

Yapı ve Kredi Bankası A.Ş.

**Interim condensed consolidated financial
statements at June 30, 2012 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

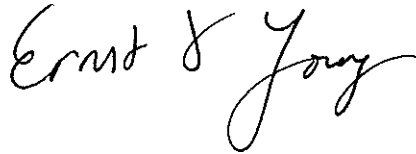
We have reviewed the accompanying interim condensed consolidated financial statements of Yapı ve Kredi Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2012, comprising of the interim consolidated statement of financial position as at June 30, 2012 and the related interim consolidated statements 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, 2012
İstanbul, Turkey

Contents	Page
Interim consolidated statement of financial position	2
Interim consolidated statement of income	3
Interim consolidated statement of comprehensive income	4
Interim consolidated statement of changes in equity	5
Interim consolidated statement of cash flows	6
Notes to the interim condensed consolidated financial statements	7-38

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of financial position at June 30, 2012

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2012	December 31, 2011
Assets			
Cash and balances with central banks	5	10,051,492	10,081,703
Loans and advances to banks		9,148,784	5,115,592
Financial assets held for trading			
- Trading securities		276,408	282,212
- Derivative financial instruments	4	360,784	268,159
Loans and advances to customers	6	77,536,250	73,907,771
Hedging derivatives	4	167,782	377,335
Investment securities			
- Available-for-sale	7	8,051,862	8,017,601
- Held-to-maturity	7	12,177,369	12,710,622
Investment in associates and joint ventures accounted for using the equity method		196,761	203,590
Goodwill		1,023,528	1,023,528
Other intangible assets		328,790	304,763
Property and equipment		1,027,088	1,068,137
Deferred income tax assets	12	629,077	551,735
Other assets		2,057,199	2,143,970
Total assets		123,033,174	116,056,718
Liabilities			
Deposits from banks	8	8,453,790	7,457,384
Customer deposits	9	67,146,094	64,653,879
Funds borrowed	10	18,699,935	18,167,898
Debt securities in issue	11	4,193,310	3,248,717
Derivative financial instruments	4	470,874	540,339
Current income taxes payable		205,929	112,576
Deferred income tax liabilities	12	43	-
Hedging derivatives	4	669,833	502,841
Other provisions	13	490,648	465,837
Retirement benefit obligations		918,917	889,269
Insurance technical reserves		1,129,246	1,063,894
Other liabilities		6,730,435	6,021,041
Total liabilities		109,109,054	103,123,675
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	14	107,123	644
Retained earnings	14	8,930,495	8,047,016
Equity attributable to equity holders of the parent		13,859,877	12,869,919
Equity attributable to non-controlling interests		64,243	63,124
Total equity		13,924,120	12,933,043
Total liabilities and equity		123,033,174	116,056,718

The accompanying notes set out on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of income for the six-month period ended June 30, 2012

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2012	June 30, 2011
Interest income		4,978,797	3,629,177
Interest expense		(2,944,919)	(2,123,820)
Net interest income		2,033,878	1,505,357
Fee and commission income		1,116,027	1,210,806
Fee and commission expense		(288,135)	(247,198)
Net fee and commission income		827,892	963,608
Foreign exchange gains, net		67,412	75,102
Net trading, hedging and fair value (loss) / income	15	(42,146)	76,874
Gains from investment securities, net	15	83,327	9,368
Insurance technical income, net		104,819	62,677
Other operating income		31,798	54,662
Operating income		3,106,980	2,747,648
Impairment (losses) / reversals on loans, investment securities and credit related commitments, net		(338,156)	2,199
Provision for retirement benefit obligations		(45,566)	(16,401)
Other provisions	13	(92,175)	(53,112)
Other operating expenses	16	(1,397,612)	(1,223,991)
Operating profit		1,233,471	1,456,343
Share of profit of associates and joint ventures accounted for using the equity method		7,025	7,904
Profit before income tax		1,240,496	1,464,247
Income tax expense	12	(257,612)	(264,595)
Profit for the period		982,884	1,199,652
Attributable to:			
Equity holders of the parent		977,811	1,197,394
Non-controlling interest		5,073	2,258
		982,884	1,199,652
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	20	2.25	2.75

The accompanying notes set out on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of comprehensive income for the six-month period ended June 30, 2012
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2012	June 30, 2011
Profit for the period		982,884	1,199,652
Exchange differences on translation of foreign operations		(65,307)	98,216
Net gains / (losses) on available-for-sale financial assets			
- Unrealised net gains / (losses) arising during the period, before tax		204,274	(151,644)
- Net amount reclassified to the statement of income, before tax		(236)	(4,544)
Net investment hedges			
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		39,544	(66,730)
- 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		(216,919)	(61,189)
- Net amount reclassified to the statement of income, before tax		75,073	87,835
Income tax relating to components of other comprehensive income		(22,518)	36,583
Other comprehensive income for the period, net of tax		13,911	(61,473)
Total comprehensive income for the period		996,795	1,138,179
Total comprehensive income attributable to:			
Equity holders of the parent (total)		991,416	1,136,237
Non-controlling interest (total)		5,379	1,942

The accompanying notes set out on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2012
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Attributable to equity holders of the parent				Total	Non-controlling interest	Total equity
	Share capital	Share premium	Other reserves (Note 14)	Retained earnings (Note 14)			
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)	-	-	-
Purchase from minority interests	-	-	-	-	-	-	-
Balance at June 30, 2011	4,286,580	535,679	348,049	6,850,648	12,020,956	59,179	12,080,135
Balance at January 1, 2012	4,286,580	535,679	644	8,047,016	12,869,919	63,124	12,933,043
Total comprehensive income for the period	-	-	13,605	977,811	991,416	5,379	996,795
Dividends paid	-	-	-	-	-	(3,069)	(3,069)
Transfer to statutory reserves	-	-	92,874	(92,874)	-	-	-
Purchase from minority interests	-	-	-	(1,458)	(1,458)	(1,191)	(2,649)
Balance at June 30, 2012	4,286,580	535,679	107,123	8,930,495	13,859,877	64,243	13,924,120

The accompanying notes set out on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of cash flows for the six-month period ended June 30, 2012

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2012	June 30, 2011
Cash flows from operating activities			
Net profit		982,884	1,199,652
Adjustments for:			
Unrealized gain on financial assets held for trading, net		(8,586)	31,289
Allowances for losses / (reversals) on loans, investment securities and credit related commitments	6, 13	338,156	(2,199)
Measurement of derivative financial instruments at fair value	4	214,455	107,458
Share of profit of associates and joint ventures		(7,025)	(7,904)
Amortization of other intangible assets	16	34,174	28,747
Depreciation of property and equipment	16	81,108	75,349
Current and deferred tax expense	12	257,612	264,595
Other provisions	13	92,175	53,112
Provision for retirement benefit obligations		45,566	16,401
Other liabilities		(57,180)	(55,346)
Unearned commission income		77,543	909
Dividend income		(1,647)	(5,891)
Interest income, net		(2,033,878)	(1,505,357)
Interest paid		(2,825,899)	(2,027,929)
Interest received		4,911,872	3,640,819
Effect of exchange rates on financing activities		(1,137,129)	1,411,121
Other, net		554,470	(131,898)
Cash flows from operating activities before changes in operating assets and liabilities		1,518,671	3,092,928
Changes in operating assets and liabilities:			
Net (increase) in cash balances with central banks		(2,706,164)	35
Net decrease / (increase) in loans and advances to banks		(328,462)	41,047
Net decrease / (increase) in trading securities		14,390	(210,859)
Net (increase) in loans and advances to customers		(4,078,419)	(9,647,764)
Net (increase) in other assets		(49,051)	(824,513)
Net increase in deposits from banks		1,006,459	5,456,977
Net (increase) in customer deposits		2,452,707	4,112,668
Net increase in other liabilities and provisions		748,877	644,563
Income taxes paid		(264,076)	(253,521)
Net cash (used in) from operating activities		(1,685,068)	2,411,561
Cash flows from investing activities			
(Purchase of) property and equipment		(226,448)	(42,269)
Net book value of property and equipment disposed		185,342	6,541
(Purchase of) intangible assets, net		(58,318)	(34,193)
(Purchase of) held-to-maturity securities		(4,557)	(571,776)
Redemption or sale of held-to-maturity securities		89,479	1,739,786
(Purchase of) available-for-sale securities		(2,404,650)	(3,023,667)
Sale or redemption of available-for-sale securities		2,576,307	1,075,148
Dividends received		1,647	5,891
Other, net		13,870	(9,574)
Net cash (used in) from investing activities		172,672	(854,113)
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(3,968,365)	(6,079,908)
Proceeds from borrowed funds and debt securities		6,295,925	7,523,574
Dividend paid to minority		(3,069)	(1,808)
Net cash from (used in) financing activities		2,324,491	1,441,858
Net increase / (decrease) in cash and cash equivalents		812,095	2,999,306
Effects of foreign exchange rate changes on cash and cash equivalents		(314,320)	299,813
Cash and cash equivalents at beginning of period		11,947,789	6,403,396
Cash and cash equivalents at end of period	5	12,445,564	9,702,515

The accompanying notes set out on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012

(Amounts expressed in thousands of TL unless otherwise indicated.)

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, 2012, 18.20% of the shares of the Bank are publicly traded (December 31, 2011 - 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, 2012, the Group has 17,572 employees (December 31, 2011 - 17,306 employees). The Bank has 917 branches operating in Turkey and 1 branch in an off-shore region (December 31, 2011 - 906 branches operating in Turkey, 1 branch in an off-shore region) and 14,974 employees (December 31, 2011 - 14,859 employees).

There is no change in the consolidation structure of the Group since December 31, 2011.

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, Istanbul, 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, 2012. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Summary of significant accounting policies

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 2012 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, 2011.

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

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

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, 2011, except for the adoption of the new standards and interpretations as of January 1, 2012 noted below:

- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets'
- Amendments to IAS 12 'Deferred tax – Recovery of Underlying Assets'

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

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 unless indicated otherwise, which will affect the interim condensed consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

- IFRS 9 'Financial Instruments-Classification and measurement', effective as of 2015;
- IFRS 10 'Consolidated Financial Statements', effective as of 2013;
- IFRS 11 'Joint Arrangements', effective as of 2013;
- IFRS 12 'Disclosure of Interests in Other Entities', effective as of 2013;
- IFRS 13 'Fair Value Measurement', effective as of 2013;
- IAS 28 'Investments in Associates and Joint Ventures', effective as of 2013;
- Amendments to IAS 1 'Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income', effective as of 2013;
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities', effective as of 2013;
- Annual Improvements 2009 –2011 Cycle, effective as of 2013; and
- IAS 19 Employee Benefits (Revised), effective as of 2013;
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities', effective as of 2014.

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 standards above are not expected to have any material effect on the financial performance or position of the Group.

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.

2. Summary of significant accounting policies (continued)

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. The consolidated financial statements are derived from the 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.

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, 2011.

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 makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

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.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

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.

The details of the loans and advances past due but not impaired which are classified under the performing loans (including past due watch-listed loans) are as follows;

	June 30, 2012			Total	December 31, 2011 Total
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days		
Corporate	820,936	167,133	822,423	1,810,492	2,877,267
Consumer	777,727	272,914	356,710	1,407,351	221,478
Credit cards	514,183	215,128	86,403	815,714	784,486
Leasing	9,975	6,802	13,332	30,109	21,202
	2,122,821	661,977	1,278,868	4,063,666	3,904,433

The watch list category is defined as the clients with payments past due 30 to 90 days and clients considered by the monitoring department on the basis of subjective criteria, to require close monitoring.

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, and is 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 market making operations.

The Group trades mainly in FX and securities, within predefined limits. Risk limits are set on intra-day and end of day positions 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 required 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 repricing and maturity mismatches. 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 4). 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.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

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.

June 30, 2012

	US\$	EUR	Foreign currency		TL	Total
			Other	Total		
Assets						
Cash and balances with central banks	2,631,515	4,597,310	925,908	8,154,733	1,896,759	10,051,492
Loans and advances to banks	1,981,409	2,206,846	288,881	4,477,136	4,671,648	9,148,784
Financial assets held for trading						
- Trading securities	9,456	3,551	-	13,007	263,401	276,408
- Derivative financial instruments	94,839	32,239	1,589	128,667	232,117	360,784
Loans and advances to customers ⁽¹⁾	19,261,815	9,991,882	1,023,616	30,277,313	47,258,937	77,536,250
Hedging derivatives	-	-	-	-	167,782	167,782
Investment securities						
- Available-for-sale	732,372	60,491	39,715	832,578	7,219,284	8,051,862
- Held-to-maturity	8,212,665	562,291	-	8,774,956	3,402,413	12,177,369
Investment in associates and joint ventures	-	-	178,105	178,105	18,656	196,761
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	4,153	4,153	324,637	328,790
Property and equipment	-	1,007	22,333	23,340	1,003,748	1,027,088
Deferred income tax assets	-	798	1,409	2,207	626,870	629,077
Other assets	604,351	281,899	114,766	1,001,016	1,056,183	2,057,199
Total assets	33,528,422	17,738,314	2,600,475	53,867,211	69,165,963	123,033,174
Liabilities						
Deposits from banks	6,090,437	1,012,442	57,830	7,160,709	1,293,081	8,453,790
Customer deposits	18,092,734	9,674,094	1,949,002	29,715,830	37,430,264	67,146,094
Funds borrowed	7,322,898	8,765,909	137,375	16,226,182	2,473,753	18,699,935
Debt securities in issue	1,886,672	842,335	1,488	2,730,495	1,462,815	4,193,310
Derivative financial instruments	108,163	22,061	805	131,029	339,845	470,874
Current income taxes payable	-	1,920	988	2,908	203,021	205,929
Deferred income tax liabilities	-	-	43	43	-	43
Hedging derivatives	404,238	82,034	-	486,272	183,561	669,833
Other provisions	-	227	65	292	490,356	490,648
Retirement benefit obligations	-	3,897	-	3,897	915,020	918,917
Insurance technical reserves	240,809	58,170	7	298,986	830,260	1,129,246
Other liabilities	908,732	410,514	16,357	1,335,603	5,394,832	6,730,435
Total liabilities	35,054,683	20,873,603	2,163,960	58,092,246	51,016,808	109,109,054
Net position on statement of financial position	(1,526,261)	(3,135,289)	436,515	(4,225,035)		
Off balance sheet derivative instruments net notional position ⁽²⁾	1,299,507	3,086,119	(143,409)	4,242,217		
Net currency position	(226,754)	(49,170)	293,106	17,182		

(1) Collective impairment allowance of TL 402,526 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 95,156 booked under commitments are not included

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2011

	Foreign currency					TL	Total
	USD	EUR	Other	Total			
Assets							
Cash and balances with central banks	874,752	3,900,059	654,606	5,429,417	4,652,286	10,081,703	
Loans and advances to banks	1,669,438	977,669	63,336	2,710,443	2,405,149	5,115,592	
Financial assets held for trading							
- Trading securities	27,964	2,141	-	30,105	252,107	282,212	
- Derivative financial instruments	76,828	5,702	2,011	84,541	183,618	268,159	
Loans and advances to customers ⁽¹⁾	19,888,359	11,039,498	973,530	31,901,387	42,006,384	73,907,771	
Hedging derivatives	362	-	-	362	376,973	377,335	
Investment securities							
- Available-for-sale	1,270,495	165,851	54,537	1,490,883	6,526,718	8,017,601	
- Held-to-maturity	8,613,182	628,558	-	9,241,740	3,468,882	12,710,622	
Investment in associates and joint ventures	-	-	183,940	183,940	19,650	203,590	
Goodwill	-	-	-	-	1,023,528	1,023,528	
Other intangible assets	-	-	2,932	2,932	301,831	304,763	
Property and equipment	-	522	19,750	20,272	1,047,865	1,068,137	
Deferred income tax assets	-	927	1,556	2,483	549,252	551,735	
Other assets	574,666	208,167	617,968	1,400,801	743,169	2,143,970	
Total assets	32,996,046	16,929,094	2,574,166	52,499,306	63,557,412	116,056,718	
Liabilities							
Deposits from banks	5,060,404	1,039,163	60,008	6,159,575	1,297,809	7,457,384	
Customer deposits	19,109,954	8,916,338	1,946,776	29,973,068	34,680,811	64,653,879	
Funds borrowed	5,490,051	10,243,933	124,786	15,858,770	2,309,128	18,167,898	
Debt securities in issue	1,165,796	987,567	-	2,153,363	1,095,354	3,248,717	
Derivative financial instruments	105,429	22,820	2,174	130,423	409,916	540,339	
Current income taxes payable	-	-	513	513	112,063	112,576	
Deferred income tax liabilities	-	-	-	-	-	-	
Hedging derivatives	374,413	65,776	-	440,189	62,652	502,841	
Other provisions	-	277	355	632	465,205	465,837	
Retirement benefit obligations	-	4,187	-	4,187	885,082	889,269	
Insurance technical reserves	267,199	65,515	13	332,727	731,167	1,063,894	
Other liabilities	520,326	647,430	19,791	1,187,547	4,833,494	6,021,041	
Total liabilities	32,093,572	21,993,006	2,154,416	56,240,994	46,882,681	103,123,675	
Net balance sheet position	902,474	(5,063,912)	419,750	(3,741,688)			
Off-balance sheet derivative instruments net notional position ⁽²⁾	(2,580,679)	6,151,489	(45,548)	3,525,262			
Net foreign currency position	(1,678,205)	1,087,577	374,202	(216,426)			

(1) Collective impairment allowance of TL 382,122 calculated on 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 11,370 booked under commitments are not included

At June 30, 2012, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.76130 = US\$1, and TL 2.21730 = EUR 1 (December 31, 2011 - TL 1.84170 = US\$1 and TL 2.38270 = 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.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

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 tables below summarize the Group's exposure to interest rate risk at June 30, 2012 and December 31, 2011. 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, 2012	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	-	-	-	-	10,051,492	10,051,492
Loans and advances to banks	7,428,571	435,812	262,120	1,805	1,020,476	9,148,784
Financial assets held for trading						
- Trading securities	91,244	87,031	16,562	34,209	47,362	276,408
- Derivative financial instruments	177,831	131,208	47,661	4,084	-	360,784
Loans and advances to customers	20,850,877	19,014,908	22,526,438	13,175,023	1,969,004	77,536,250
Hedging derivatives	97,310	70,472	-	-	-	167,782
Investment securities						
- Available-for-sale	1,770,261	2,973,226	1,060,516	2,224,123	23,736	8,051,862
- Held-to-maturity	2,210,831	1,521,906	2,153,127	6,291,505	-	12,177,369
Investment in associates and joint ventures	-	-	-	-	196,761	196,761
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	328,790	328,790
Property and equipment	-	-	-	-	1,027,088	1,027,088
Deferred income tax assets	-	-	-	-	629,077	629,077
Other assets	141,057	2,374	-	-	1,913,768	2,057,199
Total assets	32,767,982	24,236,937	26,066,424	21,730,749	18,231,082	123,033,174
Liabilities						
Deposits from banks	4,875,382	3,371,389	31,743	83,486	91,790	8,453,790
Customer deposits	53,759,048	2,213,813	652,570	5,503	10,515,160	67,146,094
Funds borrowed	8,183,737	7,293,421	2,647,477	575,300	-	18,699,935
Debt securities in issue	2,402,854	903,990	882,154	-	4,312	4,193,310
Derivative financial instruments	249,864	143,359	64,788	12,736	127	470,874
Current income taxes payable	-	-	-	-	205,929	205,929
Deferred income tax liabilities	-	-	-	-	43	43
Hedging derivatives	533,488	136,345	-	-	-	669,833
Other provisions	-	-	-	-	490,648	490,648
Retirement benefit obligations	-	-	-	-	918,917	918,917
Insurance technical reserves	40,456	104,113	302,550	117,005	565,122	1,129,246
Other liabilities	-	8,922	1,431	-	6,720,082	6,730,435
Total liabilities	70,044,829	14,175,352	4,582,713	794,030	19,512,130	109,109,054
Net interest repricing gap	(37,276,847)	10,061,585	21,483,711	20,936,719	(1,281,048)	13,924,120
Off-balance sheet derivative instruments net notional position	18,189,879	(135,141)	(18,024,152)	(706,241)	-	(675,655)
Net interest position	(19,086,968)	9,926,444	3,459,559	20,230,478	(1,281,048)	13,248,465

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 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	-	-	-	-	10,081,703	10,081,703
Loans and advances to banks	4,163,582	163,918	262,208	2,371	523,513	5,115,592
Financial assets held for trading						
- Trading securities	26,730	168,914	27,786	17,804	40,978	282,212
- Derivative financial instruments	109,589	90,745	67,825	-	-	268,159
Loans and advances to customers	17,877,276	16,674,480	22,638,328	14,198,943	2,518,744	73,907,771
Hedging derivatives	168,161	209,174	-	-	-	377,335
Investment securities						
- Available-for-sale	1,123,579	2,389,281	1,768,348	2,712,642	23,751	8,017,601
- Held-to-maturity	2,095,011	1,212,450	2,721,385	6,681,776	-	12,710,622
Investment in associates and joint ventures	-	-	-	-	203,590	203,590
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	304,763	304,763
Property and equipment	-	-	-	-	1,068,137	1,068,137
Deferred income tax assets	-	-	-	-	551,735	551,735
Other assets	28,833	-	-	-	2,115,137	2,143,970
Total assets	25,592,761	20,908,962	27,485,880	23,613,536	18,455,579	116,056,718
Liabilities						
Deposits from banks	5,777,713	1,362,367	43,102	95,463	178,739	7,457,384
Customer deposits	50,602,821	2,626,054	556,390	20,031	10,848,583	64,653,879
Funds borrowed	8,886,232	7,235,190	1,462,084	584,392	-	18,167,898
Debt securities in issue	2,291,895	956,822	-	-	-	3,248,717
Derivative financial instruments	381,219	77,373	74,086	7,661	-	540,339
Current income taxes payable	-	-	-	-	112,576	112,576
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	409,394	93,447	-	-	-	502,841
Other provisions	-	-	-	-	465,837	465,837
Retirement benefit obligations	-	-	-	-	889,269	889,269
Insurance technical reserves	46,029	82,601	324,395	127,837	483,032	1,063,894
Other liabilities	10,549	16,695	1,350	-	5,992,447	6,021,041
Total liabilities	68,405,852	12,450,549	2,461,407	835,384	18,970,483	103,123,675
Net interest repricing gap	(42,813,091)	8,458,413	25,024,473	22,778,152	(514,904)	12,933,043
Off-balance sheet derivative instruments net notional position	17,048,944	1,162,079	(17,481,361)	(658,792)	-	70,870
Net interest position	(25,764,147)	9,620,492	7,543,112	22,119,360	(514,904)	13,003,913

The table below summarizes weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2012 and December 31, 2011 based on yearly contractual rates.

	June 30, 2012			December 31, 2011		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	-	-	-	-	-	-
Loans and advances to banks	1.56	0.40	11.22	4.17	0.66	12.58
Financial assets held for trading	4.05	1.59	7.28	4.18	5.75	8.32
Investment securities						
- Available-for-sale	6.61	5.10	9.95	6.80	5.83	9.84
- Held-to-maturity	6.70	4.99	11.36	6.70	5.00	9.91
Loans and advances to customers	5.29	5.82	14.40	5.04	5.87	13.80
Liabilities						
Deposits from banks	1.47	2.52	8.88	1.98	3.11	8.57
Customer deposits	3.81	3.97	11.34	4.70	3.97	10.89
Debt securities in issue	3.54	4.06	10.29	1.66	2.66	10.40
Funds borrowed	3.46	2.60	11.27	2.44	3.09	11.45

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 insufficient liquidity being offered by the market or maintains a 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.

In cases when financial events require more liquidity than the Bank's daily liquidity needs, "Emergency Situation Liquidity Plan" is activated where duties and responsibilities are defined in detail. Liquidity Stress Test scenarios are used to measure the Bank's resistance to unexpected situations.

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 these ratios on a daily basis and shares the results with Treasury department and senior management.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

D. 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%.

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Tier I capital	12,537,389	11,698,856
Tier II capital	3,991,582	4,027,644
Deductions	(322,398)	(333,464)
Total regulatory capital	16,206,573	15,393,036
Risk-weighted assets (including market and operational risk)	112,450,297	103,462,230
Capital adequacy ratio (%)	14.41	14.88

Following the completion of the parallel run application period of Basel II regulations on June 30, 2012, final Basel II regulations is published in the Official Gazette Numbered 28337 and dated June 28, 2012, decisive Basel II application period started on July 1, 2012. Calculations in accordance with Basel II as of July 31, 2012 will be reported to local regulator (Banking Regulation and Supervision Agency ("BRSA")) starting from August 2012.

E. 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.

4. Financial risk management (continued)

“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.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of June 30, 2012, 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.

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.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

June 30, 2012

	Contract/ notional amount (aggregate of buy and sell)	Fair values	
		Assets	Liabilities
<i>Derivatives held for trading</i>			
Foreign exchange derivatives:			
Currency forwards	11,520,346	110,834	148,911
Currency swaps	24,820,451	114,774	158,692
Over the counter ("OTC") currency options	9,107,328	46,100	51,591
Total OTC foreign exchange derivatives	45,448,125	271,708	359,194
Interest rate derivatives:			
Interest rate swaps	3,907,704	70,590	64,362
Cross-currency interest rate swaps	1,686,809	13,104	14,609
OTC interest rate options	4,467,407	-	12,797
Total OTC interest rate derivatives	10,061,920	83,694	91,768
Other derivatives⁽¹⁾	1,768,994	5,382	19,912
Total derivative assets/ liabilities held for trading	57,279,039	360,784	470,874
<i>Derivatives used for hedging</i>			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	5,432,067	167,782	67,578
Derivatives designated as cash flow hedges:			
Interest rate swaps	35,432,325	-	602,255
Total derivative assets/ liabilities used for hedging	40,864,392	167,782	669,833
Total recognized derivative assets/ liabilities	98,143,431	528,566	1,140,707
Current		319,563	381,019
Non-current		209,003	759,688
Total recognized derivative assets/ liabilities	98,143,431	528,566	1,140,707

(1) Other derivatives include credit default swaps and security options. As at June 30, 2012 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2011

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	10,638,749	110,684	103,329
Currency swaps	19,181,819	21,056	287,378
Over the counter ("OTC") currency options	6,286,125	54,521	40,285
Total OTC foreign exchange derivatives	36,106,693	186,261	430,992
Interest rate derivatives:			
Interest rate swaps	4,579,348	67,526	79,588
Cross-currency interest rate swaps	45,607	1,845	1,934
OTC interest rate options	4,459,122	5,028	19,573
Total OTC interest rate derivatives	9,084,077	74,399	101,095
Other derivatives⁽¹⁾	1,646,449	7,499	8,252
Total derivative assets/ (liabilities) held for trading	46,837,219	268,159	540,339
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	6,206,854	369,747	18,959
Derivatives designated as cash flow hedges:			
Interest rate swaps	32,437,197	7,588	483,882
Total derivative assets/ (liabilities) used for hedging	38,644,051	377,335	502,841
Total recognized derivative assets/ (liabilities)	85,481,270	645,494	1,043,180
Current		330,308	430,968
Non-current		315,186	612,212
Total recognized derivative assets/ (liabilities)	85,481,270	645,494	1,043,180

(1) Other derivatives include credit default swaps and security options. As at June 30, 2012 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

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, 2012 is a liability amounting to TL 100,204 (December 31, 2011 - asset TL 350,788). At June 30, 2012, the mark to market difference of the hedging instruments since the inception date of the hedge relationship is TL 115,392 (December 31, 2011 - TL 111,818) and the fair value difference of the hedged item is TL 109,031 (December 31, 2011 - TL 107,204).

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.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

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, 2012 was as follows:

	June 30, 2012	June 30, 2011
Net interest income / (expense)	(75,073)	(87,835)
Taxation	15,015	17,567

In the first six months of 2012, a loss of TL 1,667 (June 30, 2011 - TL 1,451) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 2012 losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 422,006 (June 30, 2011 - TL 80,512).

There were no transactions for which cash flow hedge accounting had to be ceased as of June 30, 2012 or June 30, 2011 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 EUR 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, 2012 is EUR 241 million (December 31, 2011 - EUR 238 million). The foreign exchange loss of TL 91,682 (June 30, 2011 - TL 53,384 loss), 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, 2011 - None).

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

	June 30, 2012	June 30, 2011
Cash and cash equivalents	1,292,554	888,134
Balances with central banks	8,758,938	9,027,610
Reserve deposits with central banks (-)	(6,411,052)	(2,345,483)
Loans and advances to banks (with original maturity less than 90 days) (+)	8,674,302	2,036,758
Other cash equivalents (+)	130,822	95,496
Total	12,445,564	9,702,515

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

6. Loans and advances to customers

June 30, 2012	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	45,755,498	13,623,539	11,762,600	2,609,349	1,740,209	75,491,195
Watch listed loans	990,418	653,098	301,531	99,666	-	2,044,713
Loans under legal follow-up	1,434,449	462,338	472,334	250,413	71,440	2,690,974
Gross	48,180,365	14,738,975	12,536,465	2,959,428	1,811,649	80,226,882
Specific allowance for impairment	(1,101,862)	(245,173)	(325,568)	(165,579)	(59,794)	(1,897,976)
Collective allowance for impairment	(499,496)	(112,708)	(160,128)	(12,999)	(7,325)	(792,656)
Total allowance for impairment	(1,601,358)	(357,881)	(485,696)	(178,578)	(67,119)	(2,690,632)
Net	46,579,007	14,381,094	12,050,769	2,780,850	1,744,530	77,536,250
Current						38,829,768
Non-current						38,706,482
December 31, 2011	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	44,747,256	13,079,163	10,147,831	2,549,066	1,787,155	72,310,471
Watch listed loans	720,622	525,182	246,351	131,498	-	1,623,653
Loans under legal follow-up	1,368,701	317,376	368,018	264,121	22,836	2,341,052
Gross	46,836,579	13,921,721	10,762,200	2,944,685	1,809,991	76,275,176
Specific allowance for impairment	(1,023,720)	(174,985)	(257,410)	(151,518)	(19,235)	(1,626,868)
Collective allowance for impairment	(477,264)	(105,661)	(138,050)	(12,792)	(6,770)	(740,537)
Total allowance for impairment	(1,500,984)	(280,646)	(395,460)	(164,310)	(26,005)	(2,367,405)
Net	45,335,595	13,641,075	10,366,740	2,780,375	1,783,986	73,907,771
Current						35,234,408
Non-current						38,673,363

Loans amounting to TL 2,924,339 that are included in the performing loans and advances to consumers at amortized cost have been designated as hedged items in fair value hedges as of June 30, 2012 (December 31, 2011 - TL 2,767,669). 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:

	2012				2011
	Lending ⁽¹⁾	Leasing	Factoring	Total	Total
At January 1	2,177,090	164,310	26,005	2,367,405	2,382,447
Provision for loan impairment	447,465	31,959	47,183	526,607	918,489
Amounts recovered during the year	(176,194)	(17,509)	(6,063)	(199,766)	(654,630)
Loans written-off during the period as uncollectible (-)	-	(718)	-	(718)	(288,168)
Exchange differences	(3,426)	536	(6)	(2,896)	9,267
At June 30	2,444,935	178,578	67,119	2,690,632	2,367,405

(1) Includes corporate, consumer and credit card loans.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

6. Loans and advances to customers (continued)

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

	June 30, 2012	December 31, 2011
Gross investment in direct finance leases	3,395,526	3,395,456
Unearned finance income	(493,935)	(504,362)
	2,901,591	2,891,094
Interest accrual on receivables	32,115	27,229
Receivables from outstanding lease payments	25,722	26,362
Provision for impaired lease receivables	(178,578)	(164,310)
Net investment in direct finance leases	2,780,850	2,780,375

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

	June 30, 2012	December 31, 2011
Less than 1 year	1,099,088	1,031,699
More than 1 year but not later than 5 years	1,814,872	1,776,296
Later than 5 years	189,324	245,433
Less: unearned finance income	(493,935)	(504,362)
Investment in performing lease receivables	2,609,349	2,549,066

7. Investment securities

(i) Securities available-for-sale

	June 30, 2012	December 31, 2011
Debt securities - at fair value:		
Government bonds and treasury bills	4,605,372	4,648,540
Eurobonds	570,839	1,083,123
Government and corporate bonds and treasury bills sold under repurchase agreements	1,348,983	705,903
Eurobonds sold under repurchase agreements	-	-
Other	1,502,932	1,556,284
Equity securities - at fair value		
Listed	-	-
Unlisted	23,736	23,751
Total securities available-for-sale	8,051,862	8,017,601
Current	1,586,265	1,420,408
Non-current	6,465,597	6,597,193

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

7. Investment securities (continued)

Government bonds, treasury bills and Eurobonds are discounted and coupon paid 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.

(ii) Securities held-to-maturity

	June 30, 2012	December 31, 2011
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	3,037,747	3,348,279
Eurobonds	2,124,500	2,762,711
Government bonds and treasury bills sold under repurchase agreements	472,804	300,525
Eurobonds sold under repurchase agreement	6,542,318	6,166,696
Foreign government bonds ⁽¹⁾	-	132,411
Total securities held-to-maturity	12,177,369	12,710,622
Current	688,206	271,177
Non-current	11,489,163	12,439,445

- (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, 2012			December 31, 2011		
	Demand	Term	Total	Demand	Term	Total
Foreign currency:						
Domestic banks	723	103,569	104,292	30,939	238,884	269,823
Foreign banks	18,543	639,902	658,445	15,772	853,023	868,795
Funds deposited under repurchase agreements	-	6,397,972	6,397,972	-	5,020,957	5,020,957
	19,266	7,141,443	7,160,709	46,711	6,112,864	6,159,575
TL:						
Domestic banks	324	526,390	526,714	10,657	91,987	102,644
Foreign banks	72,200	188,339	260,539	121,371	200,610	321,981
Funds deposited under repurchase agreements	-	505,828	505,828	-	873,184	873,184
	72,524	1,220,557	1,293,081	132,028	1,165,781	1,297,809
	91,790	8,362,000	8,453,790	178,739	7,278,645	7,457,384
Current	91,790	7,828,669	7,920,459	178,739	6,502,798	6,681,537
Non-current	-	533,331	533,331	-	775,847	775,847

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

9. Customer deposits

	June 30, 2012			December 31, 2011		
	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:						
Saving deposits	2,412,479	10,100,123	12,512,602	2,587,227	10,142,561	12,729,788
Commercial deposits	2,870,155	14,333,073	17,203,228	3,115,063	14,128,217	17,243,280
	5,282,634	24,433,196	29,715,830	5,702,290	24,270,778	29,973,068
TL deposits:						
Saving deposits	1,975,759	22,120,530	24,096,289	1,940,416	19,368,217	21,308,633
Commercial deposits	3,027,862	9,986,248	13,014,110	3,069,852	10,033,670	13,103,522
Funds deposited under repurchase agreements	-	76,858	76,858	-	30,572	30,572
Public sector deposits	228,905	14,102	243,007	136,025	102,059	238,084
	5,232,526	32,197,738	37,430,264	5,146,293	29,534,518	34,680,811
	10,515,160	56,630,934	67,146,094	10,848,583	53,805,296	64,653,879
Current	10,515,160	55,972,863	66,488,023	10,848,583	53,189,607	64,038,190
Non-current	-	658,071	658,071	-	615,689	615,689

10. Funds borrowed

	June 30, 2012	December 31, 2011
Foreign institutions and banks		
Syndication borrowings	4,420,749	4,627,686
Subordinated debts borrowings	3,384,577	2,523,816
Other borrowings	8,677,913	8,947,535
Total foreign	16,483,239	16,099,037
Borrowings from domestic banks	977,351	1,107,681
Borrowings from interbank money market and Settlement Custody Bank	1,239,345	961,180
Total domestic	2,216,696	2,068,861
	18,699,935	18,167,898
Current	10,332,412	12,104,782
Non-current	8,367,523	6,063,116

At March 31, 2006, Yapı Kredi obtained a subordinated loan amounting to EUR 500 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined as EURIBOR+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank on April 27, 2006 amounting to EUR 350 million, with 10 years maturity and a repayment option at the end of 5 years has been transferred to the Bank. The interest rate is determined as EURIBOR+2,25% for the first five years. The loan was obtained from Goldman Sachs International Bank with Unicredit S.p.A. as guarantor. The Bank has not exercised the early repayment option related to these two loans which was available as of the date of these financial statements. In addition, the Bank obtained a subordinated loan on June 21, 2007 amounting to EUR 200 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as EURIBOR+1,85% for the

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Funds borrowed (continued)

first 5 years. The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor. With the written approvals of the BRSA dated April 3, 2006, May 2, 2006 and June 19, 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of the Regulation Regarding Banks' Shareholders' Equity. According to the Regulation, subordinated loans obtained from Merrill Lynch Capital Corporation and Goldman Sachs International Bank are considered in the supplementary capital calculation at the rate of 60% since the remaining maturity of these loans is less than 4 years. Subordinated loans obtained from Citibank, N.A.London Branch is considered in the supplementary capital calculation at the rate of 80% since the remaining maturity of this loan is less than 5 years.

The Parent Bank obtained a subordinated loan from UniCredit Bank Austria AG, amounting to USD 585 million, with 10 years maturity and a repayment option by the borrower at the end of 5 years, at an interest rate of 3 months LIBOR+8,30%. According to the authorization of BRSA dated February 20, 2012, this loan has been utilised as subordinated loan in compliance with the conditions of Regulation Regarding Banks' Shareholders' Equity.

11. Debt securities in issue

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

	June 30, 2012	December 31, 2011
Securitisation borrowings	1,827,893	2,147,781
Bills	1,021,984	951,004
Bonds	1,336,819	144,350
Other	6,614	5,582
	4,193,310	3,248,717
Current	1,864,455	1,525,275
Non-current	2,328,855	1,723,442
	4,193,310	3,248,717

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

The Parent Bank has a securitisation borrowing deal from Standard Chartered Bank and Unicredit Markets and Investment Banking amounting to USD 335 million and EUR 173 million, the equivalent of TL 974,680 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity") as an intermediary and Assured Guaranty, MBIA, Radian, Ambac, FGIC and XL Capital as guarantors. The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2014 and 2015. The repayments commenced in 2010, and during 2012, a total of TL 196,633 was repaid (December 31, 2011 - TL 387,701)

The Bank also entered into a securitisation borrowing deal in August and September 2011, with Standard Chartered Bank, Wells Fargo, West LB, SMBC, IFC, EBRD, and DEG amounting to USD 225 million and EUR 205 million, the equivalent of TL 853,213 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity"). The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2016 and 2023 and repayments will start in the last quarter of 2013.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

12. Taxation

Consolidated statement of income

	June 30, 2012	June 30, 2011
Current tax income / (expense)	(357,429)	(261,238)
Deferred tax income / (expense)	99,817	(3,357)
	(257,612)	(264,595)

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 2012 under the liability method using a principal tax rate of 20% at June 30, 2012 (June 30, 2011 - 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, 2012 and 2011 which are as follows:

Country of incorporation	Tax rate (%)	
	June 30, 2012	June 30, 2011
Russia	20.00	20.00
The Netherlands	25.00	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, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Impairment on assets	487,269	487,269	59,701	59,701
Allowance for loan impairment	1,343,114	1,010,000	267,507	200,775
Pension benefits transferable to the Social Security Institution ("SSI")	796,986	775,286	159,397	155,057
Reserve for employment termination benefits	121,931	113,983	24,566	22,999
Revaluation of derivative instruments at fair value	1,158,573	1,050,724	227,804	209,998
Valuation differences on investment securities	28,208	198,970	5,825	39,796
Other	763,965	760,995	152,529	151,990
Deferred income tax assets	4,700,046	4,397,227	897,329	840,316
Difference between carrying value and tax base of property and equipment	628,613	647,017	77,345	81,025
Valuation differences on investment securities	(42,446)	182,145	(8,839)	36,080
Revaluation of derivative instruments at fair value	781,168	821,361	153,352	164,932
Other	231,513	37,559	46,437	6,544
Deferred income tax liabilities	1,598,848	1,688,082	268,295	288,581
Deferred income tax assets, net	3,101,198	2,709,145	629,034	551,735

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

13. Other provisions

	June 30, 2012	December 31, 2011
Provision for losses on credit related commitments	214,451	204,871
Provision for possible risks and other legal provisions	167,200	151,960
Provisions on credit cards and promotion campaigns	39,291	33,905
Provision on export commitment estimated liability	37,597	37,251
Other	32,109	37,850
	490,648	465,837
Current	3,724	25,188
Non-current	486,924	440,649

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized provision of TL 214,451 (December 31, 2011 - TL 204,871).

Provision for possible risks and other legal provisions

At June 30, 2012, 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 48,725 (December 31, 2011 - TL 43,528) as the best estimate of the amount to settle these potential obligations.

The Group recorded a total provision of TL 118,475 (December 31, 2011 - TL 108,432) against possible risks in the interim condensed consolidated financial statements for the six-month period ended June 30, 2012.

Export commitment provision

The Group management has estimated losses that may arise from export loan commitments to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognized provision of TL 37,597 (December 31, 2011 - TL 37,251).

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, 2012 Total	June 30, 2011 Total
At January 1	204,871	151,960	33,905	37,251	37,850	465,837	457,185
Provision charged / (released)	9,593	17,077	63,875	346	10,877	101,768	44,573
Provision used	-	(343)	(58,489)	-	(16,579)	(75,411)	(69,942)
Translation difference	(13)	(1,494)	-	-	(39)	(1,546)	116
Balance at June 30	214,451	167,200	39,291	37,597	32,109	490,648	431,932

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

14. Retained earnings and other reserves

	June 30, 2012	December 31, 2011
Statutory reserve	359,872	266,998
Translation reserves	180,859	246,166
Revaluation reserve - available-for-sale investments	80,082	(80,672)
Hedging reserves	(513,690)	(431,848)
Total other reserves	107,123	644
Retained earnings	8,930,495	8,047,016

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2012	266,998	(80,672)	246,166	(431,848)	644
Net change in available-for-sale investments, before tax	-	160,754	-	-	160,754
Losses on hedges of a net investment in a foreign operation	-	-	-	31,635	31,635
Losses on cash flow hedges	-	-	-	(113,477)	(113,477)
Currency translation differences	-	-	(65,307)	-	(65,307)
Transfer to statutory reserves	92,874	-	-	-	92,874
At June 30, 2012	359,872	80,082	180,859	(513,690)	107,123

	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)
Gains on hedges of a net investment in a foreign operation	-	-	-	(53,384)	(53,384)
Losses 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

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

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

14. Retained earnings and other reserves (continued)

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

- a) First statutory 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 statutory 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 statutory reserves and extraordinary reserves of the consolidated subsidiaries amounting to TL 630,979 (June 30, 2011 - TL 502,769) and TL 7,224,739 (June 30, 2011 - TL 5,425,773), have been presented under retained earnings respectively.

After deducting taxes and setting aside the statutory 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, 2012	June 30, 2011
Foreign exchange:		
- Transaction gains less losses	98,068	(135,959)
Interest rate instruments	(147,666)	208,004
Equities	-	(2,562)
Credit derivatives	7,452	7,391
	(42,146)	76,874

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 83,327 (2011 - TL 9,368 gains) comprise of net results on disposals of available-for-sale and held-to-maturity financial assets.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Other operating expenses

	June 30, 2012	June 30, 2011
Staff costs	(740,815)	(665,809)
Depreciation on property and equipment	(81,108)	(75,349)
Amortization of intangible assets	(34,174)	(28,747)
Depreciation and amortization	(115,282)	(104,096)
Rent expenses	(83,168)	(70,559)
Sundry taxes and duties	(43,839)	(40,619)
Communication expenses	(50,247)	(47,360)
Marketing and advertisement costs	(45,679)	(32,893)
Payments to Saving Deposit Insurance Fund	(39,192)	(33,915)
Utilities	(21,866)	(17,856)
Audit and consultancy fees	(16,663)	(14,012)
Repair and maintenance expenses	(24,635)	(12,852)
Charities	(741)	(333)
Other	(215,485)	(183,687)
General administrative expenses	(541,515)	(454,086)
Total	(1,397,612)	(1,223,991)

17. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	June 30, 2012		December 31, 2011	
	Assets	Related liability	Assets	Related liability
Trading securities	46,171	-	57,144	-
Investment securities	11,572,518	7,146,716	10,676,414	6,098,257
Other assets pledged ⁽¹⁾	571,166	-	529,154	-
Total	12,189,855	7,146,716	11,262,712	6,098,257

- (1) Other assets pledged represent collaterals given to the counter parties of the derivative transactions and the additional collaterals given in relation to the funds obtained under repurchase agreements.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Assets pledged and restricted (continued)

Available-for-sale, held-to-maturity and trading securities whose total carrying amount is TL 8,544,485 as of June 30, 2012 (December 31, 2011 - TL 7,360,908) 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 7,146,716 as of June 30, 2012 (December 31, 2011 - TL 6,098,257). 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 3,074,204 (December 31, 2011 - 3,372,650).

As of June 30, 2012, the Group's reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 8,696,898 (December 31, 2011 - TL 8,986,633). There is also TL 108,046 held in foreign banks accounts.

18. Commitments and 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.

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

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

18. Contingent liabilities (continued)

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.

As of June 30, 2012, the Group's irrevocable commitments for unused credit card limits and loan granting commitments amounted to TL 20,664,684 (December 31, 2011 - TL 18,874,467)

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 ,2012 ⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letters of credits	2,792,663	2,314,384	16,527	-	5,123,574
Letters of guarantee	11,971,164	5,983,495	2,317,270	168,919	20,440,848
Acceptance credits	128,630	-	-	-	128,630
Other commitments	475,398	1,630,570	46,124	10,976	2,163,068
Total	15,367,855	9,928,449	2,379,921	179,895	27,856,120

December 31, 2011 ⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	2,727,074	1,802,256	477,654	-	5,006,984
Letter of guarantees	9,164,695	3,183,647	5,468,158	998,213	18,814,713
Acceptance credits	158,915	-	-	-	158,915
Other commitments	913,922	647,746	815,288	14,941	2,391,897
Total	12,964,606	5,633,649	6,761,100	1,013,154	26,372,509

(1) Based on original maturities.

19. Segment analysis

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

The Group's Retail Banking activities include card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages and commercial loans), commercial instalment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing different services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, works for working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Segment analysis (continued)

Through its Private Banking and Wealth Management activities, the Bank 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 deposit products, capital guaranteed funds, mutual funds, Type A, Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

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, 2012	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ⁽¹⁾	Consolidation Adjustments ⁽²⁾	Total operations of the Group
Segment revenue	1,363,102	941,251	125,365	82,906	836,045	(241,689)	3,106,980
Segment expenses	(943,903)	(133,362)	(59,500)	(31,424)	(740,067)	34,747	(1,873,509)
Segment result	419,199	807,889	65,865	51,482	95,978	(206,942)	1,233,471
Operating profit	419,199	807,889	65,865	51,482	95,978	(206,942)	1,233,471
Share of results of associates and joint ventures					7,025		7,025
Profit before tax ⁽⁴⁾	419,199	807,889	65,865	51,482	103,003	(206,942)	1,240,496
Income tax expense					(257,612)		(257,612)
Profit for the period	419,199	807,889	65,865	51,482	(154,609)	(206,942)	982,884
Segment assets ⁽³⁾	34,102,077	35,612,324	1,990,211	4,881,117	48,670,023	(2,419,339)	122,836,413
Associates and joint ventures					196,761		196,761
Total assets	34,102,077	35,612,324	1,990,211	4,881,117	48,866,784	(2,419,339)	123,033,174
Segment liabilities ⁽³⁾	27,884,568	26,245,642	18,863,155	4,074,633	48,624,007	(2,658,831)	123,033,174
Total liabilities	27,884,568	26,245,642	18,863,155	4,074,633	48,624,007	(2,658,831)	123,033,174

(1) Other segment mainly includes treasury management results activities of business support units, insurance operations, the other undistributed operations and equity.

(2) Consolidation adjustments include transactions with subsidiaries and other consolidated adjustments in these financial statements.

(3) Segment asset and liability figures are prepared according to management information data.

(4) Dividend income and tax provision expenses have not been distributed based on operating segments and have been presented under other column.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Segment analysis (continued)

June 30, 2011	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ⁽¹⁾	Consolidation Adjustments ⁽²⁾	Total operations of the 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 ⁽⁴⁾	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 ⁽³⁾	30,571,485	37,115,147	1,650,479	5,060,800	43,718,531	(2,263,314)	115,853,128
Associates and joint ventures					203,590		203,590
Total assets	30,571,485	37,115,147	1,650,479	5,060,800	43,922,121	(2,263,314)	116,056,718
Segment liabilities ⁽³⁾	25,921,556	26,670,552	16,735,355	4,241,975	44,991,994	(2,504,714)	116,056,718
Total liabilities	25,921,556	26,670,552	16,735,355	4,241,975	44,991,994	(2,504,714)	116,056,718

- (1) Other segment mainly includes treasury management results activities of business support units, insurance operations, the other undistributed operations and equity.
- (2) Consolidation adjustments include transactions with subsidiaries and other consolidated adjustments in these financial statements.
- (3) Segment asset and liability figures are prepared according to management information data.
- (4) Dividend income and tax provision expenses have not been distributed based on operating segments and have been presented under other column.

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, 2012 (2011 - none).

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

	June 30, 2012	June 30, 2011
Profit attributable to equity holders of the parent	977,811	1,197,394
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)	2.25	2.75

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)
(Amounts expressed in thousands of TL unless otherwise indicated.)

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, 2012		December 31, 2011	
	Total	Share in total %	Total	Share in total %
Loans and advances to customers, net	1,685,646	2	1,201,726	2
Trading and investment securities	2,484	-	2,914	-
Derivative financial instruments	1,241	-	496	1
Loans and advances to banks	53,681	1	4,903	-
Other assets	4,561	-	797	-
Total assets	1,747,613		1,210,836	
Customer deposits	8,091,333	12	7,082,705	11
Funds borrowed	7,813,401	42	4,866,028	27
Derivative financial instruments	5,347	1	4,075	1
Other liabilities	2,098	-	2,389	-
Deposits from banks	418,302	5	494,191	7
Total liabilities	16,330,481		12,449,388	
Commitment under derivative instruments	562,115	1	313,380	1
Credit related commitments	1,315,226	5	955,922	4
Total commitments and contingent liabilities	1,877,341		1,269,302	

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued) (Amounts expressed in thousands of TL unless otherwise indicated.)

21. Related party balances and transactions (continued)

(ii) Transactions with related parties:

	June 30, 2012		June 30, 2011	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	43,340	1	35,984	1
Fee and commission income	13,409	1	8,529	1
Interest income on financial leases	642	1	-	-
Interest income on loans and advances to banks	175	-	100	-
Other operating income	23,694	75	16,375	29
Total interest and fee income	81,260		60,988	
Interest expense on deposits	(244,587)	12	(228,768)	11
Interest expense on funds borrowed	(25,859)	8	(13,614)	-
Other operating expense	(5,682)	-	(6,305)	1
Fee and commission expense	(4)	-	(2)	-
Total interest and fee expense	(276,132)		(248,689)	

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

	June 30, 2012	December 31, 2011
Loans and advances to customers, net	55	176
Interest income on loans and advances to customers ⁽¹⁾	2	6
Customer deposits	69,996	43,437
Interest expense on deposits ⁽¹⁾	158	813
Fee and commission income ⁽¹⁾	-	-
Commitments and contingent liabilities	-	-

(1) Items represent June 30, 2011 amounts.

Salaries and other benefits paid to the Group's key management approximately amount to TL 21,954 as of June 30, 2012 (2011 - TL 21,327).

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.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2012 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

22. Events after the reporting period

- 1- The Parent Bank issued bonds with a total nominal amount of TL 200.000 with 179 days of maturity in July 11-12-13, 2012 as of July 16, 2012 through demand process according to the B.02.6.SP.K.0.13.00-105.04.02-1779-7200 permission of Capital Markets Board dated July 05, 2012 with 43/BB-519 Certificate of Registration.
- 2- With the decision of Board of Directors dated July 26, 2012, as Selim Hakkı Tezel the assistant general manager responsible for the Retail Credits Management will take over another position in UniCredit Group, it was decided to appoint Mehmet Gökmen Uçar, who is currently the Financial Reporting and Accounting Executive Vice President, as the Assistant General Manager responsible for the Retail Credits Management effective August 1, 2012 subject to approval of Banking Regulation and Supervision Agency ("BRSA").
- 3- The Parent Bank has applied to Capital Markets Board for issuance of asset backed securities with allocated sales method within one year and total amounting to EUR 300 million with fixed or variable interest rates where the interest rate will be decided on at the issuance date according to the market conditions at that date and to be issued in one or more tranches at various compositions and maturities for the purpose of selling these securities to corporate investors.
- 4- Following the completion of the parallel run application period of Basel II regulations on June 30, 2012, final Basel II regulations is published in the Official Gazette Numbered 28337 and dated June 28, 2012, decisive Basel II application period started on July 1, 2012. Calculations in accordance with Basel II as of July 31, 2012 will be reported to BRSA starting from August 2012.
- 5- Within the framework of restructuring the insurance business of the Bank, the Board of Directors of the Bank decided on July 27, 2012 to jointly appoint Deutsche Bank AG, UniCredit Bank Austria AG and Yapı Kredi Yatırım Menkul Değerler A.Ş. as the financial advisors to the Bank.