

**TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES**

**INTERIM CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**



REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the General Assembly of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

Introduction

1. We have reviewed the accompanying condensed consolidated interim statement of financial position of Türkiye Vakıflar Bankası T.A.O. and its subsidiaries (collectively referred to as the “Group”) as of 30 June 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in shareholders’ equity and cash flows for six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Basis for the Qualified Conclusion

3. As explained in Note 12 of the accompanying condensed consolidated interim financial statements; a portion of free provision amounting to TL 113,000 thousand has been reversed in current period, out of total free provision of TL 1,030,000 thousand provided in prior years by the Bank management considering the negative circumstances that may arise from possible changes in the economy and market conditions. Thus, the amount of free provision in the accompanying condensed consolidated interim financial statements which does not meet the recognition criteria of IAS 37 “Provisions, contingent liabilities and contingent assets” is TL 917,000 thousand with its related deferred tax amounting to TL 183,400 thousand as at 30 June 2019.



Qualified Conclusion

4. Based on our review, except for the effects of the matter on the condensed consolidated interim financial statements described in the basis for the qualified conclusion paragraph above, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

A large, stylized handwritten signature in blue ink, written over the printed name and title of the signatory.

Halûk Yalçın, SMMM
Partner

Istanbul, 26 November 2019

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2019**

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

**INTERIM CONSOLIDATED CONDENSED
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

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

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
ASSETS			
Cash and balances with Central Banks	8	41,028,805	38,192,088
Financial assets at fair value through profit or loss ("FVPL")	6	5,498,157	4,638,002
- <i>Securities</i>		554,689	224,619
- <i>Derivative Financial Instruments</i>	6	4,943,468	4,413,383
Financial assets at fair value through OCI ("FVOCI")	10	20,121,530	11,385,945
- <i>Debt Securities</i>	5	19,600,853	10,795,766
- <i>Equity Securities</i>	5-10	520,677	590,179
Financial assets at amortised cost ("AC")		303,151,549	269,629,322
- <i>Loans and advances to banks</i>		2,118,884	1,872,988
- <i>Loans and advances to customers</i>		254,372,386	227,780,271
- <i>Debt securities</i>	5	46,660,279	39,976,063
Investments accounted for using the equity method	7	407,785	372,022
Current tax assets		3,308	2,033
Deferred tax assets		599,944	396,715
Property, plant and equipment		3,337,777	2,949,444
Intangible assets		398,056	396,638
Assets classified as held for sale		2,701,076	1,568,113
Other assets		16,727,805	15,348,976
Total assets		393,975,792	344,879,298
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		3,747,605	2,552,248
- <i>Derivative financial instruments</i>	5	3,747,605	2,552,248
Financial liabilities at amortised cost		339,683,246	292,654,288
- <i>Deposits from banks</i>		10,362,623	7,064,494
- <i>Deposits from customers</i>		207,033,771	175,238,559
- <i>Obligations under repurchase agreements</i>		33,291,315	29,123,872
- <i>Funds borrowed</i>		43,185,500	45,432,849
- <i>Debt securities issued</i>		27,539,671	22,772,491
- <i>Subordinated debts</i>		18,270,366	13,022,023
Liabilities classified as held for sale		-	1,546
Current tax liabilities		955,506	857,164
Deferred tax liabilities		57,466	31,721
Other liabilities and provisions		18,722,558	19,292,483
Total liabilities		363,166,381	315,389,450
Equity attributable to owners of the parent			
Share capital		3,300,146	3,300,146
Share premium		721,908	721,908
Revaluation surplus		1,478,582	1,400,964
Reserves		2,605,071	2,098,451
Retained earnings		21,744,420	21,082,815
Total equity attributable to owners of the parent		29,850,127	28,604,284
Non-controlling interests		959,284	885,564
Total equity		30,809,411	29,489,848
Total liabilities and equity		393,975,792	344,879,298
Commitments and contingencies	18	141,820,112	131,434,807

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

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

**INTERIM CONSOLIDATED CONDENSED STATEMENT OF INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

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

Notes	Reviewed 1 January - 30 June 2019	Reviewed 1 January - 30 June 2018
Interest income		
Interest on loans measured at AC	17,074,308	12,091,526
Interest on securities	3,432,658	1,608,603
- Measured at FVPL (Financial assets at fair value through profit or loss)	44,978	6,505
- Measured at FVOCI (Financial assets at fair value through other comprehensive income)	990,855	326,078
- Measured at AC (Financial assets measured at amortised cost)	2,396,825	1,276,020
Interest on deposits at banks	168,424	132,058
Interest on money market placements	1,962	18,961
Other interest income	347,513	183,489
Total interest income	21,024,865	14,034,637
Interest expense		
Interest on deposits	(9,165,323)	(5,910,587)
Interest on money market deposits	(3,358,946)	(1,197,457)
Interest on funds borrowed	(934,836)	(630,533)
Interest expense on securities issued	(1,957,610)	(945,107)
Other interest expense	(109,824)	(259,866)
Total interest expense	(15,526,539)	(8,943,550)
Net interest income	5,498,326	5,091,087
Fee and commission income	2,367,528	1,278,004
Fee and commission expense	(542,454)	(394,879)
Net fee and commission income	1,825,074	883,125
Operating income		
Net trading income	(1,371,758)	297,474
Net foreign exchange gains	308,094	59,459
Other income	15 3,492,874	1,737,893
Total operating income	2,429,210	2,094,826
Operating expenses		
Salaries and employee benefit expenses	16 (1,489,332)	(1,178,652)
Provision for loan impairment, net of recoveries	(4,168,664)	(1,828,978)
Depreciation and amortisation	(248,159)	(102,708)
Taxes other than on income	(143,251)	(149,793)
Other expenses	17 (2,344,948)	(2,045,685)
Total operating expenses	(8,394,354)	(5,305,816)
Share of profit of associates accounted for using the equity method	32,220	25,195
Profit before income tax	1,390,476	2,788,417
Income tax expense	(241,469)	(577,588)
Profit for the period	1,149,007	2,210,829
Attributable to:		
Owners of the Parent	1,084,190	2,174,767
Non-controlling interest	64,817	36,062
Profit for the period	1,149,007	2,210,829

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

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

**INTERIM CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

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

Notes	Reviewed 1 January - 30 June 2019	Reviewed 1 January - 30 June 2018
Profit for the period	1,149,007	2,210,829
Other comprehensive income		
Items that will not be classified to profit or loss:		
Re-measurement of post - employment benefit obligation	(727)	(1,333)
Revaluation of property, plant and equipment	(40,522)	(9,943)
Other accumulated comprehensive income that will not be reclassified in profit or loss	(4,331)	454,704
Related tax	(54,840)	(107,401)
Items that will be reclassified subsequently to profit or loss:		
Foreign currency translation differences	105,958	73,110
Net change in fair value of financial assets at fair value through other comprehensive income	163,222	(252,776)
Other items	-	(10,025)
Income tax related to items that will be reclassified subsequently to profit or loss	6,697	39,776
Other comprehensive income for the period, net of income tax	175,457	186,112
Total comprehensive income for the period	1,324,464	2,396,941
Total comprehensive income attributable to:		
Owners of the Parent	1,207,072	2,343,921
Non-controlling interest	117,392	53,020

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

**INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

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

Reviewed	Attributable to Owners of the Parent							Total	Non-controlling interest	Total equity
	Revaluation Surplus			Revaluation Fund	Currency translation reserve	Reserves	Retained earnings			
	Share Capital	Share premium	Fair value reserves							
Balances at 1 January 2019	3,300,146	721,908	315,654	750,654	289,392	2,098,451	21,128,079	28,604,284	885,564	29,489,848
Profit for the Period	-	-	-	-	-	-	1,084,190	1,084,190	64,817	1,149,007
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	(719)	-	-	-	(719)	(7)	(726)
Change in revaluation surplus	-	-	-	(137,290)	-	-	-	(137,290)	37,596	(99,694)
Foreign currency translation differences	-	-	-	-	98,804	-	-	98,804	7,154	105,958
Net change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	162,087	-	-	-	-	162,087	7,832	169,919
Other items	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	162,087	(138,009)	98,804	-	-	122,882	52,575	175,457
Total comprehensive income for the period	-	-	162,087	(138,009)	98,804	-	1,084,190	1,207,072	117,392	1,324,464
Transfer to reserves	-	-	-	-	-	506,620	(497,804)	8,816	(8,816)	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	29,955	29,955	(34,856)	(4,901)
Total contributions by and distributions to owners of the parent, recognized directly in equity	-	-	-	-	-	506,620	(467,849)	38,771	(43,672)	(4,901)
Balances at 30 June 2019	3,300,146	721,908	477,741	612,645	388,196	2,605,071	21,744,420	29,850,127	959,284	30,809,411

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

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

Reviewed	Attributable to owners of the parent						Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	Revaluation Surplus			Revaluation Fund	Currency translation reserve						
	Share Capital	Share premium	Fair value reserves								
Balances at 1 January 2018	3,300,146	721,901	(78,147)	676,380	199,354	1,717,878	17,007,392	23,544,904	805,860	24,350,764	
First time adoption impact of IFRS, net	-	-	161,636	-	-	-	85,075	246,711	-	246,711	
Profit for the period	-	-	-	-	-	-	2,174,767	2,174,767	36,062	2,210,829	
Other comprehensive income											
Re-measurements of defined benefit plans	-	-	-	-	-	-	(714)	(714)	(352)	(1,066)	
Change in revaluation surplus	-	-	-	(13,172)	-	-	(914)	(14,086)	6,132	(7,954)	
Foreign currency translation differences	-	-	-	-	43,422	-	-	43,422	15,066	58,488	
Net change in fair value of financial assets at fair value											
through other comprehensive, net of tax	-	-	148,218	-	-	-	-	148,218	(4,248)	143,970	
Other items	-	-	-	-	-	-	(7,686)	(7,686)	360	(7,326)	
Total other comprehensive income	-	-	148,218	(13,172)	43,422	-	(9,314)	169,154	16,958	186,112	
Total comprehensive income for the period	-	-	148,218	(13,172)	43,422	-	2,165,453	2,343,921	53,020	2,396,941	
Transfer to reserves	-	-	-	-	-	9,039	(9,039)	-	-	-	
Dividends paid	-	-	-	-	-	-	(72,949)	(72,949)	(9,143)	(82,092)	
Other items	-	-	-	-	-	-	82,296	82,296	(22,264)	60,032	
Total contributions by and distributions to owners of the parent, recognised directly in equity	-	-	-	-	-	9,039	308	9,347	(31,407)	(22,060)	
Balances at 30 June 2018	3,300,146	721,901	231,707	663,208	242,776	1,726,917	19,258,228	26,144,883	827,473	26,972,356	

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

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

**INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

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

	Notes	Reviewed 1 January - 30 June 2019	Reviewed 1 January - 30 June 2018
Profit for the period		1,149,007	2,210,829
<i>Adjustments for:</i>			
Income tax expense		448,717	577,588
Provision for incurred loan losses, net of recoveries		4,168,664	1,828,978
Depreciation and amortization		248,159	102,708
Provision for short term employee benefits		134,769	159,201
Provision for retirement pay liability and unused vacations		213,753	35,139
Unearned premium reserve		54,078	83,115
Change in provision for outstanding claims	17	21,159	44,176
Derivative financial instruments		665,272	-
Other provision expenses	17	54,243	16,743
Net interest income		(7,335,963)	(5,091,087)
Share of profit of equity-accounted investees		(32,220)	(25,195)
Currency translation differences		(98,804)	43,422
Other non-cash adjustments		(1,397,754)	173,668
		(1,706,920)	159,285
Loans and advances to banks		(253,458)	(268,868)
Reserve deposits		548,379	(2,096,154)
Financial assets at fair value through profit or loss		(330,070)	(1,633,909)
Loans and advances to customers		(30,761,097)	(31,632,613)
Other assets		(1,378,829)	(2,308,920)
Deposits from banks		3,294,609	(12,288,961)
Deposits from customers		31,780,454	14,822,356
Obligation under repurchase agreements		4,155,957	16,657,059
Other liabilities and provisions		(1,910,174)	(426,903)
		5,145,771	(19,176,913)
Interest received		21,024,865	14,973,426
Interest paid		(15,526,539)	(7,778,505)
Taxes paid		(351,431)	(603,667)
Cash provided/(used in) by operating activities		8,585,746	(12,426,374)
Cash flows from investing activities:			
Dividends received	15	8,432	19,821
Acquisition of property and equipment		(242,269)	(171,218)
Proceeds from the sale of property and equipment		508,887	41,715
Acquisition of intangible assets		(28,171)	(63,258)
Proceeds from the sale of intangible assets		174	3,631
Acquisition of investment securities		(15,644,028)	(6,359,419)
Proceeds from sale of investment securities		2,996,229	1,387,796
Cash used in by investing activities		(12,400,746)	(5,140,932)
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated debts		17,993,772	15,429,517
Repayments of debt securities and subordinated debts		(8,441,315)	(5,114,443)
Proceeds from share capital increase		-	-
Repayments of funds borrowed		(16,980,855)	(5,773,742)
Proceeds from funds borrowed		14,845,164	10,624,632
Financial lease payments		(171,238)	-
Dividends paid		-	(72,949)
Cash provided by financing activities		7,245,528	15,093,015
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(44,301)	(92,230)
Net increase/(decrease) in cash and cash equivalents		3,386,227	(2,566,521)
Cash and cash equivalents at the beginning of the year	8	20,881,440	22,012,140
Cash and cash equivalents at the end of the year	8	24,267,667	19,445,619

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

EXPLANATORY NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

1. GENERAL INFORMATION

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

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

The Bank provides corporate, commercial and retail banking services through a network of 948 domestic branches and 3 foreign branches in USA (New York), Bahrain (Manama) and North Iraq (Erbil), in total 951 branches (31 December 2018: 948 domestic, 3 foreign, in total 951 branches). As at 30 June 2019, the Parent Bank has 16,754 (31 December 2018: 16,767) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as VakıfBank International AG. The Bank’s head office is located at Saray Mahallesi, Dr.Adnan Büyükdenez Caddesi, No: 7/A-B, Ümraniye - İstanbul.

The shareholder holding control over the Parent Bank is the registered foundations represented by the General Directorate of the Foundations having 58.45% of the Parent Bank’s outstanding shares. Another organization holding qualified share in the Bank is VakıfBank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Parent Bank. The shares of the Bank are quoted to Borsa İstanbul AŞ (“BIST”) and traded publicly.

As at 30 June 2019 and 31 December 2018 The Bank’s paid-in capital amounted to TL 2,500,000 divided into 250,000,000,000 shares with a nominal value of 1 Kuruş each (TL 1 equals Kuruş 100).

As at 30 June 2019 the Bank’s shareholders’ structure is as follows:

Shareholders	Number of the shares (100 units)	Nominal amount	Share (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
VakıfBank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,652,715	2,653	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,535,258	630,535	25.22
Paid-in capital	2,500,000,000	2,500,000	100.00
Adjustment to share capital (*)		800,146	
Total		3,300,146	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, “Financial reporting in hyper-inflationary economies” until 1 January 2006.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

EXPLANATORY NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

1. GENERAL INFORMATION (Continued)

As at 31 December 2018 the Bank's shareholders' structure is as follows:

Shareholders	Number of the shares (100 units)	Nominal amount	Share (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,673,619	2,674	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,514,354	630,514	25.22
Paid-in capital	2,500,000,000	2,500,000	100.00
Adjustment to share capital (*)		800,146	
Total		3,300,146	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until 1 January 2006.

These interim consolidated financial statements were approved for issue on 26 November 2019.

The changes in the ownership structure of the Parent Bank are arranged by the provisional article of Law No.696, paragraph 6, published in the Official Gazette dated December 24, 2017 numbered 6219, while the other provisions of the Law no 6219 are arranged by the 7th and 12th paragraphs of the mentioned provisional article of Law.

It is stated in the 6th paragraph of the 2nd sub-article of the related article that "In the act of the application to the Bank within the seven days after the effective date of the cabinet decree, by the shareholders of the stocks that are managed and represented by the General Directorate of Foundations, with the exception of that are owned by the appendant foundations among the Group A and Group B stocks of the Bank, the stocks are transferred to the Undersecretariat of Treasury, by taking their per share value into consideration, over the calculated average value of the values that are mentioned in the conclusion sections of the valuation projects that are prepared by three different firms. The absolute amount of the stocks are recorded in the share ledger on behalf of the Undersecretariat of Treasury within the seven days after the effective date of the cabinet decree.

It is stated in the 6th paragraph of the 3rd sub-article of the related article that "In the act of the application to the Bank within the hundred and twenty days after the effective date of the cabinet decree, by the shareholders of the stocks that are owned by the VakıfBank Officer and Retainers Retirement and Health Care Foundation (Fund), among the Group C stocks of the Bank, the dependent minister of the Undersecretariat of Treasury has the authority to transfer the stocks over their per share value, that is stated the for the fund, by the Council of Ministers to the Undersecretariat of Treasury.

It is stated in the 6th paragraph of the 4th sub-article of the related article that "In the act of the application to the Bank within the hundred and twenty days after the effective date of the cabinet decree, by the shareholders of the stocks that are owned by the appendant foundations among the Group B stocks of the Bank, and the stocks that are owned by the other natural and legal persons among the Group C stocks of the Bank, the dependent minister of the Undersecretariat of Treasury has the authority to transfer the stocks over their per share value, that is stated the for the fund, by the Council of Ministers.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

EXPLANATORY NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

1. GENERAL INFORMATION (Continued)

It is stated in the 6th paragraph of the 5th sub-article of the related article that “The stocks that are transferred to the Treasury, are represented and managed by the dependent Minister of the Undersecretariat of Treasury”.

With the mentioned provisional article, the ownership of the stocks which are represented and managed by the T.C. General Directorate for Foundations will be transferred to the Republic of Turkey Ministry of Treasury and Finance.

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 30 June 2019 and 31 December 2018.

	Direct	Indirect
30 June 2019	Shareholding Interest (%)	Shareholding Interest (%)
<i>Subsidiaries:</i>		
Güneş Sigorta A.Ş.	48.02	48.02
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	18.47	30.12
Vakıf Emeklilik ve Hayat A.Ş.	53.90	79.68
Vakıf Enerji ve Madencilik A.Ş.	65.50	82.60
Taksim Otelcilik A.Ş.	51.00	51.69
Vakıf Faktoring A.Ş.	78.39	87.49
Vakıf Finansal Kiralama A.Ş.	58.71	66.23
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.54
VakıfBank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	39.54
World Vakıf UBB Ltd in Liquidation (**)	82.00	83.46
<i>Associates:</i>		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38
31 December 2018	Direct	Indirect
	Shareholding Interest (%)	Shareholding Interest (%)
<i>Subsidiaries:</i>		
Güneş Sigorta A.Ş.	48.02	48.02
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	18.47	30.12
Vakıf Emeklilik ve Hayat A.Ş.	53.90	79.68
Vakıf Enerji ve Madencilik A.Ş.	65.50	82.60
Taksim Otelcilik A.Ş.	51.00	51.69
Vakıf Faktoring A.Ş.	78.39	87.49
Vakıf Finansal Kiralama A.Ş.	58.71	66.23
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.54
VakıfBank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	39.54
World Vakıf UBB Ltd in Liquidation (**)	82.00	85.32
<i>Associates:</i>		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as “World Vakıf UBB Ltd. in Liquidation”. Therefore, the financial statements of the subsidiary have not been consolidated as at 30 June 2019 and 31 December 2018.

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

1. GENERAL INFORMATION (Continued)

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

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

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

Vakıf Emeklilik ve Hayat AŞ was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory body and started to operate both in pension business. Its head office is in Istanbul.

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

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

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

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

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

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

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

Vakıf Portföy Yönetimi AŞ operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul. In the prior period, Vakıf Portföy Yönetimi AŞ was classified from the Subsidiaries account to under Assets classified as held for sale and it has been included to consolidation on held for sale transactions accounts.

The Bank has also the following associates:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

These interim consolidated condensed financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34, “Interim financial reporting”. The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards. The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards which have been disclosed below in note 3. The other standards did not have any impact on the Group’s accounting policies.

The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira (“TL”).

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

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of 1 January 2019, where applicable, noted below:

2.2. New and Revised International Financial Reporting Standards

a) *Standards, amendments and interpretations applicable as at 30 June 2019:*

- **Amendment to IFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- **Amendment to IAS 28, ‘Investments in associates and joint venture’;** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
- **IFRS 16, ‘Leases’;** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (see note 3).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

a) *Standards, amendments and interpretations applicable as at 30 June 2019 (continued):*

- **IFRIC 23, ‘Uncertainty over income tax treatments’;** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, ‘Borrowing costs’ – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’;** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

b) *Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:*

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2019 (continued):

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The new standards, amendments and interpretations which will be effective after 30 June 2019 are not expected to have a material impact on the Group’s consolidated financial statements.

2.3. Accounting Policies

Information on Financial Assets

The Parent Bank categorizes its financial assets as “Fair Value Through Profit/Loss”, “Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments published in the Official Gazette No. 29953 dated 19 January 2017 by the Public Oversight Accounting and Auditing Standards Authority. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Parent Bank recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by The Parent Bank management and the nature of contractual cash flows of the financial asset are taken into consideration

Classification and Measurement of Financial Instruments

According to IFRS 9, the classification and measurement of financial assets is determined according to the business model in which the financial asset is managed and whether it depends on the contractual cash flows that include interest payments only on the principal and principal balances.

Assessments on whether contractual cash flows include only principal balances and interest payments on the principal

Within the scope of this evaluation; principal is defined as the fair value of the financial asset when it is first recognized in the financial statements. For the time value of money, interest takes into account the costs (eg liquidity risk and management costs) for the credit risk and other underlying credit risks and profit margin associated with the principal amount over a period of time.

The Parent Bank takes into consideration the contractual terms of the financial asset in the evaluation of the contractual cash flows that only include principal and interest payments on the principal. This includes assessing whether the financial asset includes a contractual condition that could change the timing or amount of contractual cash flows.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

While performing the assessment, The Parent Bank fulfills the on-balance sheet classification and measurement criteria by applying the procedures defined in IFRS 9 Financial Instruments including events that may change the amount and timing of cash flows, leverage structure of the financial product, early payment options, contingent interest rate changes and similar conditions.

At the time of initial recognition, each financial asset is classified as measured at fair value through profit or loss, at amortized cost, or at fair value through profit or loss.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. Equity securities classified as financial assets at fair value through profit/loss are recognized at fair value.

Financial Assets at Fair Value through Other Comprehensive Income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not designated in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment. During initial recognition an entity can choose in an irrevocable way to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

Both “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Parent Bank include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted using the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of prior two months. The Parent Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year. At the end of the year real interest rate is used.

Loans

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method". As of January 1, 2018 loans of The Parent Bank are retained under the “Measured at Amortized Cost” accounts due to holding loans in scope of a business model for the collection of contractual cash flows and contractual terms of loans that leads to cash flows representing solely payments of principal and interest at certain date.

Information on Expected Credit Loss

As of January 1, 2018, the Parent Bank recognize provisions for impairment in accordance with IFRS 9 requirements according to the “Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside” published in the Official Gazette dated June 22, 2016 numbered 29750. In this framework, as of December 31, 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit loss model under IFRS 9. Expected credit loss model is applied to financial assets measured at amortized cost or financial assets at fair value through other comprehensive income (e.g. placements, loans and leasing receivables), loan commitments and financial guarantee contracts.

The expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions.

It is possible to perform the provision calculations in accordance with IFRS 9, although may vary exceptionally, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

Exposure at Default: Represents the amount of risk on the default date of the debtor in case of default.

According to IFRS 9 in calculating the default amount, the estimation of how customer risk rating changes over time is important. Exposure of Default values are calculated different for cash-loans and non-cash loans

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Monetary risks are fundamentally divided into two; related and unrelated to amortization plan. EAD is calculated, either by taking into account loan installments being paid in the future over balance change for cash loans with payment plan, or by keeping credit balance constant for cash loans without payment plan. For Non-cash Loans and Limit Commitments EAD is calculated by regarding to credit conversion rate and behavioral maturity periods.

Loss Given Default: The ratio that provides the uncollectable amount of the receivable in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9.

Probability of Default: Represents the probability of default of the debtor in a defined time lag in the future.

In addition to these parameters, macroeconomic forecasts are included in the calculation of expected loss provision by estimating within two sets of scenarios, which are base and negative case scenarios. Future macroeconomic expectations taken into account in accordance with IFRS 9 are in line with the economic forecasts of the Parent Bank's current Budget and ICAAP processes.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

Significant Increase in the Credit Risk

The Standart requires the assessment of whether there is a significant increase in the credit risk of financial assets by the date of initial recognition based on the information available without excessive effort and cost as of the reporting date. The factors that show a significant increase in credit risk under IFRS 9 are as follows:

- Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days
- The classification of the financial asset under stage 2 in the case of financial receivable reconstruction
- Internal classification system that is established according to the information gathered by the Parent Bank
- Comparison between the default risk of the debtor and the default risk of receivable as of the granting date based on the change in the rating/score info as of reporting date.

The Parent Bank has accounted for the effect of applying the new provisions at the date of January 1, 2018 by recording a reversal in the opening records of previous years' profit and loss accounts. The primary impact is due to changes in the allowance for credit losses in accordance with the new impairment provisions and the tax effects of the corresponding provisions.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Information on Fees and Commissions

Banking services income is recorded as income when it is collected. Other fee and commission income is transferred to profit/loss accounts according to time period principle on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

Fees and commissions other than those that are an integral part of the effective interest rate of financial instruments measured at amortized cost are accounted in accordance with the IFRS 15 “Revenue from Contracts with Customers” standard.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted “IFRS 16 - Leases” as of January 1, 2019. The Group has applied the simplified transition approach and elected not to restate comparative figures. This Standard specifies the principles for the leasing, presentation, presentation and disclosure of leases. The purpose of the standard is to provide tenants and lessees with appropriate information and to provide them with appropriate information. This information is the basis for evaluating the impact of the leases on the entity's financial position, financial performance and cash flows by users of financial statements.

The amounts recognized under IFRS 16 as of January 1, 2019 and June 30, 2019 are presented below.

	January 1, 2019		
	Service Buildings	Vehicles	Total
Lease payables	1,245,219	33,559	1,278,778
Deferred rental expenses	476,495	7,471	483,966
Right of use assets	768,724	26,088	794,812

	June 30, 2019		
	Service Buildings	Vehicles	Total
Lease payables	1,353,304	42,763	1,396,067
Deferred rental expenses	528,162	5,657	533,819
Lease payables (Net)	825,142	37,106	862,248
Right of use assets	814,679	36,608	851,287

As of January 1, 2019, the reconciliation of the lease obligations accounted under unconsolidated financial statements according to IFRS 16 is as follows:

	January 1, 2019
Operational Lease Commitments	1,484,959
Commitments exempt from IFRS 16	(206,181)
Total Leasing Liabilities	1,278,778
Discounted Leasing Liabilities (January 1, 2019)	794,812

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4. USE OF ESTIMATES AND JUDGEMENTS AND SEASONALITY OF OPERATIONS

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

In preparing these interim consolidated condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same, except for the newly introduced model of IFRS 9 ECL calculation mentioned in note 3, as those that applied to the consolidated financial statements for the year ended 31 December 2017.

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

5. FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES

The classification of fair value measurements of financial assets and liabilities at 30 June 2019 is as follows:

30 June 2019	Level 1	Level 2	Level 3 ^(*)	Total
Asset carried at fair value				
Financial assets - FVPL				
Debt securities	29,550	422,432	-	451,982
Equity securities	-	102,707	-	102,707
Derivative financial assets held for trading purposes	-	4,943,468	-	4,943,468
Investment securities - FVOCI				
Debt securities	12,009,838	7,591,015	-	19,600,853
Equity securities	-	-	520,677	520,677
Financial assets measured at amortised cost				
Debt securities	29,330,299	14,956,313	-	44,286,612
Total financial assets	41,369,687	28,015,935	520,677	69,906,299
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	3,747,605	-	3,747,605
Total financial liabilities	-	3,747,605	-	3,747,605

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The classification of fair value measurements of financial assets and liabilities at 31 December 2018 is as follows:

31 December 2018	Level 1	Level 2	Level 3 ^(*)	Total
Asset carried at fair value				
Financial assets - FVPL				
Debt securities	11,673	140,266	-	151,939
Equity securities	2,887	69,766	27	72,680
Derivative financial assets held for trading purposes	-	4,413,383	-	4,413,383
Investment securities - FVOCI				
Debt securities	8,876,012	1,923,208	-	10,799,220
Equity securities	-	-	586,725	586,725
Financial assets measured at amortised cost				
Debt securities	27,132,405	9,106,833	84,480	36,323,718
Total financial assets	36,022,977	15,653,456	671,232	52,347,665
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	2,552,248	-	2,552,248
Total financial liabilities	-	2,552,248	-	2,552,248

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

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

	30 June 2019	31 December 2018
Balance at the beginning of the period - 1 January	671,232	233,405
Total gains or losses for the period recognized in other comprehensive income	(150,555)	437,827
Balance at the end of the period - 30 June	520,677	671,232

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June 2019 and 31 December 2018, financial assets at fair value through profit or loss are as follows:

	30 June 2019		31 December 2018	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt instruments held at fair value:</i>				
Government bonds in TL	200	190	3,200	3,131
Asset-backed securities	19,028	20,505	34,000	33,366
Eurobonds issued by the Turkish Government	5,519	7,630	5,045	7,033
Corporate bonds in TL	121,826	118,568	70,310	69,587
Bonds issued by banks	270,642	266,657	-	-
	417,215	413,550	112,555	113,117
<i>Equity and other non-fixed income instruments:</i>				
Investment funds	-	39,599	-	38,822
Equity shares	-	101,540	-	72,680
<i>Derivative financial instruments held for trading purposes</i>				
	-	4,943,468	-	4,413,383
	-	5,084,607	-	4,524,885
Total financial assets at fair value through profit or loss	417,215	5,498,157	112,555	4,638,002

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the period ended 30 June 2019, net loss from trading of financial assets (including investment securities) amounting to TL 1,371,758 (30 June 2018: Net profit amounting to TL 297,474) is included in "trading income".

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7. SEGMENT REPORTING

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

Operating segments

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

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

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

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

Insurance: Includes the Group's insurance business.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

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

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

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

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7. SEGMENT REPORTING (Continued)

Information about operating segments

30 June 2019	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	4,141,282	10,773,714	1,931,713	-	16,846,709	-	-	278,589	4,663	17,129,961	(55,653)	17,074,308
Interest expense on deposit	(5,098,775)	(3,820,422)	(357,269)	-	(9,276,466)	-	-	-	-	(9,276,466)	111,143	(9,165,323)
Operating profit	(1,262,654)	4,927,951	421,143	178,969	4,265,409	1,218,844	4,412	89,659	75,709	5,654,033	(37,867)	5,616,166
Profit before income tax	(1,884,616)	3,468,791	(92,608)	(471,984)	1,019,583	290,683	(8,521)	82,246	20,274	1,404,265	(13,789)	1,390,476
Income tax expense										(241,469)	-	(241,469)
Profit for the period										1,162,796	(13,789)	1,149,007
30 June 2019												
Segment assets	57,862,215	153,507,042	142,504,776	32,451,127	386,325,160	5,554,290	3,085,198	2,277,653	2,098,901	399,341,202	(5,773,195)	393,568,007
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	407,785	407,785
Total assets	57,862,215	153,507,042	142,504,776	32,451,127	386,325,160	5,554,290	3,085,198	2,277,653	2,098,901	399,341,202	(5,365,410)	393,975,792
Segment liabilities	103,875,818	104,315,487	132,569,320	15,184,158	355,944,783	4,078,711	2,926,130	1,986,510	809,212	365,745,346	(2,578,965)	363,166,381
Equity including non-controlling interest	-	-	-	30,380,377	30,380,377	1,475,579	159,068	291,143	1,289,689	33,595,856	(2,786,445)	30,809,411
Total liabilities and equity	103,875,818	104,315,487	132,569,320	45,564,535	386,325,160	5,554,290	3,085,198	2,277,653	2,098,901	399,341,202	(5,365,410)	393,975,792
Tangible fixed assets				1,179,474	1,179,474					1,179,474		1,179,474
Intangible fixed assets				167,503	167,503					167,503		167,503
Depreciation				(253,612)	(253,612)					(253,612)		(253,612)
Amortization				(70,825)	(70,825)					(70,825)		(70,825)

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7. SEGMENT REPORTING (Continued)

30 June 2018	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	3,682,292	7,351,751	807,281	-	11,841,324	-	81,812	185,403	2,431	12,110,970	(19,444)	12,091,526
Interest expense on deposit	(3,022,971)	(2,742,329)	(187,406)	-	(5,952,706)	-	-	-	-	(5,952,706)	42,119	(5,910,587)
Operating profit	628,724	3,715,471	818,036	121,729	5,283,960	914,966	24,489	41,416	131,025	6,395,856	(130,601)	6,265,255
Profit before income tax	110,336	2,453,466	430,663	(351,377)	2,643,088	104,658	13,464	34,964	36,437	2,832,611	(44,194)	2,788,417
Income tax expense	(22,446)	(499,125)	(87,613)	71,483	(537,701)	(19,140)	(7,142)	(7,885)	(5,720)	(577,588)	-	(577,588)
Profit for the period	87,890	1,954,341	343,050	(279,894)	2,105,387	85,518	6,322	27,079	30,717	2,255,023	(44,194)	2,210,829
31 December 2018	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	51,672,411	171,331,856	91,340,336	20,237,708	334,582,311	4,723,475	2,992,823	2,668,947	2,156,360	347,123,916	(2,616,640)	344,507,276
Investments accounted for using the equity method	-	-	2,564,959	-	2,564,959	622,986	8,900	4,173	115,033	3,316,051	(2,944,029)	372,022
Total assets	51,672,411	171,331,856	93,905,295	20,237,708	337,147,270	5,346,461	3,001,723	2,673,120	2,271,393	350,439,967	(5,560,669)	344,879,298
Segment liabilities	92,194,464	84,567,780	115,275,164	15,642,647	307,680,055	4,095,817	2,838,364	2,444,424	1,037,819	318,096,479	(2,707,029)	315,389,450
Equity including non-controlling interest	-	-	-	29,467,215	29,467,215	1,250,644	163,359	228,696	1,233,574	32,343,488	(2,853,640)	29,489,848
Total liabilities and equity	81,156,213	83,552,381	107,111,743	39,445,199	311,265,536	4,390,581	2,617,029	2,621,787	1,944,285	322,839,218	(4,316,696)	318,522,522
Tangible fixed assets				611,786	611,786					611,786		611,786
Intangible fixed assets				153,769	153,769					153,769		153,769
Depreciation				(122,193)	(122,193)					(122,193)		(122,193)
Amortization				(90,877)	(90,877)					(90,877)		(90,877)

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8. CASH AND BALANCES WITH CENTRAL BANKS

As at 30 June 2019 and 31 December 2018, cash and cash equivalents presented in the interim consolidated statement of financial position and cash flows are as follows:

	30 June 2019	31 December 2018
Cash on hand	2,382,955	2,345,969
Due from Central Bank	14,114,633	14,031,341
Balances with the CBRT excluding reserve deposits	18,768,905	15,113,048
Money market placements and receivables from repurchase agreements	17,534	6,839
Loans and advances to banks with original maturity less than three months	5,082,073	5,699,201
Others	662,705	995,690
Total cash and cash equivalents in the consolidated statement of financial position	41,028,805	38,192,088
Accruals on cash and cash equivalents	(116,743)	(118,461)
Blocked bank deposits	(2,530,469)	(3,162,140)
Due from Central Bank	(14,114,633)	(14,031,341)
Expected Credit Loss	707	1,294
Total cash and cash equivalents in the consolidated statement of cash flows	24,267,667	20,881,440

As of June 30, 2019, TL 2,530,469 is blocked bank deposits (December 31, 2018: TL 3,162,140). The blocked bank deposits in the amount of TL 2,530,469 consist of TL 556,291 held against the "Diversified Payment Rights" securitizations and TL 6,522 held against insurance liabilities of the Group in favor of the Turkish Treasury, TL 1,967,655 additional required reserve established in favor of CBRT.

9. LOANS AND ADVANCES TO CUSTOMERS

As at 30 June 2019 and 31 December 2018, outstanding loans and advances to customers comprise the followings:

30 June 2019	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	167,093,549	45,887,358	9,435,721	2,227,776	2,422,930	227,067,334
Stage 2 loans to customers	24,256,585	1,719,830	336,687	46,073	274,578	26,633,753
Stage 3 loans to customers	10,755,098	1,957,066	940,345	46,665	180,490	13,879,664
Total gross loans to customers	202,105,232	49,564,254	10,712,753	2,320,514	2,877,998	267,580,751
Less: Stage 1 expected credit loss	1,287,717	158,623	139,322	18,560	41,323	1,645,545
Less: Stage 2 expected credit loss	1,298,045	82,301	32,424	975	78,378	1,492,123
Less: Stage 3 expected credit loss	7,687,847	1,473,930	759,050	45,832	104,038	10,070,697
Total expected credit loss	10,273,609	1,714,854	930,796	65,367	223,739	13,208,365
Total loans and advances to customers	191,831,623	47,849,400	9,781,957	2,255,147	2,654,259	254,372,386

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9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

31 December 2018	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	150,666,335	43,289,478	8,570,846	2,605,489	2,182,900	207,315,048
Stage 2 loans to customers	18,337,336	1,225,674	373,023	29,820	598,702	20,564,555
Stage 3 loans to customers	8,342,457	1,776,853	808,360	45,491	156,147	11,129,308
Total gross loans to customers	177,346,128	46,292,005	9,752,229	2,680,800	2,937,749	239,008,911
Less: Stage 1 expected credit loss	1,222,456	146,781	172,727	14,602	78,730	1,635,296
Less: Stage 2 expected credit loss	1,221,022	47,707	39,601	843	17,407	1,326,580
Less: Stage 3 expected credit loss	6,113,429	1,352,614	667,291	43,895	89,535	8,266,764
Total expected credit loss	8,556,907	1,547,102	879,619	59,340	185,672	11,228,640
Total loans and advances to customers	168,789,221	44,744,903	8,872,610	2,621,460	2,752,077	227,780,271

The credit quality analysis of outstanding loans and advances to customers:

	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	1,636,243	1,326,580	8,266,763
Transfer to Stage 1	63,668	(63,413)	(255)
Transfer to Stage 2	(109,147)	125,660	(16,513)
Transfer to Stage 3	(13,427)	(428,342)	441,769
Recoveries and reversals	(375,157)	(417,324)	(172,105)
Provision for the period	443,365	948,962	1,551,038
Balances at the end of the period	1,645,545	1,492,123	10,070,697

10. INVESTMENT SECURITIES

Financial asset at fair value through OCI:

	30 June 2019		31 December 2018	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt and other instruments FVOCI:</i>				
Government bonds in TL	11,676,511	12,155,192	7,143,377	7,654,189
Eurobonds issued by the Turkish Government	2,847,822	2,935,405	1,136,310	1,144,657
Government bonds in foreign currencies	1,651,478	1,746,122	982,706	1,016,370
Lease Certificates	952,493	1,012,512	-	-
Bonds issued by banks	630,103	628,442	504,619	428,900
Corporate bonds	575,821	602,052	561,297	551,650
Asset-backed securities	515,417	521,128	-	-
Equity shares	-	520,677	-	590,179
Total FVOCI financial assets	18,849,645	20,121,530	10,328,309	11,385,945

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11. DEBT SECURITIES ISSUED

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

	30 June 2019		31 December 2018	
	TL	FC	TL	FC
Nominal	10,506,252	16,803,905	8,168,977	14,462,438
Cost	10,148,398	16,732,404	7,919,208	14,390,145
Net Book Value	10,555,383	16,984,288	8,111,583	14,660,908

30 June 2019	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	July 2019-February 2027	13.79 % - 24.00 %	10,555,383	10,555,383
Bank Bonds	USD	October 2021- July 2024	5.50 % - 8.125 %	2,379,156	13,703,939
Bank Bonds	EUR	May 2021	2.578%	500,141	3,280,349

31 December 2018	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2019-December 2023	13.79 % - 27.00 %	8,111,583	8,111,583
Bank Bonds	USD	October 2021-November 2027	5.50 % - 8.00 %	1,649,156	8,707,542
Bank Bonds	EUR	April 2019-May 2021	1.20 % - 3.72 %	985,869	5,953,366

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Turkey's first Eurobond apart from Republic of Turkey Undersecretariat of Treasury. The bond has been issued in GMTN programme on June 17, 2014 has a nominal value of 500 million Euros, maturity date on June 17, 2019 with fixed rate, 5 years maturity and annually coupon paid with 3.65% return and coupon rate 3.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dollar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on May 30, 2017 has a nominal value of US Dollar 500 million, maturity date on May 30, 2022 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.625%.

At January 30, 2018, the Parent Bank has issued a new bond with a maturity of 5 years with a coupon rate of 5.75%, and a final yield of 5.85% amounting to USD 650 million. This transaction has been the highest consistent bond issuance transaction The Parent Bank has ever undertaken. The total demand from over 150 investors in the export has exceeded 1.5 billion dollars.

The context of Global Medium Term Notes (GMTN), The Parent Bank has issued 234 private placements with 19 different banks from 2013 June on .This private placements have issued several currencies as of (US Dollar,Euro,Swiss Frank and Japanese Yen) and the maturities are 3 months, 6 months, 1 year and 2 years. The Parent Bank has issued 4,896 million US Dollar private placements as of the date of June 30, 2019.

The Parent Bank has issued Turkey's first Euro covered bond on May 4, 2016. The bond has been issued on May 4, 2016 has nominal value of 500 million Euros, maturity date on May 4, 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% rate of return.

On October 9, 2017, the Parent Bank had issued a private placement for the qualified foreign institutional investor within the context of Global Medium Term Notes (GMTN), with 5.5 years of maturity, and a nominal value of 1.333 million Turkish Liras.

On March 28, 2019, a new bond issue with a coupon rate of 8.125 % percent and a final return rate of 8.200 % percent was realized in the amount of USD 600 million. More than 150 international investors showed interest in the issue. The issuance amount was swapped to Euro on the same day and the transaction was closed at a cost of less than 5%

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11. DEBT SECURITIES ISSUED (Continued)

On 22 January 2019, two separate transactions amounting to TL 396.3 million and TL 1,118 million on February 12, 2019, are subject to 8-year maturity. Thus, the Covered Bond issuances reached TL 9.3 billion.

The Parent Bank had realized the second Global Medium Term Notes (GMTN) on December 14, 2017 with HSBC Bank Plc with with 5 years of maturity, and a nominal value of 1.333 million Turkish Liras.

On February 28, 2018, the Bank conducted a five year maturity Covered Bond transaction with a nominal value of TL 1,000 million, which was allocated to qualified investors abroad.

On December 7, 2018 the Bank issued the second transaction of 2018 abroad with a nominal value of TL 1,000 million and 5 years of maturity. Thus, the Covered Bond issuances reached TL 7.7 billion.

12. PROVISIONS

As of June 30, 2019, Bank has recorded TL 37,567 (December 31, 2018: TL 26,739) as provisions for non-cash loans that are not indemnified or converted into cash.

A portion of free provision amounting to TL 113,000 has been reversed in current period, out of total free provision of TL 1,030,000 provided in prior years by the Bank management considering the negative circumstances that may arise from possible changes in the economy and market conditions. Thus, the amount of free provision in the accompanying condensed consolidated interim financial statements is TL 917,000 as at June, 30 2019.

13. EARNINGS PER SHARE

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

There is no dilution of shares as at 30 June 2019 and 2018.

The following reflects the basic earnings per share computations:

	30 June 2019	30 June 2018
Net profit attributable for the period	1,149,007	2,210,829
Net profit attributable to owners of the Bank	1,084,190	2,174,767
Number of 100 ordinary shares for basic earnings per shares	2,500,000,000	2,500,000,000
Basic earnings per 100 share	0.4337	0.8699
Diluted earnings per 100 share	0.4337	0.8699

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

14. RELATED PARTY TRANSACTIONS

For the purpose of these interim consolidated financial statements, shareholders (namely Registered Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

Related party	30 June 2019			31 December 2018		
	Cash loans	Non-cash loans	Deposits	Cash loans	Non-cash loans	Deposits
Direct/Indirect shareholders	275,700	91,403	1,384,688	193,217	65,079	1,112,197
Associates	-	-	582,356	-	-	4,288
Key management personnel	107	-	434	97	-	322
Total	275,807	91,403	1,967,478	193,314	65,079	1,116,807

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14. RELATED PARTY TRANSACTIONS (Continued)

Related party	30 June 2019				30 June 2018			
	Commission Income	Interest income	Interest expense	Other operating expense	Commission Income	Interest income	Interest expense	Other operating expense
Direct/Indirect shareholders	58	23,392	123,707	405	42	1,203	39,886	4
Associates	-	-	11,365	6	-	80,672	-	7
Total	58	23,392	135,072	411	42	81,875	39,886	11

Key Management Remuneration

For the period ended 30 June 2019, the key management personnel received remuneration and fees amounted to TL 24,304 (30 June 2018: TL 18,046).

15. OTHER INCOME

As at and for the period ended 30 June 2019 and 2018, other income comprised the followings:

	30 June 2019	30 June 2018
Reversal of miscellaneous provision	2,305,729	702,814
Earned premiums	838,476	702,073
Gain on sale of fixed assets	115,912	94,204
Individual pension business income	74,971	60,426
Excess fee charged to customers for communication expenses	19,929	18,231
Dividend income from equity shares	8,432	19,821
Rent income	4,575	50,756
Other items	124,850	89,568
Total	3,492,874	1,737,893

16. SALARIES AND EMPLOYEE BENEFITS

As at and for the period ended 30 June 2019 and 2018, salaries and employee benefits comprised the following:

	30 June 2019	30 June 2018
Wages and salaries	(655,766)	(505,582)
Employer's share of social security premiums	(561,510)	(195,107)
Other fringe benefits	(272,056)	(477,963)
Total	(1,489,332)	(1,178,652)

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17. OTHER EXPENSES

As at and for the period ended 30 June 2019 and 2018, other expenses comprised the following:

	30 June 2019	30 June 2018
Incurred insurance claims	(490,627)	(471,065)
<i>Insurance claims paid</i>	(469,468)	(426,889)
<i>Change in provision for outstanding claims</i>	(21,159)	(44,176)
Banking services promotion expenses	(459,308)	(376,172)
Provision for Severance Pay and Employee Benefits	(206,528)	(204,585)
Saving Deposit Insurance Fund premiums	(156,502)	(93,654)
Advertising expenses	(99,070)	(94,019)
Communication expenses	(65,177)	(98,634)
Rent expenses and operating lease charges	(55,022)	(184,838)
Other provision expenses	(54,243)	(16,743)
Cleaning service expenses	(38,989)	(39,838)
BRSA participation fee	(33,235)	(20,462)
Energy expenses	(31,357)	(22,104)
Maintenance expenses	(30,028)	(32,443)
Computer usage expenses	(22,748)	(16,333)
Credit card promotion expenses	(19,831)	(14,459)
Office supplies	(13,941)	(13,426)
Transportation expenses	(12,637)	(13,471)
Consultancy expenses	(11,749)	(20,172)
Hosting expenses	(8,597)	(8,280)
Loss on sale of assets	(3,652)	(3,582)
Other various administrative expenses	(531,707)	(301,405)
Total	(2,344,948)	(2,045,685)

(*) On the prior period, "Provisions for employee termination benefits" and "employee termination benefits" were classified in "Personnel Expenses" item are classified under "Other Expenses" in the current period.

18. COMMITMENTS AND CONTINGENCIES

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

	30 June 2019	31 December 2018
Letters of guarantee	56,482,335	51,948,464
Letters of credit	10,949,600	10,199,787
Acceptance credits	3,387,092	2,972,109
Other guarantees	855,579	883,626
Total non-cash loans (financial guarantee contracts)	71,674,606	66,003,986
Credit card limit commitments	15,067,069	13,549,649
Loan granting commitments	15,418,447	14,105,349
Commitments for cheque payments	2,520,539	1,979,217
Commitments for credit card and banking operations promotions	604,737	571,282
Other commitments	36,534,714	35,225,324
Total commitments	70,145,506	65,430,821
Total commitments and contingencies	141,820,112	131,434,807

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18. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent assets and liabilities

There are various legal cases against the Group for which TL 42,451 (31 December 2018: TL 13,705) has been provided, excluding routine insurance claims.

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

Pending tax audits

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

Derivative financial instruments held for trading purposes

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

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

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

	30 June 2019	31 December 2018
	Notional Amounts	Notional Amounts
Trading Derivatives		
Foreign Currency Related Derivative Transactions	85,985,134	46,493,564
Currency Forwards	3,479,759	2,744,719
Currency Swaps	77,441,867	41,266,318
Currency Futures	2,723,465	-
Currency Options	2,340,043	2,482,527
Interest Rate Derivative Transactions	49,379,132	46,832,308
Interest Rate Forwards	-	-
Interest Rate Swaps	49,379,132	46,832,308
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	19,562,486	17,683,118
Total Derivative Transactions	154,926,752	111,008,990

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19. SUBSEQUENT EVENTS

The Parent Bank issued a Vakıfbank financing bill with a term of 70 days, a nominal value of TL 151.496.564 (full TL) and an ISIN code of TRFVKFB12094 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on November 22,2019.

The Parent Bank issued a VakıfBank financing bill with the maturity date November 15, 2019, nominal value of TL 92,623,347 (full TL) and an ISIN code of TRFVKFBK1929 to be sold to qualified investors following the approval of the TL 20,000,000,000 debt instruments issue cap application.

The Parent Bank issued a Vakıfbank financing bill with a term of 41 days, a nominal value of TL 79.000.000 (full TL) and an ISIN code of TRFVKFBA19A6 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on November 13,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 43 days, a nominal value of TL 79.046.328 (full TL) and an ISIN code of TRFVKFBA1996to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on November 11,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 105 days, a nominal value of TL 232.476.442 (full TL) and an ISIN code of TRFVKFB22028 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on November 8,2019.

The Parent Bank issued a VakıfBank financing bill with a term of 91 days, a nominal value of TL 217,500,000 (full TL) and an ISIN code of TRFVKFBK1937 to be sold to qualified investors following the approval of the TL 20,000,000,000 debt instruments issue cap application. The amount was transferred to customer accounts on November 08, 2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 92 days, a nominal value of TL 244.672.290 (full TL) and an ISIN code of TRFVKFB12086 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 31,2019.

The Parent Bank has decided to participate 33.33% share in Platform Ortak Karlı Sistemler AŞ to be founded with the partnership of three state-owned banks and the amount TL 21,000,000 capital and the process of gaining legal status for the company is in progress.

The Parent Bank has obtained a loan in the amount of USD 140 million with a maturity of 1 year from the Export Import Bank of China with regard to the financing of foreign trade among Turkey and People's Republic of China.

The Parent Bank issued a Vakıfbank financing bill with a term of 84 days, a nominal value of TL 156,586,860 (full TL) and an ISIN code of TRFVKFB12078 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 25,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 46 days, a nominal value of TL 73,300,000 (full TL) and an ISIN code of TRFVKFBA1988 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 21,2019.

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19. SUBSEQUENT EVENTS (Continued)

The Parent Bank issued a Vakıfbank financing bill with a term of 49 days, a nominal value of TL 123,250,000 (full TL) and an ISIN code of TRFVKFBA1970 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 18,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 93 days, a nominal value of TL 349.042.311 (full TL) and an ISIN code of TRFVKFB12060 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 16,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 56 days, a nominal value of TL 69.000.000 (full TL) and an ISIN code of TRFVKFBA2010 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 16,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 74 days, a nominal value of TL 30.790.705 (full TL) and an ISIN code of TRFVKFBA1954 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 14,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 39 days, a nominal value of TL 40.200.000 (full TL) and an ISIN code of TRFVKFBK1994 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 14,2019 and it is redeemed on November 22, 2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 63 days, a nominal value of TL 143.615.277 (full TL) and an ISIN code of TRFVKFBA1947 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 11,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 49 days, a nominal value of TL 73.928.925 (full TL) and an ISIN code of TRFVKFBK1986 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 11,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 63 days, a nominal value of TL 180.756.728 (full TL) and an ISIN code of TRFVKFBA1939 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 4,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 112 days, a nominal value of TL 130.000.000 (full TL) and an ISIN code of TRFVKFB12052 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 4,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 91 days, a nominal value of TL 116.776.325 (full TL) and an ISIN code of TRFVKFBA1921 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on October 1,2019.

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19. SUBSEQUENT EVENTS (Continued)

The Parent Bank issued and offered to the public a Vakıfbank financing bill on September 30 ve October 1-2,2019, with a term of 112 days, starting October 4,2019 and ending January 24, 2020 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB12045 was determined to have TL 570.352.161 (full TL) nominal value, 112 days term, term ending January 24, 2020, with an annual compound interest rate of % 14,1426 , simple interest rate of % 13,5000 and issue price is 96,022.

The Parent Bank issued a Vakıfbank financing bill with a term of 53 days, a nominal value of TL 55.823.306 (full TL) and an ISIN code of TRFVKFBK1978 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 30,2019 and it is redeemed on November 22, 2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 56 days, a nominal value of TL 49.859.514 (full TL) and an ISIN code of TRFVKFBK1960 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 27,2019 and it is redeemed on November 22, 2019.

The Parent Bank issued and offered to the public a Vakıfbank financing bill on September 23-25, 2019, with a term of 105 days, starting September 27,2019 and ending January 10, 2020 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB12037 was determined to have TL 219.978.518 (full TL) nominal value, 105 days term, term ending January 10, 2020, with an annual compound interest rate of % 14,7120 % , simple interest rate of % 14,0000 and issue price is 96,129.

The Parent Bank issued a Vakıfbank financing bill with a term of 49 days, a nominal value of TL 51.062.850 (full TL) and an ISIN code of TRFVKFBK1952 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 20,2019.

The Parent Bank issued a TLREF Turkish Lira Overnight Benchmark Interest Rate Indexed Vakıfbank financing bill with a term of 179 days, a nominal value of TL 1.085.000.000 (full TL) and an ISIN code of TRFVKFB32050 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 13,2019.

The Parent Bank issued a TLREF Turkish Lira Overnight Benchmark Interest Rate Indexed Vakıfbank financing bill with a term of 174 days, a nominal value of TL 75.000.000 (full TL) and an ISIN code of TRFVKFB32043 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 11,2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 42 days, a nominal value of TL 121,450,000 (full TL) and an ISIN code of TRFVKFBE1992 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 06, 2019 and it is redeemed on October 18, 2019.

The Parent Bank issued a TLREF Turkish Lira Overnight Benchmark Interest Rate Indexed Vakıfbank financing bill with a term of 182 days, a nominal value of TL 500,000,000 (full TL), a coupon number of 2 and an ISIN code of TRFVKFB32019 for sale to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on September 3, 2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 57 days, a nominal value of TL 133,927,986(full TL) and an ISIN code of TRFVKFBE1984 to be sold to qualified investors following the approval of the TL 25,000,000,000 debt instruments issue cap application. The amount was transferred to customer accounts on August 29, 2019 and it is redeemed on October 25, 2019.

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19. SUBSEQUENT EVENTS (Continued)

The Parent Bank issued a Vakıfbank financing bill with a term of 66 days, a nominal value of TL 284,751,700 (full TL) and an ISIN code of TRFVKFBE1976 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on August 26, 2019 and it is redeemed on October 31, 2019.

The Parent Bank issued and offered to the public a Vakıfbank financing bill on 19-21 August, with a term of 84 days, starting August 23, 2019 and ending November 15, 2019 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFBK1945 was determined to have TL 708,739,162 (full TL) nominal value, 84 days term, term ending November 15, 2019 with an annual compound interest rate of 18,1469 %, simple interest rate of 17 % and issue price is 96,235 and it is redeemed on November 15, 2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 63 days, a nominal value of TL 378,959,510 (full TL) and an ISIN code of TRFVKFBE1968 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on August 9, 2019 and it is redeemed on October 11, 2019.

On August 7, 2019, the Parent Bank sold share certificates related to Vakıf Menkul Değerler Yatırım Ortaklığı A.Ş. with a total nominal amount of TL 220,000 from TL 2.19 - TL 2.21 price range. As a result of this transaction, the Bank's share in Vakıf Menkul Değerler Yatırım Ortaklığı A.Ş. has decreased to the 17.37% limit.

On 2 August 2019, the Parent Bank purchased 45,210,297 shares of Güneş Sigorta A.Ş. in BIST Primary Market with a price of TL 1.11. With this transaction, the Bank's Güneş Sigorta A.Ş. has reached 56.39% as of 2 August 2019.

The Parent Bank issued a VakıfBank financing bill with a term of 56 days, a nominal value of TL 197,704,978 (full TL) and an ISIN code of TRFVKFB919A8 for sale to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on August 2, 2019 and it is redeemed on September 27, 2019.

On August 1, 2019 VakıfBank purchased USD 10 million nominal amount of its Eurobond maturing in 2023 with ISIN code of XS1760780731.

The Parent Bank issued a VakıfBank financing bill with a term of 34 days, a nominal value of TL 52,000,000 (full TL) and an ISIN code of TRFVKFB91999 for sale to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 31, 2019 and it is redeemed on September 3, 2019.

The Parent Bank issued a VakıfBank financing bill with a term of 70 days, a nominal value of TL 356,943,141 (full TL) and an ISIN code of TRFVKFBE1950 for sale to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 26, 2019 and it is redeemed on October 4, 2019.

The Parent Bank issued a VakıfBank financing bill with a term of 56 days, a nominal value of TL 53,559,771 (full TL) and an ISIN code of TRFVKFB91981 to be sold to qualified investors following the approval of the TL 20,000,000,000 debt instruments issue cap application. The amount was transferred to customer accounts on July 26, 2019 and it is redeemed on September 20, 2019.

On July 24, 2019 VakıfBank purchased USD 5 million nominal amount of its Eurobond maturing in 2022 with ISIN code of XS0849728190.

The Parent Bank issued a VakıfBank financing bill with a term of 79 days, a nominal value of TL 112,587,981 (full TL) and an ISIN code of TRFVKFBE1943 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 24, 2019 and it is redeemed on October 11, 2019.

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19. SUBSEQUENT EVENTS (Continued)

The Parent Bank issued a VakıfBank financing bill with a term of 56 days, a nominal value of TL 909,500,000 (full TL) and an ISIN code of TRFVKFB91973 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 19, 2019 and it is redeemed on September 13, 2019.

The Parent Bank issued a VakıfBank financing bill with a term of 56 days, a nominal value of TL 63,350,000 (full TL) and an ISIN code of TRFVKFB91965 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 12, 2019 and it is redeemed on September 6, 2019.

The Parent Bank issued a VakıfBank financing bill with a term of 42 days, a nominal value of TL 213,000,000 (full TL) and an ISIN code of TRFVKFB81974 to be sold to qualified investors following the approval of the TL Banka 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 12, 2019 and it is redeemed on August 23, 2019.

The Parent Bank issued and offered to the public a VakıfBank financing bill on 8-10 July, with a term of 84 days, starting July 12, 2019 and ending October 4, 2019 via the book-building method. Following this issuing, the VakıfBank bill with an ISIN code of TRFVKFBE1935 was determined to have TL 200,000,000 (full TL) nominal value, 84 days term, term ending October 4, 2019 with an annual compound interest rate of 23,6434%, simple interest rate of 21,75 % and an issue price of TL 95,233 and it is redeemed.

The Parent Bank issued a VakıfBank financing bill with a term of 91 days, a nominal value of TL 108,060,099 (full TL) and an ISIN code of TRFVKFB91957 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 1, 2019 and it is redeemed on September 30, 2019.

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