign banks account.

18. Contingent liabilities

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognizes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 13).

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group’s financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

18. Contingent liabilities (continued)

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

June 30 ,2011	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letters of credits	2,534,935	2,189,234	498,901	-	5,223,070
Letters of guarantee	10,675,968	4,340,109	1,588,801	197,253	16,802,131
Acceptance credits	157,481	-	-	-	157,481
Other commitments	851,169	766,546	187,157	11,337	1,816,209
Total	**14,219,553**	**7,295,889**	**2,274,859**	**208,590**	**23,998,891**

December 31, 2010	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,934,347	1,708,092	357,434	-	3,999,873
Letter of guarantees	7,816,864	2,711,202	3,620,745	798,652	14,947,463
Acceptance credits	165,797	-	-	-	165,797
Other commitments	142,724	144,453	272,644	19,599	579,420
Total	**10,059,732**	**4,563,747**	**4,250,823**	**818,251**	**19,692,553**

19. Segment analysis

The Group carries out its banking operations through three main business units: (1) Retail Banking (including credit cards and SME banking), (2) Corporate and Commercial Banking (3) Private Banking and Wealth Management.

The Group's Retail Banking activities include credit cards, SME (small and medium size enterprises) banking and individual banking. Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), commercial installment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. The Clubs and Programs under the umbrella of World brand includes Gold Club, Platinum Club, Crystal Club, Adios (Travel Program), Adios Premium (VIP Travel Program), Play Card (Young Employees Program and Student Program), Fenerbahçe Worldcard, KoçAilem Worldcard, Business Club (Corporate Program, Trio Program, Company Program and SME Program), Verimli Card, Taksitçi Card, Share Program and Communication Program. The Bank also offers debit cards and a prepaid card named World Hediye Card.

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19. Segment analysis (continued)

Corporate and Commercial Banking is organized into two sub-segments: Commercial Banking, which serves mid-sized companies; and Corporate Banking, which serves large local and multinational companies. Corporate and Commercial Banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its Private Banking and Wealth Management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private Banking services are enhanced by investment advisory and portfolio management services provided by the Bank and its portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

Other operations mainly consist of treasury transactions, operations of supporting business units, insurance operations and other unallocated transactions.

The Chief Operating Decision Maker manages segment performance based on IFRS consolidated figures.

June 30, 2011	**Retail banking**	**Corporate and commercial banking**	**Private banking and wealth management**	**Foreign operations**	**Other(*)**	**Eliminations**	**Group**
Segment revenue	1,230,626	735,866	140,995	66,154	668,609	(94,602)	2,747,648
Segment expenses	(686,484)	(222,536)	(56,843)	(41,719)	(322,534)	38,811	(1,291,305)
Segment result	544,142	513,330	84,152	24,435	346,075	(55,791)	1,456,343
Operating profit	**544,142**	**513,330**	**84,152**	**24,435**	**346,075**	**(55,791)**	**1,456,343**
Share of results of associates and joint ventures					7,904		7,904
Profit before tax	**544,142**	**513,330**	**84,152**	**24,435**	**353,979**	**(55,791)**	**1,464,247**
Income tax expense					(264,595)		(264,595)
Profit for the period	**544,142**	**513,330**	**84,152**	**24,435**	**89,384**	**(55,791)**	**1,199,652**
Segment assets	30,831,523	35,758,473	1,414,120	4,364,903	34,905,101	(1,194,578)	106,079,542
Associates and joint ventures					111,300		111,300
							-
Total assets	**30,831,523**	**35,758,473**	**1,414,120**	**4,364,903**	**35,016,401**	**(1,194,578)**	**106,190,842**
Segment liabilities	26,936,591	20,309,867	13,570,751	3,618,178	43,191,225	(1,435,770)	106,190,842
Total liabilities	**26,936,591**	**20,309,867**	**13,570,751**	**3,618,178**	**43,191,225**	**(1,435,770)**	**106,190,842**

(*) Other segment liabilities also include the equity.

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

19. Segment analysis (continued)

June 30, 2010	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other(*)	Eliminations	Group
Segment revenue	1,340,654	650,618	168,967	68,438	766,135	(225,278)	2,769,534
Segment expenses	(605,951)	(251,420)	(53,683)	(19,119)	(396,467)	29,181	(1,297,459)
Segment result	734,703	399,198	115,284	49,319	369,668	(196,097)	1,472,075
Operating profit	**734,703**	**399,198**	**115,284**	**49,319**	**369,668**	**(196,097)**	**1,472,075**
Share of results of associates and joint ventures					2,593		2,593
Profit before tax	**734,703**	**399,198**	**115,284**	**49,319**	**438,853**	**(262,689)**	**1,474,668**
Income tax expense					(295,610)		(295,610)
Profit for the period	**734,703**	**399,198**	**115,284**	**49,319**	**143,243**	**(262,689)**	**1,179,058**
Segment assets	26,522,965	33,113,940	1,310,016	4,231,558	27,809,818	(1,272,235)	91,716,062
Associates and joint ventures					94,171		94,171
Total assets	**26,522,965**	**33,113,940**	**1,310,016**	**4,231,558**	**27,903,989**	**(1,272,235)**	**91,810,233**
Segment liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233
Total liabilities	**23,676,641**	**21,826,378**	**11,257,340**	**3,545,619**	**32,776,864**	**(1,272,609)**	**91,810,233**

(*) Other segment liabilities also include the equity.

20. Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period concerned.

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, the weighted average number of shares outstanding during the period is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the period in which they were issued and for each earlier period.

The Bank has not issued any share attributable to transfers to share capital from retained earnings during the six-month period ended June 30, 2011 (2010 - none).

The earnings attributable to basic shares for each period are as follows:

	June 30, 2011	June 30, 2010
Profit attributable to equity holders of the parent	1,197,394	1,176,739
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**2.75**	**2.71**

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

20. Earnings per share (continued)

There are no dilutive potential ordinary shares and accordingly there are no diluted earnings per share for any class of shares.

21. Related party balances and transactions

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 or operational decisions, The Group is jointly controlled by Koç Group and UCI, owning 50% of the ordinary shares each of KFS.

A number of transactions were entered into with related parties in the normal course of business.

(i) Balances with related parties:

	June 30, 2011		December 31, 2010	
	Total	**Share in total %**	**Total**	**Share in total %**
Loans and advances to customers, net	1,211,590	2	1,663,655	3
Trading and investment securities	3,211	-	179	-
Derivative financial instruments	5,660	2	11,217	2
Loans and advances to banks	46,520	2	5,657	-
Other assets	225	-	761	-
Total assets	**1,267,206**		**1,681,469**	
Customer deposits	6,603,964	11	7,471,208	14
Funds borrowed	2,638,294	19	2,187,131	18
Derivative financial instruments	6,589	2	6,395	2
Other liabilities	1,358	-	3,136	-
Deposits from banks	469,250	5	3	-
Total liabilities	**9,719,455**		**9,667,873**	
Commitments under derivative instruments	917,570	2	868,457	1
Credit related commitments	917,068	4	755,890	4
Total commitments and contingent liabilities	**1,834,638**		**1,624,347**	

(ii) Transactions with related parties:

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

21. Related party balances and transactions (continued)

	June 30, 2011		June 30, 2010	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	35,984	1	58,385	3
Fee and commission income	8,529	1	9,828	1
Interest income on financial leases	-	-	1,096	1
Interest income on loans and advances to banks	100	-	40	-
Other operating income	16,375	29	2,108	2
Total interest and fee income	**60,988**		**71,457**	
Interest expense on deposits	(228,768)	11	(107,946)	10
Interest expense on funds borrowed	(13,614)	-	(278)	-
Other operating expense	(6,305)	1	(3,504)	-
Fee and commission expense	(2)	-	(2)	-
Total interest and fee expense	**(248,689)**		**(111,730)**	

(iii) Balances with directors and other key management personnel:

	June 30, 2011	December 31, 2010
Loans and advances to customers, net	116	232
Interest income on loans and advances to customers	2	6[1]
Customer deposits	35,755	29.590
Interest expense on deposits	502	421[1]
Fee and commission income	-	-
Commitments and contingent liabilities	-	-

(1) Items represent June 30, 2010 amounts.

Salaries and other benefits paid to the Group's key management approximately amount to TL 21,327 as of June 30, 2011 (2010 - TL 18,968).

Significant part of the related party balances and transactions are with related parties other than the parent or the associate or the joint venture; mainly comprising Koç Group and UCI entities.

22. Events after the reporting period

1. The Bank is in the process to obtain a securitization loan with 5 year maturity amounting to USD 400 million based on diversified payment rights.

2. The Bank has decided to issue TL or equivalent foreign currency bills and/or bonds with different maturities and fixed or floating interest rates determined by the market conditions up to USD 1,250 million which is planned to be sold to real and legal persons outside Turkey in one year period. Necessary authorization is given to management by the Board of Directors to perform the required procedures and to apply to authorities.

3. In accordance with the "Change in communiqué regarding the reserve requirements" published in the Official gazette dated August 6, 2011; reserve requirement ratios for foreign currency liabilities are regulated as stated below. The new ratios are going to be valid starting from August 5, 2011.

   Foreign currency liabilities;

   Demand, call deposits, private checking accounts, up to 1 month time deposit accounts, up to 3 months time deposit accounts, up to 6 months time deposit accounts and up to 1 year time deposit accounts 11,5%

   1 year and over 1 year time deposit accounts 9,5%,
   Up to 1 year liabilities excluding deposit (1 year included) 11,5%,
   Up to 3 years liabilities excluding deposit (3 years included) 9,5%,
   Over 3 years liabilities excluding deposit 8,5%