ANADOLUBANK

THE STRONG BANK IN CHALLENGING CONDITIONS

2011 ANNUAL REVIEW

CONTENTS

WE ARE CLOSE
TO OUR CLIENTS
UNDER ALL
CIRCUMSTANCES

YOUNG, DYNAMIC AND REPUTABLE PLAYER OF THE TURKISH BANKING SECTOR

Being among the young, dynamic and reputable institutions in the Turkish banking sector, Anadolubank was acquired from the Turkish Privatization Administration in 1997 by the HABAŞ Group. Anadolubank undertook a restructuring in line with global banking standards and succeeded to continuously increase its performance thanks to its effective, profitable and sustainable growth strategies. Thanks to its 1,911 employees and information technology infrastructure supporting its business processes, the Bank, starting with three branches 14 years ago, today has an effective structure comprised of 88 branches.

Through its diversified product range and customer oriented approach, Anadolubank provides all kinds of services in the fields of commercial, retail and individual banking in addition to its core banking services. Closely following the dynamics in the banking sector with an innovative and proactive approach, the Bank offers one of the best practices of contemporary banking through its customer focused philosophy as well as effective and determined policies, which supports its sustainable growth strategy.

Being Turkey's SME bank is one of the Anadolubank's strategic targets. Hence, meeting the financing requirements of SMEs, the foundation of the real economy, places among the Bank's strategic priorities. In order to further improve its service quality and increase efficiency, the Bank radically overhauled its organizational and operational structure in commercial banking during the previous years.

Apart from its core banking services, Anadolubank differentiates itself with a high quality and reliable customer service orientation by providing innovative and creative solutions for the continuously changing requirements of its customers. Through this approach, the Bank structured the innovation/creativity and product development services as a separate business unit. The primary factor behind the spectacular success displayed in such a short period is Anadolubank's corporate culture adopted and carefully maintained by all of the employees.

With its successful marketing strategy, state-of-the-art technology infrastructure and expert staff, Anadolubank has established a strong correspondent network consisting of 900 foreign banks. This close knit and highly efficient network continuously strengthens the Bank's reputation in international markets. Serving the markets that have high business potential and providing fast and effective foreign trade related services to its customers, Anadolubank's foreign trade volume grows more rapidly each year.

Anadolubank's corporate identity is represented by trustworthiness, transparency and high-quality service. Striving to further strengthen its reputation in the domestic market, the Bank makes a difference with its competitive prices, customer-oriented and innovative implementations without compromising its contemporary risk management practices.

Anadolubank continues to move forward with the objective of being a solid, long-lasting and reliable banking institution with its robust capital structure, experienced senior management and the most valuable employees in the sector. A healthy and sustainable growth strategy constitutes the Bank's roadmap in this journey.

EFFICIENT AND SUSTAINABLE GROWTH THROUGH DYNAMIC, ENTREPRENEURIAL AND INNOVATIVE VISION

Operating in a range of sectors that include industrial and medical gases, iron and steel, LPG, natural gas, heavy machinery manufacturing and energy, HABAŞ is one of Turkey's most deep-rooted and reputable conglomerates.

Hamdi Başaran (1913-1987) laid the foundations of what is today HABAŞ Group when he established the Hamdi Başaran Topkapı Oxygen Plant in 1956. Guided by the dynamic, innovative and entrepreneurial vision of its founder, HABAŞ conducts its activities with an uninterrupted, efficient and sustainable growth strategy.

For many years, HABAŞ has ranked among the top industrial firms in Turkey in terms of sales and exports, according to the country's Top 500 Industrial Enterprises list published by the Istanbul Chamber of Industry. HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. (HABAŞ Industrial and Medical Gases), a leading company in the Group, was ranked the 11th and 10th largest industrial company in Turkey by sales turnover and export volume, respectively, in 2010.

Leading the industrial and medical gases sector with its customer-oriented and dynamic structure and continuous service approach, HABAŞ has nationwide facilities, an extensive dealer network, technical support and maintenance teams. In line with rising demand for industrial and medical gases in Turkey, HABAŞ improved and expanded its production, storage and transport facilities, as well as its sales points and product portfolio. Following liberalization of the natural gas sector, HABAŞ acquired the licenses for liquefied natural gas (LNG) and compressed natural gas (CNG) products, further strengthening its pioneering position in the market.

In addition to natural gas, HABAŞ also undertook large-scale investments in electricity generation. After upgrading the capacity of the energy production plants, which were originally installed exclusively to meet the needs of Group companies, HABAŞ now ranks among Turkey's leading power generation companies with an installed capacity of 300 MW.

After entering the iron and steel industry in 1987, HABAŞ is currently Turkey's leading producer in this sector with a production capacity of 4.7 million tons of liquid steel. Exporting the majority of its production to various countries in five continents, HABAŞ has an annual export volume of US$ 1.5 billion and a total foreign trade volume of US$ 2.9 billion. The port facilities owned by the Group are among the largest facilities in the country with high loading and offloading capacities and mainly serve import and export transactions.

Operating also in industrial construction, in addition to providing engineering services, HABAŞ builds turnkey processing plants, air separation facilities, steel production plants, rolling mills, power generation plants and gas filling and storage facilities for a variety of industrial sectors.

As of year-end 2011, the total sales turnover of HABAŞ reached US$ 2.8 billion. The Group's credit ratings were assessed by Fitch Ratings and currently stand at A- National Rating, B+ for Long-term Foreign Currency and Long-term Local Currency Ratings with a "stable" outlook.

FULLY PREPARED FOR EVERY SITUATION THANKS TO PRUDENT RISK MANAGEMENT PRINCIPLES THAT GUIDE SUSTAINABLE GROWTH

In an environment dominated generally by uncertainties and volatilities in the global economy, Anadolubank continued to support the Turkish economy in 2011 with its approach determined in its strategic objectives, prudent and consistent in its policies. The Bank's outstanding financial results demonstrated that it is fully prepared for every eventuality.

Despite the ongoing efforts to overcome the global crisis since 2008, the adverse macro developments in 2011 indicate that, due to the lack of effective and determined policies to achieve permanent solutions, structural problems could not be resolved.

Following the positive growth rates of developed countries in 2010, the year of 2011 has been marked by fluctuations and uncertainties stemming from the public debt crisis in the Euro Zone. Initially beginning in Greece and then continuing in Spain and Italy, economic shakes triggered the crisis and caused stagnation by reducing risk appetite in international markets. The slowdown in the US economy is another significant factor causing the stagnation.

Despite the problems observed in developed countries, developing countries generally maintained their high level of growth rates and strong positions in their financial sectors.

It is understood that, the future of the global economy will depend on the strength and efficiency of the policies to be implemented against the slowdown in developed countries, particularly the crisis in Europe.

Despite the impacts of the adverse developments in Europe and in the global economy, our country completed the year with a high level of growth at 8.5%. Its economic policies without compromising financial discipline as well as financial sector supporting its growth ensured the success of the Turkish economy in such a difficult period.

Through this period, inflation reached 10.45% by the year-end, mainly due to currency fluctuations as well as increases in food prices and the private consumption tax.

In 2011, the adverse effects of external economic and political developments on our country caused a rapid increase in the foreign trade deficit. The most important export markets of Turkey shrank due to the crisis in the Euro Zone as well as political instabilities in the Middle East and North Africa. However, strong domestic demand and high energy prices led to a sharp increase in imports. Consequently, imports increased 31.3% compared to increase in exports of 18.7%, and the foreign trade deficit reached US$ 89.4 million. Meanwhile, the high current account deficit continues to be the most crucial risk factor and reducing it to a sustainable level is on top of the economic agenda.

For the next year, it is predicted that Turkey's growth rate will be lower in parallel to the slowdown in the global economy and remain between 2%-4%. IMF's 2012 growth forecast for Turkey is 2.3%.

Its dynamic and young demographic structure, economic and political stability as well as strong financial structures and banking sector are the primary advantages enabling positive differentiation of Turkey from other developing countries. Provided that these advantages are turned into an opportunity in an accurate and efficient manner, Turkish economy will sustain its strength against global fluctuations in the period ahead.

Our banking sector has played a key role in contributing to economic growth with its strong capital structure, high level of liquidity and asset quality. In addition to strict control and prudent risk management practices, its high capital adequacy ratio of 17.3% ensured the resilience of the sector against the fluctuations in international financial markets. Despite the increasing volume of loans in the low-interest environment of 2011, the non-performing loan ratio of the sector decreased from 3.7% in 2010 to 2.7%.

As of the end of 2011, banking sector increased its total assets by 21% and deposits by 13%, while the average maturity of TL deposits continued to extend. Due to the policymakers' measures to control the debt ratio against the fluctuations in the global markets, the increase in loans volume remained at 30%.

Considering the macro estimates, we expect that the increase in loans will slow down in parallel to an increase in costs and the overall growth of the sector will be relatively lower in 2012.

Standing out among the medium-scale banks of the sector with its young and dynamic structure as well as its high growth potential, Anadolubank focuses on the real sector in line with its strategic objectives. Our Bank is fully prepared for every situation thanks to our proactive approach to domestic and international developments and our risk management principles guiding sustainable growth.

Despite the volatilities in the global markets and their negative impacts on the domestic economy at times, our Bank left behind another successful year in terms of its operational and financial results. As of year-end, our consolidated assets increased 28% to TL 6,682 million from TL 5,217 million in 2010. Our loans grew 23.4% while the loans to total assets ratio was 64.6%. Carrying out its activities with a capital adequacy ratio of 16.96%, our Bank displays one of the best practices of prudent and forward-looking approach to banking. As a result of its successful operations, our Bank's year-end net consolidated profit amounted to TL 102.3 million.

The spectacular success recorded by Anadolubank in a highly challenging environment dominated by stagnation and uncertainties is not a coincidence. On the contrary, it is the result of our way of doing business without compromising our prudent approach to banking on any condition.

With my deepest sincerity, I would like to mention that we all together wrote our young Bank's history that is short but full of successes: With unshakable trust of our customers, unlimited support of our business partners, devoted work of our employees and valuable contribution of all of our social stakeholders...

Firmly believing that all together we will undersign even greater successes in the coming years, I owe everyone a debt of gratitude.

MEHMET BAŞARAN
Chairman of the Board of Directors

INNOVATIVE PRODUCTS AND SIGNIFICANT INVESTMENTS TO INCREASE OPERATIONAL EFFICIENCY

2011 has been a difficult year for the global financial markets mainly due to the problems aroused in developed countries, particularly in the Euro Zone. In this period, Anadolubank continued to support the Turkish economy's high growth performance with its successful activities based on prudent and forward-looking approach to banking. Strengthening its position in the sector year after year, Anadolubank clearly demonstrates its outstanding performance in its operational and financial results. It is a pleasure to take this occasion to share this spectacular success with our shareholders, employees, customers and all of our social and economic stakeholders.

In 2011, the global economy was subjected to the government debt crisis in Europe, monetary and fiscal policies in the US, political tensions in North Africa and certain countries in the Middle East, and fluctuations in the Far East stemming from the crisis in Japan. As it has been during the last years, the growth performance of developing countries constituted the driving force of the global economy in 2011 as well.

Despite the negative impacts of the global fluctuations, as reflected in its current account and foreign trade deficit as well as in inflation figures, Turkish economy recorded a significantly high level of growth performance with 8.5%.

Despite the relative decline in its profitability, Turkish banking sector expanded its activities in parallel to the economy's high growth performance and its assets grew by 21% as of the end of 2011. Meanwhile, the annual increase in deposits and loans of the sector was 13% and 30%, respectively.

Maintaining its stable growth performance by enhancing its product and service range, Anadolubank continued its commitment to support the Turkish economy and the real sector, particularly the SMEs, under all circumstances. While continuing its efforts towards new fields on the one hand, without deviating from its strategic objectives, our Bank focused on the area that it has full knowledge and expertise. Consequently, we succeeded to create difference among our competitors in terms of capital structure, growth and profitability.

As of year-end 2011, our consolidated assets increased by 28% to TL 6,682 million, up from TL 5,217 million in the previous year; meanwhile, our asset profitability was 1.45%. In 2011, Anadolubank increased its shareholders' equity by 14.81% to TL 948 million, and achieved a high capital adequacy ratio of 17.3%, above the sector average as in the previous year. The Bank also sustained its strong liquidity position with the ratio of cash and equivalent assets to total liabilities at 13%. For the year, our Bank generated net interest income of TL 293 million, while net commission income increased by 11% to TL 73.5 million with a cost-income ratio of 53%. As a result, our net consolidated profit was TL 102.3 million in 2011.

Increasing its deposits by 36.3%, Anadolubank's TL deposits grew by 44.60%, far above the sector average (9.67%). Due to intensive marketing efforts and effective credit policies, our SME loans increased by 25%, commercial loans rose by 25%, retail loans were up by 56% and individual loans grew by 16%. Thus, our total loan portfolio grew by 24%. Regarding non-cash loans, Anadolubank recorded 23.6% increase. In line with its prudent banking approach, the Bank succeeded in keeping the ratio of non-performing loans (NPL) to total loans at 2.4% in this period, compared to the sector's average of 2.7%.

SME banking is the core business area of Anadolubank. In 2011, the share of SME loans in total loans was 61%. We plan to continue our efforts towards SME banking more intensively. Agriculture banking is other focus area of Anadolubank. With two new branches opened in 2011, the number of specialized agriculture banking branches increased to 22 and the loans in this segment increased by 125%.

The increase in credit cards and POS turnover was 24% in the banking sector in 2011 while Anadolubank recorded 44% and more than a 61% increase in credit cards and POS turnover, respectively. Within the framework of the strategic Worldcard partnership with Yapı Kredi Bank, we have completed all required technical and legal work for our POS terminals to assign World features. Thanks to this service, which will be effective by the first months of 2012, the sales and turnover potential of our member merchants will dramatically increase.

In 2011, our Bank focused on improving product and service quality and increasing operational efficiency. In line with this target, we made significant investments in the security of credit cards, renovation of POS terminals, system infrastructure development of internet banking and call center in addition to launching a series of new and innovative products.

As of the year-end, Anadolubank recorded 31% increase in insurance, significantly high compared to the sector's growth rate of 22%. Thanks to the Anadolu Insurance Platform established in 2011, our Bank has been the sector's fastest and most qualified service provider bank and took its place among the pioneering players in regard to development of banking insurance in Turkey.

Throughout the year, the average volume of transactions our Bank realized via Anadolu Yatırım on the ISE and TurkDEX was TL 798 million and TL 659 million, respectively. With the contribution of WEBBORSAM, which allows customers access to TurkDEX and currency transactions on a single platform, we target steadily increasing our transaction volume in these markets.

2011 has been a difficult year for the Turkish banking sector in terms of profitability because of the fluctuations in both local and international financial markets. Nevertheless, Anadolubank left behind another successful year full of significant advancements and innovations thanks to its service network consisting of 88 branches and its employees who are the best in the sector. A clear indicator of Anadolubank's successful performance is the assessment of Fitch Ratings, which confirmed our Bank's credit rating as BB with a stable outlook.

Before closing, I would like to express my gratitude to our employees, shareholders, customers, business partners and all of our social stakeholders who contributed to this spectacular success of our Bank.

In the period ahead, we will continue to take firm steps forward in line with our target of providing the best quality banking products and services to our customers as well as being the leader in the sector among the medium-scale commercial banks. Meanwhile, we will continue to create value for the Turkish economy and the society.

B. GÖKHAN GÜNAY
Member of the Board of Directors and General Manager

SENIOR MANAGEMENT

SUCCESS THROUGH
EXPERIENCE AND INNOVATION

İsmet Demir
Assistant General Manager
Human Resources

Hüseyin Çelik
Assistant General Manager
Financial Affairs

Taner Ayhan
Assistant General Manager
Credit Cards and
Electronic Banking

Kürşad Orhun
Assistant General Manager
Operations

Ali Tunç Doröz
Assistant General Manager
Loans

Gökhan Günay
Member of the Board and
General Manager

Recep Atakan
Assistant General Manager
Treasury and Retail Banking

Sibel Akın
Assistant General Manager
Commercial Banking

Cengiz Doğru
Member of the Board and
Member of the Audit Committee
Internal Systems

Merih Yurtkuran
Assistant General Manager
International Banking

Tunç Bergsan
Assistant General Manager
Information Technologies

SUMMARY FINANCIAL HIGHLIGHTS (CONSOLIDATED)

ASSETS	31 December 2011	31 December 2010
Cash and balances with the Central Bank	238,755	248.674
Deposits with banks and other financial institutions	360,652	201,090
Receivables from reverse repo transaction	-	15,430
Financial assets at fair value through profit or loss	424,292	95,563
Derivative financial assets held for trading purpose	11,071	29,354
Investment securities	652,700	749,556
Loans and receivables	4,531,641	3,653,387
Reserve deposits at the Central Bank	263,636	104,017
Property and equipment	18,910	20,080
Intangible assets	1,889	1,422
Deferred tax assets	9,826	11,571
Other assets	169,025	87,054
Total assets	**6,682,397**	**5,217,198**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits from banks	99,601	77,484
Deposits from customers	4,244,933	3,109,050
Interbank money market deposit		
Obligations under repurchase agreements	556,896	529,931
Funds borrowed	476,360	379,855
Derivative financial liabilities held for trading purpose	56,698	84,743
Other liabilities and provisions	289,211	203,227
Income taxes payable	10,445	7,038
Deferred tax liabilities		
Total liabilities	**5,734,144**	**4,391,328**
Share capital	602,619	602,619
Reserves	54,686	26,708
Retained earnings	289,002	194,690
Total equity attributable to equity holders of the Bank	**946,307**	**824,017**
Minority interest	**1,946**	**1,853**
Total shareholders' equity	**948,253**	**825,870**
Total liabilities and shareholders' equity	**6,682,397**	**5,217,198**
Commitments and contingencies	**1.977.794**	**1.586.529**

Financial Ratios (%)	2011	2010
Return on average equity (ROE)	11.54	18.14
Return on average assets (ROA)	1.72	2.81
Net interest margin (NIM)	4.93	5.96
Efficiency ratio	59.81	58.37
Capital adequacy ratio (BIS)	17.29	18.59
Total equity to total liabilities	16.54	18.81

RATINGS

FITCH RATINGS: November 2011

Foreign Currency	
Long-term	BB
Outlook	Stable

Local Currency	
Long-term	BB
Outlook	Stable

National	
Long-term	AA(tur)

Individual Rating	C/D
Support Rating	4

MOODY'S: February 2011

Foreign Currency	
Rating	Ba3/NP
Outlook	Positive

National Currency	
Rating	Ba1/NP

General Outlook	Stable

Financial Strength	
Rating	D+

WE ARE CONSISTENT, DETERMINED AND DIFFERENT

THE ROADMAP WITH SOLID AND SUSTAINABLE GROWTH PERSPECTIVE

In 2011, Anadolubank successfully maintained its stable and sustainable growth by closely following rapidly changing dynamics of the financial markets and the banking sector both in Turkey and in the world.

Through its 88 branches dispersed in all corners of Turkey, Anadolubank operates in the most industrialized and commercially intensive regions. The primary objective of the Bank is to provide the most qualified products and services in commercial, retail and consumer banking in addition to core banking services.

In 2011, Anadolubank stood out in the sector with its successful performance and differentiated itself positively thanks to its state-of-the-art technology and know-how. The primary reason behind this differentiation is the fact that the Bank consistently and determinedly maintained its strategic targets and focus while continuing its activities towards new fields. Focusing on the field in which it has in-depth knowledge and expertise, and benefitting from its competitive advantages, Anadolubank demonstrated positive differentiation in terms of capital structure, growth and profitability.

Anadolubank branches are organized to meet the demands of diversified range of customer segments. Each branch has retail marketing, commercial marketing and SME banking sections that are based on the specialized needs of these segments. Conducting their operations in close collaboration with the Bank's Operations Department, each section is headed by an assistant manager who reports directly to the respective branch manager.

The Head Office is organized with an identical structure with marketing and support service departments under the supervision of assistant general managers.

Permanent and ad-hoc committees are formed according to the requirements of the Bank with the active participation of different branches and departments. Communication between branches and the Head Office departments occurs via workflow systems supported by these committees.

The Head Office departments, excluding the Risk Management Department, Legal Compliance Department, Internal Control Center and the Board of Auditors all of which report directly to the Board of Directors, are as follows:

- Commercial Banking
- Retail Banking
- Credits
- Treasury
- International Banking
- Credit Cards and Electronic Banking
- Investment Banking
- Information Technologies
- Operations
- Financial Affairs
- Human Resources

CREATING HIGH VALUE ADDED THROUGH CUSTOMER-ORIENTED APPROACH

Conducting its activities in Anadolubank's main strategic business area, Commercial Banking Department provides all of its commercial customers, SMEs in particular, with creative and innovative solutions that increase their competitive advantages. Anadolubank's mission in commercial banking is to create high value added with a strong customer-orientation and provide clients with high-quality service in line with their demands and expectations.

In commercial banking, the competitive edge of Anadolubank among its peers is its proven banking approach. A prudent approach to banking and the capacity to establish long-term business relationships together form the foundation of the Bank's commercial banking culture. Anadolubank's highly qualified employees and cutting-edge technology provide the basis for effective and creative solutions to meet ever-changing customer needs.

Thanks to its broad and diversified customer base, the Bank's customer concentration ratio in commercial banking is significantly lower than the sector average. Thus, the Bank has the capacity for asset creation at a high efficiency ratio in this segment.

Commercial Banking Department conducts its activities under three main segments:

- SME 1 and SME 2
- Commercial Banking
- Cash Management

SME 1

Since 2005, with the inception of the SME-1 banking segment, Anadolubank has included small businesses along with medium-size enterprises in its loan portfolio. The main objective of Anadolubank in the SME Banking segment is to identify the product needs of customers with annual turnover of TL 3-12 million and to increase marketing activities geared toward this group. In this regard, owing to differentiation in the delivery channels, the Bank gained 2,000 new customers in 2011; the share of this segment in total loans increased to 27%.

The SME-1 segment, which is important in regard to enhancement of the Bank's overall efficiency, is also supported by new product designs. Since 2009, the Republic of Turkey Ministry of Industry and Trade, Small and Medium Enterprises Development Organization (KOSGEB) and the Credit Guarantee Fund (KGF) guaranteed loans with high demand figures have been also enriched and deepened customer relations in this segment.

In the forthcoming period, Anadolubank aims to focus on this segment by increasing the share of SME-1 banking assets in total assets to 35%.

SME-2 AND COMMERCIAL BANKING

At Anadolubank, SME-2 and Commercial Banking are responsible for traditional commercial banking activities.

The SME-2 and Commercial Banking segment, which aims to raise the medium and long-term commercial value of the Bank, is composed of:

- The SME-2 banking unit, which serves customers with annual revenue of TL 12-25 million,
- The Large Commercial and Corporate Banking unit, serving customers with annual revenue above TL 25 million.

Commercial Banking provides services with a strong customer-oriented approach and in close cooperation with its solution partners. Anadolubank has increased the number of its commercial banking customers each year; in 2011, more than 1,500 customers were added to the Commercial Banking portfolio. The segment's share in total assets rose by 25%, outperforming the sector as a whole.

CASH MANAGEMENT DEPARTMENT

The primary function of the Cash Management Department is to intermediate the cash flow movements of its clients. In addition, the Department assumes the responsibilities of developing new products in commercial banking, conducting market and customer analyses and establishing models for branch-portfolio performance measurement. Through these activities, the Cash Management Department contributes to customer acquisition as well as develops solutions to increase efficiency in business processes.

The Cash Management Department developed a database monitoring product utilization and activity levels of corporate customers. This system contributes to the efforts for deepening relationships with existing customers. Based on the information obtained from the database, the Bank aims to increase its transaction volume with corporate customers.

In 2011, the Cash Management Department realized an increase of 18.6% in the number of transactions completed and a 33.8% rise in total transaction amount collected in tax, customs duty and social security collections, another key area of operation.

The New Customer Identification/Tracking System, "PotansiyeliM", which was revised in 2011, is the first and only application in the banking sector in terms of its qualities. The system plays an important role in identification of new customers that have positive investigation results by rapidly monitoring corporate information sources inside and outside of the Bank. This infrastructure also provides close monitoring and assistance support to users, allows continuous tracking at all levels starting from identification of the company as a potential customer up to the acquisition phase. Additionally, it shares the reasons for failures in the customer acquisition efforts on a platform accessible by the employees.

The foreign trade consultancy service, "DanışmanıM", was initiated by the Cash Management department in 2011. In this framework, Anadolubank provides detailed, and when required, face-to-face foreign trade consultancy service to its customers related to every kind of problems they encounter, including preparation of documentation.

In 2011, Anadolubank has identified the main sectors of its customers via NACE codes. Thus, the respective business activities of customers became traceable in reference to the EU classification system. Additionally, the Bank strengthened its position in providing superior services in line with its customer-oriented approach. In 2012, segment and sector based marketing activities will be carried out by utilizing the database.

In 2012, Anadolubank targets to increase its market share in its customers' cash flows as well as enhance its cash management business volume in real terms. In line with this target, the Cash Management Department will focus on needs analyses and incentive campaigns in order to direct loan, deposit and other banking requirements of customers to Anadolubank.

PIONEERING BANK OF THE SECTOR WITH EFFICIENT SOLUTIONS FOR INDIVIDUALS AS WELL AS MICRO AND SMALL BUSINESSES

The Retail Banking Division provides financial consulting and banking services to individuals, small businesses and the segment involved in agriculture.

In 2011, considering developments in domestic and international financial markets, Anadolubank continued to create value for its customers in retail banking with its wide range of products and services.

Micro Enterprise is the newest segment under Retail Banking. This segment, which constitutes the largest group in number but the smallest in terms of turnover volume, has not drawn much interest of the banks so far. Anadolubank, aware of the fact that these companies need much more financial consultancy, assigned retail banking managers to be responsible for this segment. 2011 has been an efficient year in terms of understanding the segment better and determining its requirements. In line with these efforts, Retail Banking prepared new product and service packages for this segment.

In addition to its investment and loan products, Anadolubank provides its customers with a wide variety of services that include credit cards, debit cards and automatic and regular payment options.

The target customer group of Anadolubank's personal banking segment includes individuals across a range of socioeconomic levels as well as the owners, partners, executives and employees of companies in the Bank's corporate and commercial portfolio. On the other hand, micro and small business banking targets professionals as well as companies in the services, commerce and manufacturing sectors with turnover of up to TL 2.5 million. Agricultural banking aims to meet farmers' working capital requirements and other financial needs.

The Retail Banking Division undertakes its activities under three main segments.

RETAIL

As of end-2011, Anadolubank succeeded in increasing its consumer loan portfolio by 14.90% compared to the previous year. The consumer loan portfolio consisted of mortgage loans (78%), consumer loans (18%) and car loans (4%). The Bank increased its mortgage loans by 11% and other loans by 38.7%, while a 2.5% decline was recorded in car loans.

One of the leading banks in mortgage lending, Anadolubank is the first bank in Turkey to offer mortgage loans with an interest rate of less than 1% per month, as well as Japanese yen-denominated mortgage loans. The Bank also provides basket loans and loans denominated in different foreign currencies in the same loan packages.

In 2011, Anadolubank entered into agreements with leading construction firms to offer different mortgage loan alternatives to their customers with attractive payment plans. In particular, the solutions offered in a wide variety of products under the concept of Make Your Own Payment Schedule, attracted great interest among the target customer group. Closely monitoring the developments in financial markets, Anadolubank is committed to providing its customers with new and innovative products in the period ahead.

Anadolubank A.Ş. Type B Variable Fund was converted into a Bonds and Bills Fund as of February 2, 2010, pursuant to CMB No. B.02.1.SPK.0.15-924 dated December 10, 2009.

In 2011, the sector's foreign currency deposits rose by 27.67% while the Bank recorded a 7.74% increase. However, TL deposits in the sector increased by 9.67%, while Anadolubank's growth in this field was far above the sector with 44.45%. During the year, the Bank exploited alternative possibilities to ensure diversification and cost efficiency in funding of assets.

One of Anadolubank's key strategies is to be geographically close to customers in order to serve them directly. In line with this strategy, the Bank has increased the number of its branches from three in 1997 to 88 in 2011. Although alternative banking channels have proliferated along with advances in technology, the one-to-one relationships Anadolubank employees establish with clients are of utmost importance, given that most of the Bank transactions take place at the branch level. Information collected by the Bank personnel about and from clients as the result of these relationships is an important feeding source for new product development efforts.

In addition to branches, Anadolubank enables customers to conduct bank transactions via the internet and ATM channels. The Bank's Call Center, which can be reached 24 hours a day at 444 555 0, also provides information services.

SMALL ENTERPRISES

The vision of Anadolubank in Small Enterprises business segment is to become Turkey's SME Bank. In line with this vision, closely monitoring the developments in the world economy and the conditions of the region, the Bank proactively and attentively evaluates the dynamics of the sectors, in which SMEs operate intensively.

Small Enterprises segment, which has a total loan exposure of TL 419,684 million as of the end of 2011, carries out its activities in cooperation with the companies as a solution partner. In addition to traditional SME Banking, Anadolubank offers special products to customers in a constant process of renewal by extending loans and other products for instant to short, medium and long-term needs.

In addition to providing services to SMEs for over five years, Anadolubank proactively develops sector-specific products and offers specialized packages to occupational groups such as doctors, pharmacists and lawyers. Collaborating with chambers of commerce and SME service centers such as KOSGEB, the Small Enterprises segment also plays an important role in loan interest support services.

With the new sector-specific loan packages that launched in 2011, Anadolubank provides attractive interest and commission advantages to SMEs. The Home to Capital Loan product, designed for the companies seeking to fulfill their financial needs and expand their businesses, is one of the most attractive products among these packages. This product offers the companies to utilize loans with three-month grace periods and up to five-year maturity, in amounts up to 75% of the real estate's appraisal value.

Considering the conditions of the sectors in which they operate, the Bank offers the following customized package products that are specially designed for SMEs:

Home to Capital Loan

This package offers loan options with up to five-year maturity for SMEs that want to expand their offices or exploit business opportunities.

Support Package for KOSGEB Members

This package is limited to KOSGEB members. In order to increase KOSGEB membership, within the framework of this package, the SMEs that are members of KOSGEB are provided loan options at lower interest rates with three-month grace periods and up to 15 months maturity.

Early Bayram for SMEs

This package offers loan options with three-month grace periods and up to 12 months maturity for SMEs that need cash before bayram.

Lucky Package Customized for Occupational Groups

This package offers loans and banking product options to occupational groups designed according to their cash inflows.

AGRICULTURE BANKING

Year by year, Anadolubank expands its contribution to the agriculture sector, which is one of the most significant values of the national economy. Agriculture Banking, launched as a new business line under the roof of Commercial Banking in 2009, aims to provide farmers with working capital and meet their financial needs. Anadolubank provides agricultural banking services in a total of 22 branches, 15 in the Aegean Region, six in the Çukurova Region and one in Central Anatolia Region.

For about three years, Anadolubank significantly expanded its activities in this field. Agriculture Banking has an annual finance budget of TL 250 million. Considering production conditions and input costs of all products in the loan allocation process, producers are allocated seasonal loans with maturity up to one year.

Agriculture Banking operates with a team composed of highly specialized and well-qualified employees and reached 7,500 customers as of year-end 2011. Conducting its business with the target of uninterrupted and stable growth, the segment plans to reach 12,000 agriculture banking customers in 2012.

PRUDENT APPROACH TO MINIMIZE RISKS IN CREDIT POLICIES

The Credits Division is responsible for evaluating customer loan applications, extending loans to customers who are sufficiently creditworthy, as well as determining credit limits and terms in accordance with the Bank's credit policy principles. The Division is also responsible for monitoring the collection of loans extended.

The Credits Division consists of the following six departments:

- Commercial Credit Allocation
- SME Credit Allocation-I
- SME Credit Allocation-II
- Retail and Individual Credit Allocation
- Financial Analysis and Market Investigation
- Credit Control and Risk Monitoring

Credit allocation departments at Anadolubank were established according to annual sales turnover of the companies:

The Commercial Credit Allocation Department evaluates and rules on credit applications of businesses with turnover exceeding TL 25 million

SME Credit Allocation I-II Department evaluates and rules on credit applications of businesses with turnover of TL 3-25 million

Retail and Individual Credit Allocation Department evaluates and rules on credit applications for individuals and businesses with turnover up to TL 3 million.

The Financial Analysis and Market Investigation Department supports the relevant departments in the allocation process.

The Credit Control and Risk Monitoring Department ensures that approved credits are disbursed in accordance with the approval conditions and monitors repayment of these credits. In addition, the Department shares information on identified deficiencies with allocation departments and branches, if necessary, to make sure that the necessary measures are taken.

Without discriminating between sectors in terms of loan allocation, Anadolubank includes the companies that are managed with a rational strategy, have a strong financial structure and the ability to endure an economic crisis in its credit portfolio. The Bank requires that small and medium size enterprises post material collateral, but other factors such as the company's background, financial and corporate structure, experience of the partners and executives, as well as the conditions in their respective sectors, are also important in the credit review process.

In credit allocation, monitoring the impacts of cyclical activity in the financial markets and the overall economy on various sectors is of great importance. Based on this information, Anadolubank increases the share of sectors showing improvements in its total loan portfolio and decreases the share of deteriorating sectors in order to minimize risk.

With two new branches opened in 2011, Anadolubank increased the number of its agriculture service branches to 22 and deepened business volume in these branches. As a result, agriculture banking loan volume rose by 125% to TL 131 million.

Anadolubank retains a competitive advantage thanks to flexibility in its quick decision-making process and prompt implementation of the decisions. The Bank aims to market its credit products and services to all companies that generate added value and that are inclined to establish sound relationships. In its credit allocation implementations, the Bank considers the strength of loan assumption and the repayment capacity of the borrower rather than relying solely on collateral.

In 2011, thanks to effective credit allocation practices, Anadolubank increased its SME credits by 25% over the previous year while commercial, retail and individual credits increased by 25%, 82% and 10%, respectively. In addition, the Bank recorded a high rate of growth in non-cash loans with a 10%.

MANAGING MARKET RISK ON THE BANK'S BALANCE SHEET UNDER CHANGING MARKET CONDITIONS

The Treasury Division manages the Bank's assets and liabilities as well as monitors potential risks that might arise from the Bank's routine operations. Working within the framework of the rules established by the Board of Directors and the Assets & Liabilities Committee, the Division carries out its activities considering all possible risks as well as market opportunities.

The Treasury Division's operations are composed of three main categories: Turkish lira and foreign exchange liquidity, fixed-income instruments and derivative products management. In line with Anadolubank's prudent trading principles, the Treasury Division manages a wide and diversified product portfolio by taking only calculated risks.

Treasury and securities activities are conducted by the TL Bonds and Securities Desk, the Treasury FC Desk and the Treasury Marketing Desk. Execution of treasury transactions of the Bank's branch customers as well as management and monitoring all Paritem transactions are under the responsibility of the Treasury Marketing Desk. The Treasury Division provides the most effective market access to its clients via government securities, Eurobonds, derivative products, investment funds and special investment opportunities.

Three successfully managed investment funds have made Anadolubank one of the most important players in the fund markets. Type B bonds and bills, Type B liquid, and Type A variable funds, designed for investors with different risk profiles, were all standouts in the sector with their high returns.

Thanks to its close relationships with international players, especially in the London, New York and Frankfurt markets in addition to its activities in the domestic markets, the Treasury Division has become the first in the sector to launch select financial products that it has adapted from abroad. Closely monitoring the derivatives and structured products markets that have grown very rapidly over the last few years, the Division adapts financial products from abroad and redesigns according to domestic market conditions and customer needs.

The Treasury Division effectively used financial products in the aftermath of the economic crisis to carefully manage the Bank's liquidity position and total market risk; the result of these efforts significantly contributed to the Bank's profitability. Despite the liquidity bottleneck in the markets, the Division successfully fulfilled the liquidity requirements set by the Bank's senior management and made full use of advantages that resulted through its effective risk management.

The monthly bulletins that the Treasury Division publishes provide customers and other departments of the Bank with the opportunity to closely monitor developments in financial markets. Regularly benchmarking its products with those of both domestic and international financial institutions, the Treasury Division provides all manner of information to its customers and offers a range of alternative solutions, which allow them to make the best investment decisions.

PARITEM

Anadolubank launched its online-based product, Paritem, in 2004. Becoming popular and pioneering product in a short period of time, Paritem played a key role in expanding Anadolubank's customer portfolio.

Investors can perform transactions in 26 currency pairs in addition to spot transactions in gold and silver, 24 hours a day by using Paritem. Within the framework of the Capital Markets Board's communiqué on "Principles Regarding Leveraged Transactions and Institutions which are Authorized to Provide Those Transactions", Paritem was handed over to Anadolu Yatırım on August 27, 2011. Since then, Anadolubank has acted as an agency in Paritem transactions.

SOLID COOPERATION WITH CORRESPONDENT BANKS ALL OVER THE WORLD

The International Banking Division is responsible for Anadolubank's relationships with international correspondent banks and foreign trade financing activities.

As a result of close and efficient relationships established with international correspondent banks, Anadolubank is able to reach any part of the world that offers high business potential, delivering fast, effective and high-quality service to foreign trade customers. Owing to a strong correspondent-banking network consisting of more than a thousand institutions and the competence of its expert team, the quality of the service provided to foreign trade customers is increasing year by year.

In 2011, Anadolubank achieved a foreign trade volume of US$ 2.2 billion.

The Division strives to establish relations with correspondent banks based on mutual benefit and always approaches the decision processes with a wide, flexible and solution-oriented perspective. The strong connections established with correspondent banks are the main source of the flexible, dynamic and effective position of Anadolubank in international banking.

The Division has also strong, long lasting relations with export credit agencies that provide international export financing, such as US Exim, CCC, Hermes, SACE and ERG. By courtesy of financing obtained from these institutions, Anadolubank meets its customers' medium and long-term financing needs stemming from international trade.

RAPID CHANGE AND PROFITABLE GROWTH WITH INNOVATIVE PRODUCTS AND NEW TECHNOLOGIES

Nowadays, the banking sector is passing through a rapid and ongoing transformation process with new products and technologies. In such an environment, the Credit Cards and Electronic Banking Division assumes significant responsibility in offering Anadolubank's products and services to broad masses and directing the customer transactions to non-branch channels.

The Division consists of four departments:

- Credit Cards and Member Merchant Marketing
- Electronic Banking
- Credit Cards Allocation and Risk Monitoring
- Insurance

The Credit Cards and Member Merchant Marketing Department

The Credit Cards and Member Merchant Marketing Department is responsible for defining customer targets through segmentation and supervising the external calls team with effective telemarketing sales strategies and techniques.

The Department is responsible for:

- Managing sales and marketing activities of the branches for credit cards, POS terminals and POS-related products,
- Developing marketing strategies,
- Organizing campaigns to increase customer satisfaction and encourage card use,
- Developing new products.

In line with its brand partnership (Worldcard) strategy, Anadolubank assigned "World" features to all of its credit cards in 2008. This move allowed credit card users the opportunity to benefit from Worldcard campaigns at more than 200,000 merchant locations.

In 2011, Anadolubank achieved growth far above the sector's average both in credit cards and POS turnover. While credit card turnover in the banking sector as a whole increased 24%, Anadolubank saw a 44% rise. Increase in POS turnover of the sector remained at 24% while Anadolubank achieved more than 61% increase, thanks to its proactive POS growth strategy.

In 2011, within the framework of the Worldcard brand partnership strategy pursued with Yapı Kredi Bankası, all the technical and legal work has been completed to assign "World" features to Anadolubank POS terminals, which will also expand POS usage. Thus, Anadolubank plans to provide member merchants with an array of advantageous services including installments, bonuses, deferred payments and discounts.

UNINTERRUPTED, HIGH QUALITY AND RELIABLE SERVICES BASED ON CUSTOMER SATISFACTION

Anadolubank Member Merchant Loyalty Programs

Member merchant personal accident insurance: Personal accident insurance is one of the firsts in the sector launched by Anadolubank. With this implementation, Anadolubank provides personal accident insurance to POS owners up to TL 20,000 depending on their turnover.

POS package: Anadolubank offers advantageous package products to member merchants appropriate to their sectors. Thus, merchant loyalty is strengthened as well as merchants are encouraged to use different products.

AnadoluPOST implementation: AnadoluPOST is a monthly e-bulletin sent to all member merchants. Informing the readers about the developments related to the Bank and its products, this bulletin also ensures close and ongoing relations with member merchants.

Electronic Banking Department

The Electronic Banking Department's key objective is to provide uninterrupted, high-quality and secure service with a customer-oriented approach.

The Department:

- Operates the Bank's credit card, POS terminal, ATM and debit card products,
- Manages the Call Center, one of the Bank's alternative delivery channels, and
- Administers internet banking.

Anadolubank has 91 ATMs located throughout the country. The Bank was an affiliate member of Mastercard and Visa under the sponsorship of Yapı Kredi; accepted for principal membership in 2011, further strengthened its position in the sector.

In 2011, Anadolubank continued its investments in infrastructure to enhance its service quality. POS terminals were renewed with the most advanced technology models. Additionally, Internet Banking and Call Center system infrastructure were also renewed in line with technological developments; a new security infrastructure was established for monitoring suspicious transactions in internet banking.

Credit Card Allocation and Risk Monitoring Department

The Credit Card Allocation and Risk Monitoring Department consists of two sections responsible for allocation and monitoring.

The Allocation Section determines terms and conditions for credit card and POS terminal allocations in compliance with the Bank's lending policies and strategies as well as evaluates the branch level requirements in terms of the Bank's policies.

The Risk Monitoring Section takes the necessary measures to ensure robust repayment rates and manages monitoring and collection services for outstanding credit card debts.

Insurance Department

In 2011, Anadolubank realized a series of investments to meet the customer needs from a single point and increase operational efficiency. In the meantime, work for infrastructure enhancement and product range diversification were also initiated.

Anadolubank Insurance Platform (ASP), established in 2011, is the first and the only system used among the banks. The ASP provides customers to take online offers from all insurance companies that are in cooperation with the Bank. By evaluating the offers in terms of the coverage and pricing, the clients are able to determine the most appropriate products which will allow them to minimize their risks, and purchase their policies through the branches within a short period of time (e.g. five minutes).

With its structure open to numerous insurance companies, ASP serves as an insurance brokerage agency at all branches of the Bank. Thanks to this platform, Anadolubank has become the bank providing the fastest and highest-quality service in banking insurance.

In addition to Aviva Sigorta and Groupama Sigorta, which it cooperates with for basic insurance (property), in 2011, Anadolubank business partnership agreement with Işık Sigorta, HDI Sigorta and Generali Sigorta, three leading companies in the sector. Thus, the Bank broadened its product range and strengthened its competitive edge. Additionally the cooperation with Anadolu Hayat Emeklilik and Groupama Emeklilik for life insurance and private pension schemes was further strengthened in 2011.

With its strong performance in 2011, Anadolubank assumed its place among pioneering players to develop banking insurance in Turkey. As of year-end, the insurance sector recorded 22% growth. However, Anadolubank posted a much higher growth rate, 31%, thanks to its strong partnerships established in life and non-life insurances, efficient process management and innovative product structure.

In 2011, Anadolubank offered its customers a number of new and innovative products and services pioneering the sector, such as the "All Debt Guaranteed Insurance" policy, which secures the all customer's debt payments in case of death. Focusing on private pension policies as well, Anadolubank offers its customers the possibility to obtain additional income after retirement by saving during their working career.

CUSTOMIZED, RAPID, HIGH QUALITY AND RELIABLE SERVICES IN CAPITAL MARKETS

For depositors and companies that prefer to finance their growth via capital markets, Anadolubank's Investment Banking Division provides a range of services, which include:

- Equity trading brokerage in the primary and secondary market,
- Micro and macro research and reporting,
- Corporate finance,
- Derivative products (TurkDEX Derivatives Exchange),
- Brokerage for stock/TurkDEX and transactions via the WEBBORSAM platform,
- Brokerage for currency and spot transactions on gold at Leveraged Transactions Market.

The target of Anadolubank's investment banking services include high quality and fast information transfer, full legal and regulatory compliance, adherence to an ethical code of conduct and a customer-oriented philosophy. The Bank differentiates itself in investment banking through its customized, rapid, high quality and and reliable boutique service approach. The Investment Banking Division's research reports and customized work help make the Bank's service quality a standout in the market and positions Anadolubank ahead of its competitors.

The Bank markets its equity trading brokerage services through Anadolu Yatırım; agencies are located in 29 of the Bank's branches and are staffed by investment specialists. Other departments at Anadolubank engage in cross marketing efforts to support these activities. Anadolubank has established an extensive investment banking marketing network that spans the entire country, allowing the Bank to provide more effective services to its clients.

As of the end 2011, Anadolubank ranked 42nd among brokerage houses transacting on the ISE with a 0.69% market share. The Bank's average monthly trading volume on the ISE through Anadolu Yatırım was TL 798 million in 2011. Some 3,002 of the Bank's 10,865 ISE customers trade actively.

In addition to equity trading, Anadolubank also provides services at branches for trading three of the Bank's investment funds and for brokerage of Turkish Derivatives Exchange (TurkDEX) transactions.

As of the end 2011, with a market share of 0.90%, Anadolubank ranks 30th among brokerage houses trading on the TurkDEX. Anadolubank's monthly average trading volume on TurkDEX was TL 659 million. Some 291 of the Bank's 1,581 TurkDEX customers are active traders.

Anadolubank's customer portfolio is composed primarily of medium-size businesses. The Bank plans to maintain this portfolio composition, pursue a balanced and sustainable growth strategy and raise its market share to 0.80% for ISE transactions and 1% for TurkDEX transactions in the period ahead.

Breaking new ground, Anadolubank launched the WEBBORSAM service on August 11, 2010. This service enables stock, TurkDEX and currency transactions on a single platform. With state-of-the-art technology, in addition to general market applications, WEBBORSAM has a user-friendly web-based interface allowing customer access via the internet. Users can access WEBBORSAM at www.webborsam.com and www.anadoluyatirim.com.tr.

Thanks to its flexible development platform, WEBBORSAM allows modifications or updates in line with evolving customer needs. Additionally, the WEBBORSAM trial account allows prospects without an active bank account to use the platform.

With WEBBORSAM, Anadolubank aims to increase the number of customers who conduct stock or TurkDEX transactions using the necessary market information via the platform without a customer representative.

By using this online-based product, investors can perform transactions in the 26 most heavily-traded currency pairs in the world and spot transactions in gold, 24 hours a day, five days a week from anywhere around the globe with internet access. Product users can conduct transactions within the Paritem section of the Bank's website at www.anadolubank.com.tr or at www.paritem.com.tr.

Anadolubank's goals in investment banking for 2012 and beyond are to:

- Increase the number of customers and market share by providing more effective and higher quality service,
- Ensure that investment banking products are cross-marketed with all products marketed by other Anadolubank departments,
- Focus on TurkDEX products, which are appropriate financial instruments for the Bank's clients, and develop new projects to enhance TurkDEX trading,
- Engage in brokerage for new ISE products and increase the Bank's ISE market share,
- Continue to work with a wide range of customers (large/medium/small) to increase average commission income and market share,
- Strengthen the technology infrastructure with support of the Information Technologies Division,
- Increase the number of customers conducting web-based transactions by active promotion of the WEBBORSAM financial platform,
- In Paritem application, develop new products to enhance brokerage activities in trading of different investment instruments.

THE FASTEST, MOST TALENTED AND MOST EFFICIENT INFORMATION TECHNOLOGIES APPLICATIONS IN THE SECTOR

The Information Technologies Division provides software, hardware and communication services to the Bank and its subsidiaries, Anadolu Yatırım and Anadolubank N.V. The Division not only maintains a high level of competency in IT, but also researches, recommends, installs, maintains, secures, develops and overhauls systems and applications on a 24/7 basis to provide continuity, speed and ease of use for Anadolubank.

Since its founding, Anadolubank has placed great importance on its information technology infrastructure. The Bank has one of the most talented and most efficient IT departments, closely monitors innovations and implements new technology-based solutions in the industry.

The Information Technologies Division quickly meets technology-related demands from relative sections of the Bank due to its dynamic organizational structure, which allows Anadolubank to create difference in the sector. Common IT risks in the similar organizations are reduced to minimum levels at Anadolubank. For this reason, the Division provides service to the Bank in line with its business objectives and corporate strategies that ensure the maximum level of customer satisfaction.

The Information Technologies Division consists of seven main functional departments:

- System Development
- Banking Software Development
- ADC Software Development
- Central Systems
- Process Automation
- Distributed Systems
- Project Office

PROJECTS AND APPLICATIONS IN 2011

Anadolubank conducted its operations in 2011 by providing functional and innovative technologies to its customers and employees with the ultimate dual aim of customer satisfaction and high quality service. In 2011, the Division implemented approximately 3,500 modifications and projects of varying scales.

First, Corporate Credits Workflow and Rating System (Company Assessment Questionnaire Application), which are used for assessment and measurement of the credibility of commercial and corporate customers, was initiated. The user-friendly Investigation Module that became effective afterwards stepped up the credit review process.

The infrastructure enhancement work for transforming the Target Based Efficiency program, which enables sharing targets among the customer representatives, portfolios, branches and segments and tracks the Bank's targets, to the Turnover Based Efficiency program was completed. Change in customer segment classification, which is the primary requirement of this implementation, was also completed in line with the Bank's marketing strategies. Separate implementation sets have been created for monitoring customer, product and portfolio performances of commercial banking and retail banking segments. Other banking products such as ATM, insurance, social security payments and tax payments were also integrated into the existing efficiency module.

Check-undertaking credits and cash management credits were among the projects developed for commercial banking in 2011. With the 360° Customer Wealth Tracking application, customers' wealth and risk information can be easily monitored on a summary screen during the entire process before and after the allocation.

In the World Acquiring Project, realized in cooperation with Yapı Kredi Bank, POS terminals of the Bank were assigned the features of World. Anadolubank targets to increase its share in the POS market as well as obtain higher income from commissions and fees of POS transactions.

In addition, Anadolubank Insurance Platform (ASP) was established in 2011. This platform ensures faster service and price competition in insurance products that have high potential of cross-sale with other banking products. Having the best bankassurance infrastructure in Turkey, ASP provides customers to take online offers from different insurance companies. Additionally, through this platform, insurance transactions of existing and potential customers and renewal periods are timely monitored.

E-tender project, implemented for the letters of guarantee to be given within the framework of Public Tender Law, provides support to corporate and commercial customers. Liens also started to be performed electronically via the Lien Transactions Follow-up System that enabled standardized and faster work process. This system ensured better and easier reporting and reduced e-mail traffic as well.

The securities module and Intranet Project, an initial step for transposing work processes to an electronic environment, developed for Anadolubank N.V. were also among the projects realized in 2011.

The infrastructure of Paritem, Anadolubank's leveraged forex trading platform, was renewed with new features, enabling Paritem to become the fastest platform in the market. Following the new regulations by CMB during the second half of 2011, Paritem was handed over to Anadolu Yatırım. Through this transition period, the transfer of accounts and integration of the accounting system to Anadolu Yatırım's system was successfully completed.

WEBBORSAM, developed in cooperation with Anadolu Yatırım, provides an integrated investment platform, on which Forex, stock and TurkDEX contracts can be purchased and sold over the internet simultaneously. Increasing cross-selling potential as well, this product enabled the Bank to reach a broader group of customers. In an environment of increasing public offerings, customers can perform their transactions through both the internet branch and WEBBORSAM.

The web sites of Anadolu Yatırım and WEBBORSAM were redesigned to have more dynamic, functional and a modern outlook.

The Document Management System, one of Anadolubank's most important systems, was redesigned with completely a new approach to include much more developed and functional workflow, ensure faster and more efficient work processes and have a stronger growth potential.

Implemented during the first half of the year, the Data Security Application monitors and restricts the access to critical databases, and was one of the most important projects of 2011.

As part of investments in branch infrastructure, a new WAN structure was established. In this structure, a line backup and disaster center (ODM) connection scheme was changed; speed and continuity values were also improved. The Headquarters building and Data Center were equipped with new electrical infrastructure with full backup and warning systems. Thanks to the transformation and reinforcement work made in the electric and UPS systems, the possibility of interruption in information systems reduced to significantly low levels.

More than 600 system components are monitored online and centrally thanks to the system monitoring platform, which was established through long term efforts. This platform enables the identification of the source of the problem in a faster and more accurate manner by producing predefined alarms when an emergency occurs on the server, storage or network devices. Nonetheless, it is targeted to prevent possible system and service interruptions with a proactive approach.

Towards the end of the year, a storage system with new servers was put into use. As a result of this investment, a performance increase was achieved in the existing applications and an infrastructure was established to meet the requirements of future projects.

As another infrastructure investment, which significantly contributes to the efficiency in branches, the faxes and printers were renewed with more advanced and functional models.

In 2012, the Information Technologies will continue its support and maintenance activities for the Bank's current applications in use.

HIGH EFFICIENCY IN WORKFLOWS, STANDARDIZATION IN SERVICE QUALITY

The Operations Division consists of two main departments: Central Operations and Branch Operations.

Anadolubank undertakes its activities with an extensive operations infrastructure, which allows effective management, high level of efficiency in workflows and standardization in service quality. Operations Center has an efficient and low-cost structure due to its highly qualified team and innovative technology. The primary objective of the Operations Division is to provide all services at the center except those that are required to be offered at the branches, such as cashier transactions.

In order to ensure effective management of operational risks and costs and increase service quality, operations were centralized with extensive technological investments in 2000. Thanks to this investment, which ensured fast and high-quality service and accordingly increased internal/external customer satisfaction, all documents and correspondence at the branches are processed and archived electronically on Portalım, a common platform that hosts many business processes and database applications. On this system, which works with zero error, certain types of transactions are finalized at specified times and all transactions are concluded by 18:00.

The Central Operations Department (MEROPS) is responsible for:

- Foreign trade
- Loans
- Letters of guarantee/foreign guarantees
- Invisible items

The Department performs these transactions using a two-stage approval process, depending on the nature of the business.

Thanks to the experienced and specially trained staff at MEROPS, the Operations Center is able to resolve even the most complicated customer problems and execute transactions in time. As a result, the operational workload at the branch level is reduced, allowing the staff there to devote more time to customers, to better understand them and their needs and provide them with effective solutions. Additionally, compliance of the Bank's services with laws and regulations as well as the Bank's internal rules has become effectively auditable.

In 2011, DanışmanıM information line was established to support customers in their foreign trade transactions. Written information requests are rapidly evaluated and the customers are replied to via either DanışmanıM or direct consultancy services provided during customer visits.

Branch Operations Department

The Branch Operations Department consists of Branch Operations, Central Clearing and Central Cashier sections. The Bank's central cashier and check/promissory note transactions are executed centrally at the Head Office via the Branch Operations Department.

The Department is responsible for:

- The record, archiving and clearance of Turkish lira checks from customers received by the branches for collections or as collateral through the Central Bank of Turkey (CBT) Clearing Service; the physical delivery and clearance of FC checks through correspondent banks,
- Notification of Bank checks that have been presented either to the CBT Clearing Service or the branches and documented as bounced checks,
- Via the Central Cashier Section, establishing healthy cash flow between the Istanbul branches and the Head Office,
- Via the Branch Operations Section, printing checkbooks for customers, reporting checks and promissory notes to the Central Bank and regulating branch operation processes,
- Monitoring and reporting discrepancies in operational transactions, providing all kinds of operational support and service to resolve problems reported by the branches,
- Preparation of regulatory procedures, circulars and announcements regarding branch operation processes,
- Responding to account investigation demands from authorized governmental entities and courts,
- Centrally making collections of Anadolubank checks,
- Within the framework of the "e-Haciz" (e-Seizure) project, conducting account investigation and seizure demands from tax offices on the electronic platform,
- Determination and monitoring of cash and insurance limits of the branches on the electronic platform,
- Guiding branches to make required system configurations regarding the problems mentioned in the reports prepared by the Bank's Internal Control Center and the Audit Board.

In 2011, as part of the centralization of branch operations initiative:

- Cash transfers were outsourced in some regions to reduce costs,
- Seizure notifications and mail began to be sent from the Head Office in Istanbul and from the central branches in Ankara and Izmir.
- Within the framework of limit allocation for Check-Undertaking Credit, evaluation of the customers' checkbook applications began to be done by the Credit Allocation Department.
- Check monitoring equipment was placed at the branches out of Istanbul.

The goals of the Operations Division for 2012 include centralization of:

- Account openings,
- EFT, transfers and corporate collections,
- Eximbank loan transactions,
- Notifications for promissory notes.

PRUDENT DECISION AND STRATEGY MAKING PROCESSES

The Financial Affairs Division consists of the Budget and Financial Control, Financial Operations, and Organization and Business Development departments.

The main duty of the Budget and Financial Control Department is to support senior management with the decision-making process and developing Bank strategies via financial reports. All reports generated within the Bank are collected and analyzed by this Department, and are submitted to the senior management of the Bank, including in particular, the Board of Directors and the Assets & Liabilities Committee.

The Department is responsible for:

- Monitoring and analyzing balance sheet and income statement information on a daily basis,
- Conducting a detailed analysis of the Bank's interest and non-interest income and expenses as well as reporting the results and making projections for the future,
- Preparing the Bank and branch budgets and reporting the actual in comparison to budgeted amounts,
- Generating efficiency reports, monitoring customer and branch contributions to the Bank via these reports, and assisting in the decision-making processes of the marketing teams in line with the information in the reports, and
- Preparing and sending out reports on daily, weekly, monthly, quarterly and annual bases to the Banking Regulation and Supervision Agency (BRSA), Central Bank of Turkey (CBT), Capital Markets Board (CMB), Turkish Statistical Agency (TurkStat) and Banks Association of Turkey.

In 2011, the Budget and Financial Control Department worked on regular and systematic evaluation of branch performances and improvement of the accounting infrastructure, which is the foundation of the MIS infrastructure. In 2012, the Department plans to diversify and automate the reports submitted to the senior management that are currently prepared manually.

The Financial Operations Department is responsible for carrying out the Bank's accounting and operation of the Treasury Division's transactions.

The Department is responsible for:

- Recording and monitoring treasury bills and government bond transactions as well as placement and borrowing transactions with banks,
- Establishing operational and tax infrastructure for all financial instruments offered by the Bank,
- Accounting of and payment for all product and service purchases of the Bank, and
- Fulfilling all tax obligations of the Bank.

During the year, the Department developed the accounting infrastructure for derivative instruments; this project is scheduled for completion in 2012.

The Organization and Business Development Department is responsible for ensuring effective operation of all business flow processes within the Bank.

The Department:

- Ensures fast, efficient and accountable operation of all processes including loan origination, purchasing, central operations and regulation compliance,
- Establishes the necessary platforms to facilitate easy sharing of all information that constitutes the Bank's corporate identity,
- Distributes the banking passwords securely, and
- Undertakes feasibility studies for projects on the agenda.

For 2012, the Department plans to make branch visits and undertake workload analyses, process analyses and improvement studies, as well as realize projects to increase efficiency.

INNOVATIVE AND CREATIVE SOLUTIONS WITH HIGHLY QUALIFIED HUMAN RESOURCES

The Human Resources Division consists of six departments: Human Resources, Training, Legal Supervision and Control, Communications and Administrative Affairs, Security and Purchasing.

Operating in a sector rapidly changing and developing all over the world, Anadolubank is fully supported by its highly qualified human resources in generating innovative and creative solutions to meet the diversifying needs of its customers. One of the Human Resources Division's primary objectives is to maintain and enhance its workforce consisting of dynamic, hardworking, creative, multi-faceted and visionary employees who are well equipped with professional know-how.

Aware of the fact that human resources is the most important asset of an institution, the Bank strictly adheres to established recruiting processes. Implemented by interviews and selection techniques based on proven and scientific methodology, recruitment of new employees is carried out with participation of senior management.

Anadolubank fills vacant positions in the organization with its own staff members, continuing its tradition of developing talent from within. This implementation, which supports career development through an effective management approach, also strengthens corporate loyalty by increasing employee motivation.

As of year-end 2011, Anadolubank had 1,911 employees, of whom 639 were employed at the Head Office with 1,272 working at the branches.

Anadolubank continues to support its employees at every step of their careers. The Bank has identified the most significant objectives in terms of career planning as enriching professional know-how, enhancing motivation and expanding the vision of its employees.

Understanding that its service quality depends most of all on the quality of its human resources, Anadolubank strongly believes that training is critical for both personal and corporate development. For this reason, the Bank actively encourages its employees to participate in internal and external training programs. Training programs are prepared by expert trainers in their fields to cover a variety of subjects that improve the technical and personal capacity of employees. In 2011, including e-trainings, 8,631 participants received a total of 102,872 hours of training; each employee received an average of 54.92 hours of training during the year.

INCREASING EMPLOYEE' MOTIVATION TO FOSTER COMPANY LOYALTY AND SENSE OF BELONGING

Employee Statistics	2011	2010
Number of Employees		
Head Office	639	596
Branches	1,272	1,238
Total	1,911	1,834
Average Number of Employees per Branch	21.7	21.3
Male	991	937
Female	920	897
Educational Background of Employees		
Doctoral and Masters Degree Holders	99	87
University Graduates	1,416	1,346
High School Graduates	389	394
Elementary School Graduates	7	7

Legal Proceedings Monitoring Department

The Legal Proceedings Monitoring Department operates under the Assistant General Manager responsible for Human Resources. The main responsibility of the Department is to initiate legal proceedings for non-performing commercial, corporate, retail and SME loans decided to be claimed via legal means by relevant Head Office divisions. The Department ensures both the necessary coordination and cooperation between the Legal Counsel, the branches and the Head Office departments until the legal process is culminated and that collections are effectively carried out.

In 2011, the Legal Proceedings Monitoring Department held planning, research and evaluation meetings on a regular basis with the participation of Legal Counsel and Branch Legal Proceedings Investigation teams.

SYNERGY IN FINANCIAL SERVICES CREATED BY DIFFERENT SPECIALTIES

ANADOLUBANK NEDERLAND N.V.

Having acquired its banking license from the Central Bank of the Netherlands on August 2, 2007, Anadolubank N.V. was incorporated as a fully owned subsidiary of Anadolubank with EUR 15 million in registered capital and began operations in early 2008. Anadolubank Nederland N.V. operates primarily in the retail banking, SME financing and foreign trade segments mainly in the Netherlands, as well as in the Eurozone and in Turkey.

With a robust capital structure, an experienced management team and support from the parent bank, Anadolubank N.V. built an extensive customer base in a short period of time. Having a customer portfolio of over 19,000 as of year-end 2011, and despite the rapid increase in its assets, the Bank succeeded to maintain a high level of asset quality thanks to its prudent loan allocation policies. At year-end 2011, the Bank's assets reached EUR 372.6 million, up from EUR 332.4 million in the prior year while gross profit before reserves was EUR 4.9 million.

The Bank raised its paid-in capital to EUR 55 million with an additional capital increase of EUR 25 million. Since its inception, Anadolubank N.V. has followed a focused and consistent strategy without compromising its prudent risk approach. With its capital adequacy ratio of 23.85% in 2011, the Bank ranks among the banks with the strongest capital structure.

ANADOLU FACTORING (ANADOLU FAKTORİNG HİZMETLERİ A.Ş.)

Anadolu Factoring, which commenced operations on March 20, 2007, was the first company to become operational in the nascent Turkish factoring sector with permission of the Banking Regulation and Supervision Agency (BRSA). The Company is 99.9% owned by Anadolubank.

Anadolu Factoring provides factoring services for business segments with a high volume of commercial activity in all regions, particularly in Istanbul and the surrounding area, with competitive, flexible and reliable financing options.

Continuing its successful performance in 2011, Anadolu Factoring increased the number of its customers by 25% to 510. As of the end of year, the Company recorded turnover of TL 562.5 million, up 7.2% compared to the prior year while net factoring receivables reached TL 119 million.

The Company achieved Return on Assets (ROA) of 3.9%, and Return on Equity (ROE) of 12.2%.

With net profit of TL 5.3 million for 2011, shareholders' equity of the Company reached TL 45.8 million as of year-end.

ANADOLU SECURITIES (ANADOLU YATIRIM MENKUL KIYMETLER A.Ş.)

Anadolu Securities, founded in 1998, is 82% owned by Anadolubank. All Anadolubank branches serve as Anadolu Securities agencies. The Company provides services in securities trading, public offering, portfolio management, repo and reverse repo and investment consultation.

Shareholders' equity of Anadolu Securities was TL 5.4 million in 2011; total assets were TL 32 million and net profit reached TL 0.5 million as of year-end.

In 2011, Anadolu Securities' average monthly trading volume on the ISE was TL 798 million, resulting in a market share of 0.69%. The Company ranks 42nd among brokerage houses trading on the ISE.

In 2012, Anadolu Yatırım aims to increase its number of customers along with its trading volume in order to capture a 0.80% market share on the ISE.

ANADOLUBANK INTERNATIONAL BANKING UNIT LTD.

Founded on April 17, 2003, Anadolu Offshore Ltd., 99.4% owned by Anadolubank, changed its name to Anadolubank International Banking Unit as required by the TRNC International Banking Units Law. The Bank provides long-term working capital loans to medium-size enterprises.

The Bank had total assets of US$ 7.1 million and reported net profit of US$ 0.2 million in 2011.

CORPORATE IDENTITY REPRESENTED BY RELIABILITY, TRANSPARENCY AND HIGH-QUALITY SERVICE

BOARD OF DIRECTORS AND AUDITORS

Members of the Board of Directors, the Audit Committee and other committees attended all meetings during the year except for excused absences.

Board of Directors

Mehmet Başaran, Chairman and Managing Director
Pulat Akçin, Vice Chairman
Fikriye Filiz Haseski, Member of the Board
Erol Altıntuğ, Member of the Board
Engin Türker, Member of the Board
Yusuf Gezgör, Member of the Board
Gökhan Günay, Member of the Board and General Manager
Cemal Düzyol, Board and Audit Committee Member
Cengiz Doğru, Board and Audit Committee Member-Responsible for Internal Systems

Audit Committee

Cemal Düzyol, Board and Audit Committee Member
Cengiz Doğru, Board and Audit Committee Member-Responsible for Internal Systems

Mehmet Başaran
Chairman and Managing Director
Mehmet Başaran graduated from the Istanbul Academy of Economics and Commercial Sciences. He began his professional career at HABAŞ Sınai ve Tıbbi Gazlar A.Ş. in 1972. Currently, Mr. Başaran serves as the Chairman of the Board and Managing Director of the HABAŞ Group companies, Başaran Holding and Anadolubank.

Pulat Akçin
Vice Chairman
Pulat Akçin graduated from Istanbul University Faculty of Economics and earned his MBA at the University of Technology. He began his professional career at International Industry and Commerce Bank and worked as a senior manager in a number of domestic and international banks. After serving as the General Manager of Tekstilbank, Mr. Akçin joined Anadolubank in 2002 where he currently serves as the Vice Chairman of the Board of Directors.

Fikriye Filiz Haseski
Member of the Board
Fikriye Filiz Haseski graduated from Boğaziçi University, Faculty of Economics and Administrative Sciences, Department of Economics. She served as Export Sales Manager and Assistant General Manager of Foreign Trade at HABAŞ A.Ş. Ms. Haseski has been a member of the Board of Anadolubank since 1997.

Erol Altıntuğ
Member of the Board
Erol Altıntuğ graduated from Boğaziçi University, Faculty of Science and Literature, Department of English Language and Literature. After serving as the Manager of the Research and Planning Department at HABAŞ A.Ş., he was appointed Assistant General Manager of Commercial Affairs in the same company. Mr. Altıntuğ has served as a member of the Board of Anadolubank since 1997.

Yusuf Gezgör
Member of the Board
Yusuf Gezgör graduated from Istanbul University, Faculty of Economics. He began his professional career at Osmanlı Bank and after 23 years of service there, he worked at TEB as Assistant General Manager of Commercial Banking and Loans. Mr. Gezgör joined Anadolubank in 2001 where he currently serves as a member of the Board responsible for Loans and Marketing.

Engin Türker
Member of the Board
Engin Türker graduated from Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Business Administration. He worked in various positions at Mertaş A.Ş. and HABAŞ A.Ş.; he has served as the General Manager of HABAŞ Industrial Facilities since 1984. Mr. Türker has been a member of the Board of Anadolubank since 1997.

Cemal Düzyol

Board and Audit Committee Member

Cemal Düzyol graduated from Ege University Faculty of Economics and Commercial Sciences. He began his professional career at Garanti Bank, and afterwards he worked at other banks in various positions, including Chairman of the Internal Audit Board, Group Manager, Assistant General Manager and member of the Board. After serving at Tekstilbank as the Assistant General Manager, Mr. Düzyol joined Anadolubank in 2007, where he is currently a member of the Board of Directors.

Cengiz Doğru

Board and Audit Committee Member-Responsible for Internal Systems

Cengiz Doğru graduated from Hacettepe University, Department of Public Finance and received his MBA from Boğaziçi University. He began his professional career on the Board of Certified Bank Auditors, Undersecretariat of Treasury in 1988. There, Mr. Doğru served as Auditor, Chief Auditor and Vice Chairman of the Board. In 1999, he assumed the position of Assistant General Manager at Kent Bank. Mr. Doğru joined Anadolubank in 2002 as Assistant General Manager and he currently serves as a member of the Board of Directors of the Bank.

Auditors

Auditors serve for one year.

İbrahim Kazancı

Auditor

İbrahim Kazancı graduated from the Istanbul Academy of Economics and Commercial Sciences, Economics and Commerce Institute. He currently serves as Assistant General Manager of Finance Affairs at HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.

Faruk Erçek

Auditor

Faruk Erçek graduated from Istanbul University Faculty of Economics. He currently serves as Accounting Manager at HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.

SENIOR MANAGEMENT

Gökhan Günay

Member of the Board and General Manager

Gökhan Günay graduated from Marmara University, Faculty of Business Administration and received his MBA from Tennessee State University. Mr. Günay began his professional career at Türkiye Sınai Kalkınma Bankası and later served as the Head of the Securities Department at Pamukbank. At Sümerbank and Bayındırbank, Mr. Günay worked as Assistant General Manager of Treasury before joining Anadolubank in 2002 where he currently serves as General Manager.

Recep Atakan

Assistant General Manager, Treasury, Agriculture Banking, Advertisement and Public Relations

Recep Atakan graduated from Istanbul Technical University, Department of Management Science and Engineering. He began his banking career at Yapı Kredi Bank and worked there and at Sümerbank in various positions from director to department head. Mr. Atakan served as Assistant General Manager at Bayındırbank between 2001 and 2003. From 2003 to 2007, he was General Manager of Anadolu Securities. Since 2007, he has served as Assistant General Manager responsible for Retail Banking, Agriculture Banking and Advertisement and Public Relations. He has also been responsible for the Treasury since 2008.

Sibel Akın

Assistant General Manager, Commercial Banking

Sibel Akın is a graduate of Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Business Administration. She began her professional career at Türk Dış Ticaret Bank in 1991. After working in various branches as Branch Manager, Ms. Akın joined Anadolubank in 2002 where she currently serves as the Assistant General Manager of Commercial Banking.

Merih Yurtkuran
Assistant General Manager, International Banking
Merih Yurtkuran graduated from Yıldız Technical University, Department of Chemical Engineering, and received her Master's degree in Chemical Engineering from the University of Michigan. Ms. Yurtkuran began her banking career in 1978 at Garanti Bank, after holding various positions in the chemical sector. She worked for a number of public and private sector banks in senior management posts before joining Anadolubank as a consultant in 1999. Ms. Yurtkuran has served as Assistant General Manager of International Banking since 2000.

Taner Ayhan
Assistant General Manager, Credit Cards and Electronic Banking
Taner Ayhan graduated from Middle East Technical University, Department of Computer Engineering and received his MBA from Bilgi University. Between 1989 and 1993, he worked as a consultant at the London and Istanbul offices of Andersen Consulting (Accenture). From 1993 to 2000, Mr. Ayhan held the positions of Director of Alternative Distribution Channels and Retail Banking at Pamukbank and Chairman of the Board of Directors of the Interbank Card Administration. He was subsequently appointed Assistant General Manager Responsible for Alternative Distribution Channels and Consumer Finance in 2000 at Fortis. He worked as Country Manager at Citibank between 2007 and 2008. Mr. Ayhan joined Anadolubank in 2009 where he currently serves as the Assistant General Manager of Credit Cards and Electronic Banking.

Tunç Bergsan
Assistant General Manager, Information Technologies
Tunç Bergsan graduated from Istanbul Technical University, Department of Electronics and Communication Engineering. He began his professional career in 1989 at Netbank as a Software Engineer. From 1993, Bergsan worked in various positions at Baysis and YAZ Information Systems (formerly Mardata Information Systems) where he was involved in projects primarily related to banking software development, including internet banking software, credit cards and ATM integration, database, system and network administration and bank information technologies outsourcing. Following his employment at YAZ Information Systems as General Manager between 2001 and 2007, Mr. Bergsan joined Anadolubank where he currently serves as the Assistant General Manager of Information Technologies.

Kürşad Orhun
Assistant General Manager, Operations
Kürşad Orhun graduated from Middle East Technical University, Faculty of Economic and Administrative Sciences, Department of Economics and received his MBA from Sabancı University. He began his professional career at Akbank's Internal Audit; later, he assumed the positions of Operations Manager in Foreign Trade and Customer Services Division Head. Between 2008 and 2012, he served as Division Head of Central Operations a Eurobank Tekfen. Mr. Orhun undertook centralization, system and process improvement activities at the banks where he worked. Having joined Anadolubank in 2012, Mr. Orhun currently serves as Assistant General Manager responsible for Operations.

Hüseyin Çelik
Assistant General Manager, Financial Affairs
Hüseyin Çelik graduated from Uludağ University, Faculty of Economic and Administrative Sciences, Department of Public Finance. He began his professional career at İktisat Bank. After serving as Assistant General Manager and as a member of the Board of Directors at various banks and institutions, Mr. Çelik joined Anadolubank in 2008. He currently serves as Assistant General Manager of Financial Affairs.

İsmet Demir
Assistant General Manager, Human Resources
İsmet Demir graduated from Gazi University, Department of Banking and Insurance and received his MBA from Maltepe University. He began his professional career at Sümerbank and later served as Inspector and Assistant Personnel Manager at Akbank. Mr. Demir joined Anadolubank in 1997 where he currently serves as Assistant General Manager of Human Resources.

Ali Tunç Doröz
Assistant General Manager, Loans
Ali Tunç Doröz graduated from Istanbul University, Faculty of Economics, Department of Finance. Mr. Doröz began his professional career as Assistant Internal Auditor at Osmanlı Bankası. He served as a manager responsible for commercial loans allocation units at the Headquarters and branches. Having joined Anadolubank in December 1998 as Loans Allocation Manager, Mr. Doröz currently serves as Assistant General Manager responsible for Loans.

RELATED PARTY TRANSACTIONS

The volume of transactions related to the risk group the Bank partakes, outstanding loan and deposit transactions as of period-end, and income and expenses from such transactions during the period are presented in the table below.

Related Party Transactions (TL thousands)	**Year ended on December 31,**		**Percent to Total Assets**		
	2011	**2010**	**2011**	**2010**	**Change (%)**
Loans	5,053	9,604	0.1	0.2	-47.4
Off-balance sheet exposures	65,057	21,198	1.0	0.4	206.9
Deposits	43,769	35,544	0.7	0.7	23.1

RISK MANAGEMENT SYSTEM

Anadolubank aims to adopt a deep-rooted and well-established risk culture throughout its corporate structure. To this end, the Bank strives to establish a shared risk understanding among its employees and to arrange all of its systems accordingly.

In accordance with stipulations of the Banking Regulation and Supervision Agency's Communiqué on Internal Systems of Banks published in the Official Gazette on November 1, 2006 no. 26333, a new risk management structure was established in the Bank. Accordingly, an Audit Board and a Risk Management Department directly reporting to the Board of Directors in auditing and monitoring activities were established.

The activities within the context of risk management are carried out with participation and contribution of the units conducting business related to the relevant types of risks.

Risk management activities target to establish a prudent risk management concept throughout the Bank and to be in full compliance with Basel II criteria, which reflect the best practices in risk management. In line with this target, the Risk Management Department regularly monitors market, liquidity, credit, operational, structural and interest rate risk types.

RISK MANAGEMENT POLICIES

Internal Audit

Internal audit activities are performed by the Internal Audit Board, which in turn reports directly to the Board of Directors. The Internal Audit Board ensures that the Bank's operations are carried out in full legal and regulatory compliance, and are aligned with the Bank's strategies, policies, principles and objectives. The Internal Audit Board also oversees the adequacy and effectiveness of the internal control and risk management systems and audits the operations of the Bank and its subsidiaries periodically and with a risk-based approach.

In 2011, the Internal Audit Board conducted 43,144 hours of on-site audits at the branches, Head Office and subsidiaries of the Bank. Aiming for a proactive audit structure at the Bank, the Internal Audit Board conducts its activities as a result of risk-based assessments.

Internal Control

Internal Control Unit activities are conducted by the Internal Control Center (ICC), which reports directly to the Board of Directors.

Anadolubank aims to establish an efficient internal control system in the Bank's Head Office units, branches and subsidiaries to reliably perform the internal control activities, and incorporate a strong internal control culture throughout the Bank. In line with this target, the Internal Control Center conducts studies on the designing of control activities and necessary control points of business processes, and the monitoring of internal control activities.

Internal control activities are carried out at branches, Head Office units and subsidiaries via Self-Evaluation Statements in addition to site controls of the Internal Control Center. Through Self-Evaluation Statements, which includes the statements of operational units related to internal control the activities, certain control points are determined; with secondary controls on these points the efficiency of the internal control system is strengthened.

In regard to the internal control activities in the Bank and its subsidiaries, a risk-based control mechanism was established; the inspection of high risk transactions are determined automatically by the ACL (Audit Command Language) audit analysis software application. The system allows for continuous monitoring via the controls performed in daily, weekly, monthly and quarterly periods for the mission critical operations carried out by branches, Head Office units and subsidiaries.

The Internal Control Center also expresses its opinion on proposed plans for new product and application installations. The ICC works to develop procedures and flows for business processes, update the current internal rules in parallel with software application changes and makes relevant announcements throughout the organization.

The Internal Control Department reports the identified control deficiencies to the Audit Committee and senior management; thus, the Department ensures that relevant personnel are advised to eliminate control deficiencies. ICC activity reports regarding its activities are prepared on a quarterly and yearly basis; these reports are presented to the Audit Committee.

An ongoing training program for ICC personnel assists in professional knowledge, skills and talent development. In addition, the Bank regularly makes changes to personnel job descriptions and posts so that they can perform their duties objectively without influence from the executive units.

Legal Compliance

The Legal Compliance Department ensures that all banking activities and transactions performed at the Head Office and branches of Anadolubank are in compliance with national and international banking laws, rules and practices, as well as with the ethical norms required of the banking profession. In effect, the Department is responsible for ensuring the Bank's reputation.

Reporting to the Audit Committee, the Legal Compliance Department performs its compliance functions under the following categories:

- Monitoring regulations related to the Banking Law and banking practices, and informing Bank personnel about these regulations,
- Preventing money laundering and terrorism financing; creating systems and taking necessary measures to comply with national and international regulations related to the prevention of money laundering and terrorism financing; assuming responsibility for the reviewing, assessing and reporting suspicious transactions to MASAK by the department manager assigned as the MASAK compliance officer,
- Ensuring and monitoring legal compliance; ensuring the compliance of new products and transactions and planned activities with laws and regulations; preparing the annual compliance plan.
- The Department also coordinates and monitors efforts by the Bank's subsidiaries to comply with national and international laws, rules and regulations they are subject to in their places of operation.

Risk Management

The Risk Management Department reports directly to the Board of Directors. The Department defines, classifies, measures, monitors, analyzes and reports to relevant parties on the Bank's risk within the framework of legal requirements and risk management principles approved by the Bank's Board of Directors.

Information Regarding Risk Management Policies by Type of Risk

In its risk management work, the Bank uses best international practices, Basel II principles and the regulations of the Banking Regulation and Supervision Agency (BRSA) as points of reference.

Market Risk

The Bank's Board of Directors ensures that the Risk Management Department and senior management have implemented the necessary steps for measuring, controlling and managing the market risk the Bank is exposed to.

The extent of the exposure of the Bank's capital to market risk is calculated according to the standard method determined by the BRSA. Since 2007, Value at Risk (VAR) forecasts have been produced and reported to the Bank's senior management and related units on a daily basis.

Value at risk, calculated using an internal model to forecast the potential loss under crisis conditions, is supported by scenario analysis and stress test results and is reported to the senior management and the Board of Directors.

The Board of Directors sets market risk limits; the Board also periodically updates these limits in light of market conditions and the Bank's strategies. Total transaction and stop-loss limits are set on a product basis with regard to the Bank's daily transactions. The Board of Directors allocates transaction limits for the Bank's forward transactions and other related contract positions; all trading activity is performed within these limits. The limits are monitored and reported on a daily basis.

Interest Rate Risk

Interest rate risk is managed by the Bank's Assets & Liabilities Committee. Safeguarding Anadolubank against the impacts of the fluctuation of interest rates is a key priority of the Bank's management.

The Bank's interest rate risk is determined by calculating the sensitivity of assets, liabilities and off-balance sheet items to interest rates. The Bank's management monitors the prevailing market interest rates on a daily basis and has the ability to adjust the Bank's deposit/loan interest rates as needed. Interest income simulations are performed based on the forecasts of the macroeconomic indicators in the Bank's budget. The negative impact of market interest rate fluctuations on the financial positions and cash flow are minimized by actions taken.

The Bank's Assets & Liabilities Committee establishes the short, medium and long-term pricing strategies, manages the maturity mismatch and adopts the principle of a positive balance sheet margin as its pricing policy. Decisions taken by the Assets & Liabilities Committee are implemented by the related units of the Bank.

Liquidity Risk

Anadolubank has always strived to be among the most liquid banks in the sector. In order to attain a high level of liquidity, the Board of Directors regularly sets and monitors the standard for liquidity ratios. The Bank's current liquidity position, the products through which liquidity is provided, its funding sources and asset structure, as well as market conditions, are monitored in light of these limits. Cash flow analyses are performed based on maturity and currency structures, maturity mismatches are monitored and concentrations in funding sources are analyzed.

Credit Risk

One of the most important characteristics of Anadolubank is its adherence to prudent lending policies. The ultimate authority for allocating credit limits rests with the Board of Directors of Anadolubank. This authority was delegated to the Head Office as documented by written rules and is regularly monitored and reported by the audit, internal control and risk management units.

Various rating systems are used in assessing Anadolubank customers. A separate system developed internally by the Bank is used for rating loan collaterals. As a result of the Bank's credit policy, credit risk is monitored alongside customer and collateral ratings.

In line with its prudent lending policies, Anadolubank sets the maximum credit limit for a single customer at a level lower than that required by law, thereby minimizing the concentration of loans.

The Risk Management Department continues to undertake efforts to create an infrastructure that contains data used in credit risk measurement and Basel II compliance.

Exchange Rate Risk

Exchange rate risk represents potential loss banks may incur as a result of foreign exchange rate fluctuations. When calculating the potential loss of capital due to exchange rate risk, all of the Bank's foreign currency assets, liabilities and forward positions are taken into consideration; the foreign exchange risk is then reported with the standard method by calculating the value at risk.

The position limit set by the Board of Directors and the position details are reported daily. As part of the Bank's risk management strategy, all foreign currency borrowings are hedged against foreign exchange rate risk via derivative products.

Operational Risk

Operational risk exists in all activities and is defined as potential loss due to human error, systemic error or inadequate controls or practices. In addition to such errors and negligence, operational risk also includes the possibility of loss from internal and external fraud as well as natural disasters. Operational risk management activities are performed under the coordination of the Bank's Risk Management Department, Internal Audit Board and Internal Control Center.

Fundamental controls used for mitigating operational risk include compliance with laws and regulations, a commitment to ethical values in banking, information security, prevention of internal and external fraud, an emergency plan, business continuity and "Know Your Customer" policies.

All policies, procedures, business flows and processes used at Anadolubank are analyzed and assessed with a risk-oriented approach. The Internal Audit Board and the Internal Control Center audit the compliance of the Bank's transactions with laws and regulations, monitor personnel errors or abuses, assess branch performances and undertake efforts to increase efficiency.

Assestment of Financial Position

Balance Sheet Analysis

Loans

Loans to medium and small-sized companies to meet their working capital needs constitute the pillar of the Bank's business strategy. This important product is complemented by consumer loans (primarily housing and car loans), and credit cards. Anadolubank's low non-performing loan ratio is evidence of the success of the Bank's lending policy, which avoids interest rate risk and targets maximum diversification in the loan portfolio.

In 2011, the share of loans in Anadolubank's total assets stood at 68%.

Cash Loans By Industry (%)

	2011	2010
Agriculture	**5.64**	**4.88**
Farming and stockbreeding	5.19	4.44
Forestry	0.38	0.38
Fishing	0.07	0.06
Industry	**29.28**	**29.54**
Mining and quarrying	0.73	0.74
Manufacturing	28.45	28.61
Electricity, gas, water	0.1	0.19
Construction	**7.9**	**6.68**
Services	**37.35**	**33.97**
Wholesale and retail trade	14.55	11.92
Hotel and restaurant services	0.61	0.51
Transportation and communications	2.39	2.07
Financial services institutions	15.55	14.63
Real estate and rental services	0.06	0.15
Professional services	2.77	2.87
Educational services	0.06	0.08
Health and social services	1.36	1.74
Consumer loans	**16.37**	**17.63**
Credit card	**1.78**	**1.49**
Others	**1.68**	**5.81**
Total	**100,00**	**100,00**

Non-Cash Loans By Industry (%)

	2011	2010
Agriculture	**2.06**	**2.51**
Farming and stockbreeding	1.78	2.25
Forestry	0.28	0.26
Fishing	-	-
Industry	**36.62**	**38.58**
Mining and quarrying	0.56	1.13
Manufacturing	34.67	35.91
Electricity, gas, water	1.39	1.54
Construction	**23.19**	**23.38**
Services	**37.01**	**34.34**
Wholesale and retail trade	19.06	14.37
Hotel and restaurant services	0.59	0.48
Transportation and communications	2.34	2.66
Financial services institutions	7.87	10.04
Real estate and rental services	0.12	0.09
Professional services	5.28	3.78
Educational services	0.04	0.06
Health and social services	1.71	2.86
Consumer loans	**-**	
Credit card	**-**	
Others	**1.12**	**1.19**
Total	**100.00**	**100.00**

Loan Balances (TL thousands)	**Year ended on December 31,**		**Percent to Total**		
	2011	**2010**	**2011**	**2010**	**Change (%)**
Corporate loans	**3,628,366**	**2,940,732**	**80.4**	**80.8**	**23.4**
TL loans	2,623,092	2,056,191	58.1	56.5	27.6
FX loans	1,005,274	884,541	22.3	24.3	13.6
Retail loans	**804,193**	**643,975**	**17.8**	**17.7**	**24.9**
TL loans	611,685	546,174	13.6	15.0	12.0
FX loans	192,508	97,801	4.3	2.7	96.8
Credit card receivables	**80,279**	**54,331**	**1.8**	**1.5**	**47.8**
Total	**4,512,838**	**3,639,038**	**100.0**	**100.0**	**24.0**

Non-performing Loans

Anadolubank places great importance on the control mechanisms it has established for monitoring lending activities. Loan evaluation, approval and monitoring activities, which are concentrated at the Head Office level, are analyzed by four separate departments under the leadership of a member of the Board of Directors.

As a result of its conservative and effective risk management practices, the Bank's non-performing loan ratio is below the sector average.

Non-Performing Loans
(TL thousands)

	Year ended on 2011	Year ended on 2010
Balance at the beginning of the year	77,056	70,277
Acquisition through new consolidating subsidiary	-	-
Additions	27,375	23,312
Reductions	13,580	16,533
Payments	13,580	16,533
Written off	-	-
Balance at the end of the year	**90,851**	**77,056**
Provision for non-performing loans	**(90,851)**	**(77,056)**
Net non-performing loans	**-**	**-**
NPL/Total Loans	**2.37%**	**2.43%**

Liquidity

Liquidity is generally used for financing assets and taking advantage of investment opportunities in the markets. Liquidity can take on further significance, particularly when it is used as a safe harbor in Turkey's fast-paced economic environment and during periods of uncertainty. Unused lines of credit at other banks, repo agreements, very short-term loans and investments in financial institutions are also liquid resources. In general, the short-term nature of the loan book enhances liquidity. The Bank's broad liquidity base relies on customer deposits as well as the well-established and diversified funding sources stated below.

Liquid Assets (TL thousands)	**Year ended on December 31,**		**Percent to Total Assets**		
	2011	**2010**	**2011**	**2010**	**Change (%)**
Cash on hand	45,488	23,075	0.7	0.4	97.1
Central Bank deposits	193,267	225,599	2.9	4.3	-14.3
Receivables from reverse repurchase agreement	-	15,430	-	0.3	-100.0
Placement with banks	360,652	201,090	5.4	3.9	79.3
Receivable from reverse repurchase agreement			-	-	-
Legal reserves	263,636	104,017	3.9	2.0	153.5
Total	**863,043**	**569,211**	**12.9**	**10.9**	**51.6**

Anadolubank's activities in this area are limited to Turkish treasury bills and government bonds. Investments in government bonds are generally financed by very short-term repo agreements and deposits; therefore, they may vary from one reporting period to the next depending on risk, source of funding and maturity terms.

Breakdown of Securities (TL thousands)	**Year ended on December 31,**		**Percent to Total**		
	2011	**2010**	**2011**	**2010**	**Change (%)**
Held-for-trading	**424,292**	**95,563**	**6.3**	**1.8**	**344.0**
Government bonds in TL	320,347	3,162	4.8	0.1	10,031.2
Eurobonds issued by the Turkish Government	6,855	-	0.1	0.0	-
Equity securities	775	720	0.0	0.0	7.6
Other	96,315	91,681	1.4	1.8	5.1
Investment securities	**652,700**	**749,556**	**9.8**	**14.4**	**-12.9**
Turkish Government bonds	8,235	220,353	0.1	4.2	-96.3
Eurobonds issued by the Turkish Government	534,469	439,097	8.0	8.4	21.7
Corporate bonds	109,996	90,106	1.6	1.7	22
Total	**1,076,992**	**845,119**	**16.1**	**16.2**	**27.4**

Deposits

As a result of efforts to establish a reliable and diversified funding base, Anadolubank's retail banking services, and deposits in particular, grew compared to previous year.

The table below presents a summary of the Bank's deposits growth.

Composition of Deposits (TL thousands)	**Year ended on December 31,**		**Percent to Total**		
	2011	**2010**	**2011**	**2010**	**Change (%)**
TL deposits	**2,376,252**	**1,608,318**	**35.6**	**30.8**	**47.7**
Demand deposits	205,362	220,562	3.1	4.2	-6.9
Time deposits	2,170,890	1,387,756	32.5	26.6	56.4
FX deposits	**1,868,681**	**1,500,732**	**28.0**	**28.8**	**24.5**
Non-interest bearing demand	470,679	423,758	7.0	8.1	11.1
Time	1,398,002	1,076,974	20.9	20.6	29.8
Total	**4,244,933**	**3,109,050**	**63.5**	**59.6**	**36.5**

Shareholders' Equity

The shareholders' equity rose to TL 948 million at year-end 2011, up from TL 826 million a year earlier. In the same reporting period, the share of shareholders' equity in total liabilities increased to 14.20%, while the Bank's unconsolidated capital adequacy ratio was 16.96%.

Anadolubank does not traditionally pay dividends to its shareholders; thus, profit for the year 2011 will be added to the Bank's capital.

	2011	2010	2011	2010	Change (%)
Total shareholders' equity	948,253	825,870	14.2	15.8	14.8

Guarantees and Acceptances

The guarantees and sureties composed of letters of credit, letters of guarantee related to miscellaneous tenders, other bills of exchange and bank acceptances that are prepared by banks for their customers' orders are used extensively in business contracts. These instruments gained significance in banks' efforts to increase their non-interest income to compensate for the decline in their interest income due to falling interest rates.

Non-Cash Loans (TL thousands)	2011	2010	Change (%)
Letters of guarantee	1,012,768	902,998	12.2
Letters of credit	242,367	146,589	65.3
Other guarantees and acceptances	165,086	103,291	59.8
Total	**1,420,221**	**1,152,878**	**23.2**

Income Statement Analysis

Interest
As in the previous year, banks in Turkey faced continuously shrinking interest margins due to falling interest rates in 2011. Banks responded to this situation in different ways, such as increasing their non-interest income, implementing better cost controls and shifting their lending preferences toward consumer loans and small businesses.

Interest Income (TL thousands)	**2011**	**2010**	**Change (%)**
Interest on loans	531,083	395,326	34.3
Interest on securities	41,044	85,488	-52.0
Other interest income	8,366	5,665	47.7
Total interest income	**580,493**	**486,479**	**19.3**
Interest on customer deposits	244,207	154,651	57.9
Interest on borrowing from banks	43,129	40,108	7.5
Total interest expense	**287,336**	**194,759**	**47.5**
Net interest income	**293,157**	**291,720**	**0.5**

NIM (Net Interest Margin)	**4.93**	**5.96**	

Non-Interest Income and Expense
Anadolubank's efforts to manage its non-interest income were focused on three main areas in 2011:

a) Instituting strict cost controls,
b) Generating commissions from off-balance sheet items such as letters of guarantee and letters of credit, and
c) Enhancing existing non-risk products and new product development.

Anadolubank introduced a new product in Turkey, Paritem® that enables the Bank's customers to execute real-time foreign exchange trades online via an advanced Internet-based trading platform.

Non-Interest Income (TL thousands)	**2011**	**2010**	**Change (%)**
Net fees and commissions	73,506	66,183	11.1
Trading & FX income/loss	(36,628)	(6,038)	506.6
Other income	12,534	8,848	41.7
Total non-interest income	**49,412**	**68,993**	**-28.4**
Personnel expenses	134,698	119,615	12.6
Other non-interest expenses	64,412	60,824	5.9
Total non-interest expense	**199,110**	**180,439**	**10.3**
Net non-interest income	**(149,698)**	**(111,446)**	**34.3**

Net Income (TL thousands)	**2011**	**2010**	**Change (%)**
Net interest income	293,157	291,720	0.5
Net non-interest income	(149,698)	(111,446)	34.3
Gross income	**143,459**	**180,274**	**-20.4**
Provision for loan losses	(14,086)	(7,752)	81.7
Income before taxation and monetary position loss	**129,373**	**172,522**	**-25.0**
Tax charge	(27,014)	(35,053)	-22.9
Profit from continuing operations	**102,359**	**137,469**	**-25.5**
ROA (Return on Assets)	**1.72**	**2.81**	
ROE (Return on Equity)	**11.54**	**18.14**	
Operational Efficiency	**59.81**	**58.37**	

ANADOLUBANK ANONİM ŞİRKETİ

AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2011

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Sun Plaza
Bilim Sok. No:5
Maslak, Şişli 34398
İstanbul, Türkiye

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To the Board of Directors of
Anadolubank A.Ş.
İstanbul

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Anadolubank A.Ş. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Anadolubank Anonim Şirketi and its subsidiaries as at 31 December 2011 and of their financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hasan Kılıç
Istanbul, Turkey
10 April 2012

ANADOLUBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	31 December 2011	31 December 2010
ASSETS			
Cash and balances with the Central Bank	6	502,391	352,691
Deposits with banks and other financial institutions	6	360,652	201,090
Receivables from reverse repo transactions	6	-	15,430
Financial assets at fair value through profit or loss	7	424,292	95,563
Derivative financial assets held for trading purpose	8	11,071	29,354
Investment securities	9	652,700	749,556
Loans and receivables	10	4,531,641	3,653,387
Property and equipment	12	18,910	20,080
Intangible assets	13	1,889	1,422
Deferred tax assets	18	9,826	11,571
Other assets	14	169,025	87,054
Total assets		**6,682,397**	**5,217,198**
LIABILITIES			
Deposits from banks	15	99,601	77,484
Deposits from customers	15	4,244,933	3,109,050
Obligations under repurchase agreements	15	556,896	529,931
Funds borrowed	16	476,360	379,855
Derivative financial liabilities held for trading purpose	8	56,698	84,743
Other liabilities and provisions	17	289,211	203,227
Income taxes payable	18	10,445	7,038
Total liabilities		**5,734,144**	**4,391,328**
EQUITY			
Share capital	19	602,619	602,619
Reserves		54,686	26,708
Retained earnings		289,002	194,690
Total equity attributable to equity holders of the Bank		**946,307**	**824,017**
Non-controlling interests	**19**	**1,946**	**1,853**
Total equity		**948,253**	**825,870**
Total liabilities and equity		**6,682,397**	**5,217,198**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2011
(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	1 January- 31 December 2011	1 January- 31 December 2010
Continuing operations:			
Interest income:			
Interest on loans and receivables	21	531,083	395,326
Interest on marketable securities	21	41,044	85,488
Interest on deposits with banks and other financial institutions	21	2,593	3,493
Interest on other money market placements	21	3,651	4
Other interest income	21	2,122	2,168
Total interest income		**580,493**	**486,479**
Interest expenses:			
Interest on deposits	21	244,207	154,651
Interest on other money market deposits	21	18,217	25,127
Interest on funds borrowed	21	24,775	14,887
Other interest expenses	21	137	94
Total interest expenses		**287,336**	**194,759**
Net interest income		**293,157**	**291,720**
Fees and commissions income	22	85,515	74,834
Fees and commissions expenses	22	12,009	8,651
Net fees and commissions income		**73,506**	**66,183**
Other operating income:			
Trading income due from marketable securities	23	-	40,125
Foreign exchange gains, net	23	-	26,165
Other income	23	12,534	8,848
Total other operating income		**12,534**	**75,138**
Other operating expense:			
Salaries and employee benefits	23-24	134,698	119,615
Trading losses due from marketable securities	23	6,504	-
Trading losses, due from derivatives	23	7,892	72,328
Foreign exchange loss, net	23	22,232	-
Provision for possible loan losses, net of recoveries	23	13,795	6,779
Depreciation and amortization	23	6,641	6,310
Taxes other than on income	23	10,316	9,905
Other expenses	23-25	47,746	45,582
Total other operating expense		**249,824**	**260,519**
Income from operations		**129,373**	**172,522**
Taxation	18	27,014	35,053
Profit from continuing operations		**102,359**	**137,469**
Discontinued operation:			
Income from discontinued operation		-	-
Income tax expense		-	-
Profit from discontinued operation		**-**	**-**
Profit for the year		**102,359**	**137,469**
Earnings per share from continuing operations (full TL)		0.001706	0.002291

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	1 January- 31 December 2011	1 January- 31 December 2010
Profit for the year		**102,359**	**137,469**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		20,332	(3,028)
Fair value reserve of available for sale financial assets transferred to profit or loss		(385)	2,315
Income tax on other comprehensive income		77	(463)
Other comprehensive income for the year, net of income taxes		**20,024**	**(1,176)**
Total comprehensive income for the year		**122,383**	**136,293**
Profit attributable to:			
Equity holders of the Bank		102,279	137,229
Non-controlling interests		80	240
Profit for the year		**102,359**	**137,469**
Total comprehensive income attributable to:			
Equity holders of the Bank		122,290	136,051
Non-controlling interests		93	242
Total comprehensive income for the year		**122,383**	**136,293**
Total comprehensive income attributable to:			
Owners of the Bank		0.002038	0.002268
Non-controlling interests		**0.000002**	**0.000004**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

		Attributable to equity holders of the Bank							
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total
Balances at 1 January 2010		**412,119**	**10,511**	**(4,234)**	**16,502**	**253,068**	**687,966**	**1,611**	**689,577**
Total comprehensive income for the year									
Net profit of the year		**-**	**-**	**-**	**-**	**137,229**	**137,229**	**240**	**137,469**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Currency translation adjustments		-	(3,030)	-	-	-	(3,030)	2	**(3,028)**
Net losses on available for sale financial assets transferred to profit or loss, net off tax		-	-	1,852	-	-	1,852	-	**1,852**
Total other comprehensive income		**-**	**(3,030)**	**1,852**	**-**	**-**	**(1,178)**	**2**	**(1,176)**
Total comprehensive income for the year		**-**	**(3,030)**	**1,852**	**-**	**137,229**	**136,051**	**242**	**136,293**
Transactions with owners, recorded directly in equity									
Share capital increase		190,500	-	-	(925)	(189,575)	-	-	**-**
Transfers to other reserves		-	-	-	6,032	(6,032)	-	-	**-**
Balances at 31 December 2010		**602,619**	**7,481**	**(2,382)**	**21,609**	**194,690**	**824,017**	**1,853**	**825,870**

		Attributable to equity holders of the Bank							
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total
Balances at 1 January 2011		**602,619**	**7,481**	**(2,382)**	**21,609**	**194,690**	**824,017**	**1,853**	**825,870**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit of the year		**-**	**-**	**-**	**-**	**102,279**	**102,279**	**80**	**102,359**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Currency translation adjustments		-	20,319	-	-	-	20,319	13	**20,332**
Net losses on available for sale financial assets transferred to profit or loss, net off tax		-	-	(308)	-	-	(308)	-	**(308)**
Total other comprehensive income		**-**	**20,319**	**(308)**	**-**	**-**	**20,011**	**13**	**20,024**
Total comprehensive income for the year		**-**	**20,319**	**(308)**	**-**	**102,279**	**122,290**	**93**	**122,383**
		-	-	-	-	-	-	-	**-**
Transactions with owners, recorded directly in equity		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share capital increase		-	-	-	-	-	-	-	**-**
Gains on sale of assets		-	-	-	60	(60)	-	-	**-**
Transfers to other reserves		-	-	-	7,907	(7,907)	-	-	**-**
Balances at 31 December 2011		**602,619**	**27,800**	**(2,690)**	**29,576**	**289,002**	**946,307**	**1,946**	**948,253**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	1 January – 31 December 2011	1 January – 31 December 2010
Cash flows from operating activities:			
Profit for the year		102,359	137,469
Adjustments for:			
Taxation	18	27,014	35,053
Provision for loan losses		20,149	14,220
Depreciation and amortization		6,641	6,310
Provision for retirement pay liability	17	1,549	1,488
Provision for unused vacation	17	1,323	1,386
Currency translation differences		20,332	(3,028)
Net interest income		(309,875)	(296,163)
Gain on sale of property and equipment		(343)	(1,149)
Other		(74,027)	60,845
Changes in operating assets and liabilities:		**(204,878)**	**(43,569)**
Reserve deposits at the Central Bank		(159,619)	(23,776)
Financial assets at fair value through profit or loss		(324,921)	74,124
Loans and receivables		(874,692)	(609,524)
Derivative financial instruments		(9,762)	24,864
Other assets		(84,573)	(39,779)
Deposit with other banks and customers		1,131,264	126,164
Other liabilities and provisions		71,122	1,965
		(456,059)	(489,531)
Interest paid		(270,654)	(196,839)
Interest received		594,998	510,037
Retirement provision paid	17	(975)	(881)
Unused vacation provision paid	17	(407)	(280)
Income taxes paid	18	(23,056)	(34,571)
Cash (used in)/provided by operating activities		**(156,153)**	**(212,065)**
Cash flows from investing activities			
Acquisition of investment securities	9	(26,954)	(143,734)
Proceeds from sale of investment securities	9	220,467	119,966
Acquisition of property and equipment	12,13	(6,196)	(9,137)
Proceeds from sale of property and equipment		1,286	6,662
Cash provided by/(used in) investing activities		**188,603**	**(26,243)**
Cash flows from financing activities			
Change in funds borrowed		111,422	231,873
Cash (used in)/provided by financing activities		**111,422**	**231,873**
Effect of exchange rate fluctuations on cash held		(12,564)	13,392
Net decrease in cash and cash equivalents		131,308	6,957
Cash and cash equivalents at the beginning of the year	6	386,745	379,788
Cash and cash equivalents at the end of the year	**6**	**518,053**	**386,475**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

1. Overview of the Bank

Anadolubank Anonim Şirketi (the "Bank"), has commenced its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 88 (31 December 2010: 86) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 80260 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

The Bank has four consolidating subsidiaries which are Anadolubank International Banking Unit Limited ("Anadolubank International"), Anadolu Yatırım Menkul Kıymetler A.Ş. ("Anadolu Yatırım"), Anadolu Faktoring Hizmetleri A.Ş. ("Anadolu Faktoring"), and Anadolubank Nederland N.V. ("Anadolubank Nederland").

The Bank has 99.40% ownership in Anadolubank International, established in the Turkish Republic of Northern Cyprus ("TRNC"). Anadolubank International is licensed to undertake all commercial banking transactions.

The Bank has 82% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret A.Ş. (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

2. Basis of preparation

(a) Statement of compliance

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey, the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in US Dollar and in EUR in accordance with the regulations of the countries in which they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group adopted all IFRSs, which were mandatory as at 31 December 2011.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following assets and liabilities which are stated at their fair values if reliable measures are available: derivative financial assets and liabilities held for trading purpose and financial assets at fair value through profit or loss.

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

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

(d) Accounting in hyperinflationary countries

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

(e) Use of estimates and judgments

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

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

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 10 – Derivative financial assets and liabilities held for trading purpose
- Note 12 – Loans and receivables
- Note 20 – Other liabilities and provisions
- Note 21 – Income taxes
- Note 27 – Financial risk management

(f) Adoption of International Financial Reporting Standards (IFRS)

New and Revised International Financial Reporting Standards

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported and disclosures in these consolidated financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material impact on the financial statements are set out in further sections.

New and Revised IFRSs affecting presentation and disclosure only

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvementsto IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.

New and Revised IFRSs affecting the reported financial performance and / or financial position

None.

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

New and Revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 3 Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

Such amendments to IFRS 3 have had no impact on profit or loss of the Group for the current and prior periods.)

IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.
Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.
Improvements to IFRSs issued in 2010	Except for the amendments to IAS 1 described earlier in section (a), the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

New and Revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets; Offsetting of Financial Assets and Financial Liabilities
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12	Deferred Taxes – Recovery of Underlying Assets
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statement
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IAS 32	Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Group management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

The Group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015, which is the mandatory application date.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Group management anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The Group management anticipates that the application of the amendments to IAS 12 may not have impact on amounts reported in the consolidated financial statements as the Group does not have any investment properties.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Group management anticipates that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

3. Consolidation

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (including special purpose entities), which are entities controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and in the consolidated statement of comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit for the period and total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in loss of control

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Loss of control

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Assets of the subsidiary carried at fair value with the related cumulative gain or loss recognized in other comprehensive income, the amounts previously recognized in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to the income statement or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

4. Significant accounting policies

(a) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for Anadolubank International and Anadolubank Nederland. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at reporting date with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

Foreign operations

The functional currencies of the foreign subsidiaries, Anadolubank International and Anadolubank Nederland, are US Dollar and EUR, respectively, and their financial statements are translated to the presentation currency, TL, for the consolidation purposes, as summarized in the following paragraph.

The assets and liabilities of the foreign subsidiaries are translated at the rate of exchange ruling at the reporting date. The revenues and expenses of foreign operations are translated to TL using average exchange rates. On consolidation exchange differences arising from the translation of the net investment in foreign subsidiaries are included in equity as currency translation adjustment until the disposal of such subsidiaries.

(b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis
- interest earned till the disposal of financial assets at fair value through profit or loss

(c) Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

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

(d) Net trading losses

Net trading losses includes gains and losses arising from disposals of financial assets at fair value through profit or loss and derivative financial instruments held for trading purpose.

(e) Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of other income based on the underlying classification of the equity investment.

(f) Lease payments made

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(g) Income taxes

Tax charge (benefit) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

2. Deferred tax

Deferred tax is fully provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

The principal temporary differences arise from revaluation of certain financial instruments, including securities and derivatives, insurance reserves and provisions for pensions and other post retirement benefits.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items which are recognized in other comprehensive income is also recognized in other comprehensive income. Such deferred tax is subsequently recognized in the income statement together with the deferred gain or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

(h) Financial assets and financial liabilities at fair value through profit and loss

This category has the following two sub-categories:

- Held for trading and
- Financial assets and liabilities designated at fair value through profit or loss.

Held for trading

The held for trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit making exists, and derivatives unless they are designated as and are effective hedging instruments.

Held for trading securities may also include securities sold under sale and repurchase agreements.

The Group designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in Net trading income and results from investment securities.

Dividend income is recognized in the income statement when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

(i) Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the income statement for the period and reported as gains / losses from investment securities.

Impairment: The Group assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement) is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Interest earned while holding investment securities is reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

(j) Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, where money is provided directly to the borrower.

Loans originated by the Group are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at "fair value through profit or loss".

(k) Impairment losses on loans and advances to customers

The Group assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Group will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;

(c) The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or

ii. national or local economic conditions that correlate with defaults on the assets in the group.

The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the income statement.

The Group assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

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

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the income statement.

A write-off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

(l) Sale and repurchase agreements

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to repurchase agreements ('repos'), continue to be recognized on the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included within securities sold under agreements to repurchase in due to other banks or customer deposits, as appropriate. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed rate at a specified future date ('reverse repos') are not recognized on the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in due from banks. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

(m) Securities borrowing and lending

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received, plus accrued interest. Securities borrowed and securities received as collateral under securities lending transactions are not recognized in the financial statements unless control of the contractual rights that comprise these securities transferred is gained or sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

Respectively, securities lent and securities provided as collateral under securities borrowing transactions are not derecognized from the financial statements unless control of the contractual rights that comprise these securities transferred is relinquished.

The Group monitors the market value of the securities borrowed and lent on a regular basis and provides or requests additional collateral in accordance with the underlying agreements. Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

(n) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

(o) Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

(p) Fair value of financial instruments

The Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices; loans and advances to customers which are classified at fair value through profit or loss and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

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Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

(q) Property and equipment

The costs of property and equipment purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29 – Financial Reporting in Hyperinflationary Economies. The property and equipment purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at costs, less accumulated depreciation and impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the year in the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of property and equipment. Depreciation is calculated over the estimated useful life of the asset as follows:

	Years
Buildings and land improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	shorter of the useful life of the asset or the lease term

The carrying values of property and equipment are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

(r) Intangible assets

Intangible assets mainly comprise computer software.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. Cost associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 – Impairment of Assets and if the recoverable amount is less then the carrying value of the related asset, a provision for impairment loss is made.

(s) Items held in trust

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

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(t) Reserve for employee severance indemnity

In accordance with existing social legislation, the Group is required to make lump-sum termination indemnity payments to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2011 is TL 2,732 (full TL); at 31 December 2010 it was TL 2,517 (full TL).

In the accompanying consolidated financial statements, the Group has reflected a liability calculated using actuarial method and discounted by using the current market yield at the reporting date on government bonds, in accordance with IAS 19 – Employee Benefits. Actuarial gains and losses are recognized in profit or loss in the year they occur.

The principal actuarial assumptions used at 31 December 2011 and 2010 are as follows;

	31 December 2011	31 December 2010
Discount rate	4.66%	4.66%
Expected rate of salary/limit increase	5.10%	5.10%
Turnover rate to estimate the probability of retirement	21.74%	21.74%

(u) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

(v) Financial guarantee contracts

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

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

(w) Earnings per share

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

(x) Segment reporting

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

5. Operating segments

The Group has four 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:

Investment banking

Includes the Group's trading and corporate finance activities.

Corporate and commercial banking

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

Retail banking

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

Treasury

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.

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.

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Information about operating segments

31 December 2011	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Net interests, fees, and commissions income	102,948	208,767	40,451	12,643	1,854	366,663
Other operating income and expenses, net	(66,624)	(135,106)	(26,178)	(8,182)	(1,200)	(237,290)
Profit before taxes	**36,324**	**73,661**	**14,273**	**4,461**	**654**	**129,373**

31 December 2011	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Segment assets	1,200,516	3,236,641	1,905,156	83,773	256,311	6,682,397
Total assets	**1,200,516**	**3,236,641**	**1,905,156**	**83,773**	**256,311**	**6,682,397**
Segment liabilities	1,119,024	2,670,762	1,821,957	45,588	76,813	5,734,144
Equity and non-controlling interests	-	-	-	-	948,253	948,253
Total liabilities and equity	**1,119,024**	**2,670,762**	**1,821,957**	**45,588**	**1,025,066**	**6,682,397**

Other Segment Assets:	
Capital expenditure	10,605
Depreciation and amortization expenses	6,641
Other non-cash income/expense	55,760

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31 December 2010	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Net interests, fees, and commissions income	82,462	212,502	45,286	17,511	142	357,903
Other operating income and expenses, net	(42,712)	(110,068)	(23,457)	(9,070)	(74)	(185,381)
Profit before taxes	**39,750**	**102,434**	**21,829**	**8,441**	**68**	**172,522**

31 December 2010	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Segment assets	958,141	2,437,548	1,723,856	52,743	44,910	5,217,198
Total assets	**958,141**	**2,437,548**	**1,723,856**	**52,743**	**44,910**	**5,217,198**
Segment liabilities	771,775	1,966,447	1,405,996	37,128	209,982	4,391,328
Equity and non-controlling interests	-	-	-	-	825,870	825,870
Total Liabilities and Equity	**771,775**	**1,966,447**	**1,405,996**	**37,128**	**1,035,852**	**5,217,198**

Other Segment Assets:	
Capital expenditure	14,511
Depreciation and amortization expenses	6,310
Other non-cash income/expense	35,623

6. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash on hand	44,404	23,075
Reserve deposits at the Central Bank	456,367	329,582
Balances with the Central Bank	1,620	34
Total	**502,391**	**352,691**
Deposits with banks and other financial institutions	360,652	201,090
Receivables from reverse repurchase agreement	-	15,430
Total cash and cash equivalents in the consolidated statement of financial position	**863,043**	**569,211**
Statutory reserves at the Central Bank	(263,636)	(104,017)
Blocked deposits with banks and other financial institutions	(81,348)	(78,106)
Interest accruals on cash and cash equivalents	(6)	(343)
Cash and cash equivalents in the consolidated statement of cash flows	**518,053**	**386,745**

As at 31 December 2011, deposits with banks amounted to TL 81,348 (31 December 2010: TL 78,106) are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

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As at 31 December 2011 and 2010, details of cash and cash equivalents are as follows:

	31 December 2011				31 December 2010			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Balances with the Central Bank	131,020	326,967	-	-	160,488	169,128	-	-
Deposits with banks and other financial institutions	152	360,500	-	0.17-2.82	988	200,102	-	0.19-1.50
Receivables from reverse repurchase agreements	-	-	-	-	-	15,430	-	0.45
Total	**131,172**	**687,467**			**161,476**	**384,660**		

7. Financial assets at fair value through profit or loss

	31 December 2011		31 December 2010	
Debt instruments:	**Carrying value**	**Effective Interest Rate (%)**	**Carrying value**	**Effective Interest Rate (%)**
Eurobonds issued by the Turkish Government	6,855	2.44-9.43	91,681	4.29-9.00
Government bonds in TL	320,347	3.45-10.97	3,162	2.05-10.84
Equity securities				
	775		720	
Other	96,315	4.90-9.43		
Total financial assets at fair value through profit or loss	**424,292**		**95,563**	

Debt instrument is given as collateral under repurchase agreements:

	31 December 2011	31 December 2010
Deposited at financial institutions for repurchase transactions	63,804	80,542

As at 31 December 2011, carrying values of underlying financial assets at fair value through profit or loss collateralized against repurchase agreements were amounted to TL 63,804 (31 December 2010: TL 80,542).

	31 December 2011	31 December 2010
Equity securities	-	-
Government bonds	2,605	-
Other	-	-
Total	**2,605**	**-**

As at 31 December 2011, the carrying and the nominal values of government securities kept at Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and in Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations are amounting to TL 2,605 (31 December 2010: None).

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8. Derivative financial assets / liabilities held for trading purpose

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

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional 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 notional 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 and option pricing models. 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.

	31 December 2011								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	411	3,555	459,334	450,090	6,679	2,565	-	-	-
Forward sale contract	-	-	452,564	443,369	6,660	2,535	-	-	-
Currency swap purchase	10,362	19,389	1,249,457	1,037,611	32,198	9,164	-	151,595	18,889
Currency swap sale	-	-	1,262,783	1,043,110	32,797	9,798	-	161,578	15,500
Credit default swap sale	298	33,754	56,667	-	-	-	-	56,667	-
Interest rate swap purchase	-	-	7,404	-	-	-	-	7,404	-
Interest rate swap sale	-	-	7,404	-	-	-	-	7,404	-
Put option purchase	-	-	123,160	42,047	21,844	59,269	-	-	-
Put option sale	-	-	123,160	42,047	20,893	60,220	-	-	-
Total	**11,071**	**56,698**	**3,741,933**	**3,058,274**	**121,071**	**143,551**	**-**	**384,648**	**34,389**

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	31 December 2010								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	695	-	171,706	168,830	1,722	1,154	-	-	-
Forward sale contract	-	28,201	167,562	164,904	1,612	1,046	-	-	-
Currency swap purchase	28,470	-	1,655,119	1,526,153	-	-	-	5,286	123,680
Currency swap sale	-	48,422	1,663,970	1,531,597	-	-	-	6,898	125,475
Credit default swap sale	46	7,788	46,380	-	-	-	-	46,380	-
Interest rate swap purchase	143	-	9,090	-	-	-	-	9,090	-
Interest rate swap sale	-	258	9,090	-	-	-	-	9,090	-
Put option purchase	-	-	103,053	95,601	7,452	-	-	-	-
Put option sale	-	74	103,041	95,589	7,452	-	-	-	-
Total	**29,354**	**84,743**	**3,929,011**	**3,582,674**	**18,238**	**2,200**	**-**	**76,744**	**249,155**

9. Investment securities

As at 31 December 2011 and 2010, investment securities classified as held-to maturity comprised of the following:

	31 December 2011			
	Amount	**Effective Interest rate (%)**	**Amount**	**Effective Interest rate (%)**
Debt instruments:				
Turkish government bonds	8,235	13.37	220,353	11.72-14.35
Eurobonds issued by the Turkish Government	534,469	6.5-7.69	439,097	6.50-7.69
Foreign currency denominated corporate bonds	109,996	4.18-9.43	90,106	1.01-7.60
Total held to maturity securities	652,700		749,556	

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Carrying value of held-to-maturity debt securities given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2011	31 December 2010
Deposited at financial institutions for repurchase transactions	571,162	471,622
Other collaterals	83,822	132,987
Total	**654,984**	**604,609**

	31 December 2011	31 December 2010
Balances at beginning of period	749,556	714,293
Foreign currency differences on monetary assets	112,995	17,123
Purchases during the period	26,954	143,734
Disposals through sales and redemptions (*)	(220,467)	(119,966)
Allowance for impairment (**)	(18,127)	-
Changes in amortised cost (***)	1,789	(5,628)
Balances at end of period	**652,700**	**749,556**

(*)Anadolubank N.V., subsidiary of the Group, disposed securities amounting to 28,750,000 EUR from the held-to-maturity portfolio in order to increase capital adequacy ratio due to the changes in the local regulations in 2010. The Group will be able to continue its investment securities to classify as "held-to-maturity", since this disposal is a mandatory action due to the change in the local regulation, which is an exception in IAS 39, mentioning that "if an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated".
(**) Due to the economic situation in Greece worsened and based on the international discussions on this issue, it has been decided to provide permanent provision for impairment of the 50% of the notional values of the Greek bonds in the Anadolubank N.V. portfolio.
(***) Changes in amortised cost include accrual interest on securities.

As at 31 December 2011, carrying values of underlying financial assets classified as held-to-maturity investments collateralized against repurchase agreements were amounted to TL 571,162 (31 December 2010: TL 471,622).

As at 31 December 2011, the carrying and the nominal values of the securities issued by the Turkish Government kept at the Central Bank of Turkey, Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank – Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi (Derivatives Exchange) for legal requirements and as a guarantee for stock exchange and money market operations are amounted to TL 8,235 and TL 7,300 (31 December 2010: TL 54,412 and TL 51,190); respectively.

As at 31 December 2011, carrying values and nominal values of held to maturity securities kept at De Nederlansche Bank (Dutch Central Bank) as reserve requirement against the Group's foreign operations in the Netherlands are amounted to TL 75,587 and TL 78,729 (31 December 2010: TL 78,575 and TL 86,025); respectively.

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10. Loans and receivables

	31 December 2011						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	2,504,056	853,683	151,498	3,509,237	6.25-36.00	2.14-13.50	3.90-10.50
Consumer loans	611,685	-	192,508	804,193	5.28-30.60	-	3.60-12.00
Credit cards	80,248	31	-	80,279	25.44	-	-
Factoring receivables	119,036	93	-	119,129	8.70-38.90	-	-
Total performing loans	**3,315,025**	**853,807**	**344,006**	**4,512,838**			
Non-performing loans				109,654			
Allowance for:							
Individually impaired loans				(54,233)			
Collectively impaired loans				(36,618)			
Loans and receivables, net				**4,531,641**			

	31 December 2010						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	1,906,443	655,555	228,986	2,790,984	6.50-34.00	2.03-12.50	3.20-13.00
Consumer loans	546,174	-	97,801	643,975	5.76-33.00	-	4.44-12.00
Credit cards	54,291	40	-	54,331	29.28	-	-
Factoring receivables	149,748	-	-	149,748	8.69-38.00	-	-
Total performing loans	**2,656,656**	**655,595**	**326,787**	**3,639,038**			
Non-performing loans				91,405			
Allowance for:							
Individually impaired loans				(56,386)			
Collectively impaired loans				(20,670)			
Loans and receivables, net				**3,653,387**			

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

The specific allowance for possible loan losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the reserve for possible loan losses:

	31 December 2011	31 December 2010
Reserve at beginning of the year	77,056	70,277
Provision for possible loan losses	27,375	23,312
Recoveries	(13,580)	(16,533)
Provision, net of recoveries	**90,851**	**77,056**
Loans written off during the year	-	-
Reserve at end of the year	**90,851**	**77,056**

11. Factoring receivables

As at 31 December 2011 and 2010 short-term and long-term factoring receivables are as follows:

	31 December 2011	31 December 2010
Short-term	116,966	141,718
Long-term	2,163	8,030
Total	**119,129**	**149,748**

12. Property and equipment

Movements of tangible assets as at and for the year ended 31 December 2011 and 2010 are as follows:

	1 January 2011	Additions	Disposals	31 December 2011
Cost:				
Buildings	3,799	-	-	3,799
Motor vehicles	8,616	19	(686)	7,949
Furniture, office equipment and leasehold improvements	63,975	5,076	(257)	68,794
	76,390	5,095	(943)	80,542
Accumulated Depreciation:				
Buildings	1,008	76	-	1,084
Motor vehicles	3,043	1,478	(326)	4,195
Furniture, office equipment and leasehold improvements	52,259	4,286	(192)	56,353
	56,310	5,840	(518)	61,632
Net Book Value	**20,080**			**18,910**

	1 January 2010	Additions	Disposals	31 December 2010
Cost:				
Buildings	4,742	-	(943)	3,799
Motor vehicles	6,654	4,326	(2,364)	8,616
Furniture, office equipment and leasehold improvements	61,801	4,380	(2,206)	63,975
	73,197	8,706	(5,513)	76,390
Accumulated Depreciation:				
Buildings	1,156	76	(224)	1,008
Motor vehicles	4,387	804	(2,148)	3,043
Furniture, office equipment and leasehold improvements	49,090	4,155	(986)	52,259
	54,633	5,035	(3,358)	56,310
Net Book Value	**18,564**			**20,080**

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13. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2011 and 2010 are as follows:

	1 January 2011	Additions	Disposals	31 December 2011
Cost:				
Software	11,902	1,101	-	13,003
Other intangibles	1,356	-	-	1,356
	13,258	1,101	-	14,359
Accumulated Amortization:				
Software	10,440	634	-	11,074
Other intangibles	1,396	-	-	1,396
	11,836	634	-	12,470
Net Book Value	**1,422**			**1,889**

	1 January 2010	Additions	Disposals	31 December 2010
Cost:				
Software	11,471	431	-	11,902
Other intangibles	1,356	-	-	1,356
	12,827	431	-	13,258
Accumulated Amortization:				
Software	9,755	685	-	10,440
Other intangibles	1,396	-	-	1,396
	11,151	685	-	11,836
Net Book Value	**1,676**			**1,422**

14. Other assets

	31 December 2011	31 December 2010
Transfer cheques	125,511	68,818
Assets held for resale	11,030	9,543
Prepaid expenses	4,790	4,020
Advances given	511	84
Collateral for leveraged operations (*)	20,871	-
Other	6,312	4,589
Total	**169,025**	**87,054**

As at 31 December 2011, TL 11,030 (31 December 2010: TL 9,543) of the other assets is comprised of foreclosed real estates acquired by the Bank against its impaired receivables.

(*) Collateral for leveraged operations are composed of the given colleterals for transactions, which take place through Anadolu Yatırım A.Ş.

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15. Deposits

Deposits from banks

	31 December 2011				31 December 2010			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	83	37,652	-	-	6	7	-	-
Time	6,286	55,580	6.90-11.65	1.25-4.50	39,438	38,033	7.25-8.85	1.00-2.75
Total	**6,369**	**93,232**			**39,444**	**38,040**		

Deposits from customers

	31 December 2011				31 December 2010			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	37,974	396,252	-	-	42,263	336,596	-	-
Time	1,831,903	1,044,068	5.10-12.00	0.25-6.00	1,138,247	823,572	5.00-10.50	0.25-5.25
	1,869,877	**1,440,320**			**1,180,510**	**1,160,168**		
Commercial and other deposits:								
Demand	167,388	74,427	-	-	178,299	87,162	-	-
Time	338,987	353,934	5.00-12.95	0.25-6.00	249,509	253,402	5.00-9.50	0.25-4.00
	506,375	**428,361**			**427,808**	**340,564**		
Total	**2,376,252**	**1,868,681**			**1,608,318**	**1,500,732**		

Other money market deposits

	31 December 2011				31 December 2010			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	3,823	553,073	10.55	1.23-3.39	31,007	498,924	7.15	1.06-2.65
Interbank money market placements								
Due to banks	-	-	-	-	-	-	-	-
Total	**3,823**	**553,073**			**31,007**	**498,924**		

As at 31 December 2011, carrying values of underlying financial assets at fair value through profit or loss collateralized against repurchase agreements are amounted to 63,804 TL (31 December 2010: TL 80,542) and carrying values of underlying financial assets classified as held-to-maturity investments collateralized against repurchase agreements are amounted to TL 571,162 (31 December 2010: TL 471,622).

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16. Funds borrowed

	31 December 2011				31 December 2010			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term (*)	90,049	301,442	5.75-8.75	1.68-4.57	117,060	228,743	6.25-8.75	0.60-4.14
Medium/long term (*)	1,215	83,654	6.25-8.00	1.68-4.60	143	33,909	8.41	2.46-4.33
Total	**91,264**	**385,096**			**117,203**	**262,652**		

(*) Borrowings are presented considering their original maturities.

Repayment plans of medium/long term borrowings are as follows:

	31 December 2011	31 December 2010
2011	-	33,488
2012	78,830	564
2013	6,039	-
Total	**84,869**	**34,052**

17. Other liabilities and provisions

	31 December 2011	31 December 2010
Transfer orders	163,227	113,089
Collections from security cheques	24,732	28,019
Other various provisions	13,570	12,409
Payables due from credit cards	25,416	12,253
Taxes other than on income	15,695	9,511
Reserve for employee severance indemnity and liability for unused vacations	8,636	7,146
Factoring payables	299	1,784
Collateral for leveraged operations	20,871	-
Other	16,765	19,016
Total	**289,211**	**203,227**

As at 31 December 2011 and 2010, other various provisions are as follows:

	31 December 2011	31 December 2010
Provision for personnel bonuses	7,469	6,275
Provisions for law suits against the Group	2,672	2,447
Provisions for non-cash loans that are not indemnified or converted into cash	1,132	1,010
Provisions for credit card promotions	565	809
Provision for disabled employment obligation	200	200
Other various provisions	1,532	1,668
Total	**13,570**	**12,409**

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

The movement of employee severance indemnity is as follows:

	31 December 2011	31 December 2010
Movement in net liability:		
Net liability at January 1	2,301	1,694
Benefit paid directly	(975)	(881)
Total expense recognized in the income statement	1,549	1,488
Total	**2,875**	**2,301**

The movement of unused vacation provision is as follows:

	31 December 2011	31 December 2010
Total provision at the beginning of the year	4,845	3,739
Paid during the year	(407)	(280)
Total expense recognized in the income statement	1,323	1,386
Total	**5,761**	**4,845**

18. Income taxes payable

Major components of income tax expense:

	31 December 2011	31 December 2010
Current income taxes:		
Current income tax charge	(26,463)	(38,178)
Deferred taxes:		
Relating to origination and reversal of temporary differences	(551)	3,125
Income tax expense	**(27,014)**	**(35,053)**

The current income tax charges and prepaid taxes are detailed below:

	31 December 2011	31 December 2010
Current income tax charge	26,463	38,178
Prepaid taxes	(16,018)	(31,140)
Income taxes payable	**10,445**	**7,038**

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As at 31 December 2011 and 2010, deferred tax assets and liabilities are as follows:

	31 December 2011		31 December 2010	
	Deferred tax Assets/(Liabilities)		Deferred tax Assets/(Liabilities)	
Deferred taxes:	**Asset**	**Liability**	**Asset**	**Liability**
Valuation difference of derivative financial instruments	6,643	-	9,603	-
Differences in the measurement of the debt securities	-	(746)	-	(1,290)
Performance premium accrual	1,469	-	1,255	-
Reserve for employee severance indemnity and liability for unused vacation	1,669	-	1,386	-
Property and equipment and intangibles	2	-	79	-
Other	810	(21)	538	-
Total deferred tax assets/(liabilities)	10,593	(767)	12,861	(1,290)
Offsetting	(767)	767	(1,290)	1,290
Deferred tax assets/(liabilities)	**9,826**	**-**	**11,571**	**-**

	2011	2010
Deferred tax asset / (liability) at January 1	**11,571**	**10,012**
Deferred tax recognized in income statement	(551)	3,125
Deferred tax recognized in equity	77	(463)
Prior period corporate tax that was paid in the current period	(1,271)	(1,103)
Deferred tax asset / (liability) at December 31	**9,826**	**11,571**

A reconciliation of income tax expense applicable to profit from operating activities before income taxes at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2011 and 2010 were as follows:

	31 December 2011	31 December 2010
Net profit from ordinary activities before income taxes and non-controlling interest	**129,373**	**172,522**
Taxes on income per statutory tax rate	25,875	34,504
Disallowable expenses	2,192	128
Effect of income not subject to tax	(1,053)	(8)
Other	-	429
Income tax expense	**27,014**	**35,053**

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19. Equity

Share capital

	31 December 2011	31 December 2010
Number of common shares, TL 0.01 (in full TL), par value Authorized, issued and outstanding 60,000 millions;	600,000	600,000

As at 31 December 2011 and 2010, the authorized nominal share capital of the Bank amounted to TL 600,000 and TL 600,000 thousands.

As at 31 December 2011 and 2010, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2011		31 December 2010	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,823	69.98	419,823	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,282	2.70	16,282	2.70
Nominal value	600,000	100.00	600,000	100.00
Restatement effect per IAS 29	2,619		2,619	
Total	**602,619**		**602,619**	

Other reserves

Other reserves consists of the legal reserves which is amounted to TL 29,516 and gain on sales of assets which is amounted to TL 60.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Non-controlling interests

As at 31 December 2011 net non-controlling interest amounts to TL 1,946 (31 December 2010: TL 1,853).

Fair value reserve of available-for-sale financial assets

Revaluation of available-for-sale assets is detailed as follows:

	31 December 2011	31 December 2010
Balance at the beginning of the year	(2,382)	(4,234)
Net losses transferred to profit or loss on amortization	(385)	2,315
Related deferred taxes	77	(463)
Balance at the end of the year	**(2,690)**	**(2,382)**

During 2006, the Bank has reclassified the securities from available-for-sale financial assets to held-to-maturity investment securities in accordance with the decision of Board of Directors. The loss of TL 12,931 net off deferred taxes at the transfer date that has been recognized directly in equity has been accounted to be amortized to profit or loss over the remaining life of the transferred securities using the effective interest method. As at 31 December 2011, such losses recognized under equity amounted to TL 2,690 (31 December 2010: TL 2,382).

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20. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ which owns 69.98% (31 December 2010: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families. In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

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

Outstanding balances

	31 December 2011	31 December 2010
Cash loans	5,053	9,604
Non-cash loans	65,057	21,198
Deposits taken	43,769	35,544
Transactions		

	31 December 2011	31 December 2010
Interest income	7,084	5,536
Interest expense	2,404	582
Other operating income	1,478	1,129
Other operating expense	1,944	2,424
Directors' Remuneration		

As at and for the year ended 31 December 2011, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 10,097 (31 December 2010: TL 8,904).

21. Interest income / expenses

	1 January-31 December 2011	1 January-31 December 2010
Interest on loans and receivables	531,083	395,326
Interest on marketable securities	41,044	85,488
Financial assets at FVTPL	14,905	18,681
Held to maturity	26,139	66,807
Interest on deposits with banks and other financial institutions	2,593	3,493
Interest on other money market placements	3,651	4
Other interest income	2,122	2,168
Total interest income	**580,493**	**486,479**

	1 January-31 December 2011	1 January-31 December 2010
	2011	2010
Interest on deposits	244,207	154,651
Interest on other money market deposits	18,217	25,127
Interest on funds borrowed	24,775	14,887
Other interest expense	137	94
Total interest expenses	**287,336**	**194,759**

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22. Fees and commissions income / expenses

	1 January- 31 December 2011	1 January- 31 December 2010
	2011	**2010**
From non cash loans	13,025	12,319
Other	*72,490*	*62,515*
From cash loans	*18,382*	*14,796*
From individual loan application	*8,356*	*9,169*
From fund commissions	*5,399*	*6,809*
Other	*40,353*	*31,741*
Fees and commissions income	**85,515**	**74,834**

	1 January- 31 December 2011	1 January- 31 December 2010
	2011	**2010**
ATM commissions	2,285	2,168
Credit card commissions	5,534	3,451
Non-cash loan commissions	62	50
Other	4,128	2,982
Fees and commissions expenses	**12,009**	**8,651**

23. Other operating income / expenses

	1 January- 31 December 2011	1 January- 31 December 2010
	2011	**2010**
Trading income, due from marketable securities	-	40,125
Foreign exchange gains, net	-	26,165
Other income	12,534	8,848
Other operating income	**12,534**	**75,138**

Other operating expenses

	1 January- 31 December 2011	1 January- 31 December 2010
	2011	2010
Salaries and employee benefits (Note:24)	134,698	119,615
Trading losses,due from marketable securities	6,504	-
Trading losses, due from derivatives	7,892	72,328
Foreign exchange loss, net	22,232	-
Provision for possible loan losses, net of recoveries	13,795	6,779
Depreciation amortization	6,641	6,310
Taxes other than on income	10,316	9,905
Other expenses (Note:25)	47,746	45,582
Other operating expenses	**249,824**	**260,519**

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24. Salaries and employee benefits

	1 January- 31 December 2011	1 January- 31 December 2010
Staff costs:	**2011**	**2010**
Wages and salaries	93,366	91,917
Cost of defined contribution plan (employer's share of social security premiums)	12,945	10,761
Other fringe benefits	26,984	15,333
Provision for employee termination benefits and liability for unused vacations	1,403	1,604
Total	**134,698**	**119,615**

The average number of employees during the year is:

	31 December 2011	31 December 2010
	2011	2010
The Bank	1,911	1,834
Subsidiaries	153	77
Total	**2,064**	**1,911**

25. Other expenses

	1 January- 31 December 2011	1 January- 31 December 2010
	2011	**2010**
Operating lease charges	14,131	13,068
Communication expenses	5,900	5,669
Saving deposit insurance fund premium	2,319	2,586
Transportation expenses	3,451	3,222
Maintenance expenses	1,485	1,391
Other provisions	288	676
Hosting cost	2,063	1,756
Energy costs	2,456	2,141
Cleaning service expense	2,421	2,076
Advertising expenses	851	713
Office supplies	1,050	1,059
POS service expenses	514	673
Expertise expenses	2,270	1,409
Chartered accountants	189	135
BRSA participation fee	574	955
Credit card service expense	451	285
Raw credit card expenses	194	42
Other	7,139	7,726
Total	**47,746**	**45,582**

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26. Commitments and contingencies

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the consolidated financial statements including:

	1 January- 31 December 2011	1 January- 31 December 2010
Letters of guarantee	1,012,768	902,998
Letters of credit	242,367	146,589
Acceptance credits	18,331	7,414
Other guarantees	146,755	95,877
Total non-cash loans	**1,420,221**	**1,152,878**
Credit card limit commitments	215,054	143,784
Other commitments	342,519	289,867
Total	**1,977,794**	**1,586,529**

Litigations

(a) The Bank

(i) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of US Dollar 14,750,000 plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management does not consider that there will be any probable loss.

USD Dollar 14,750,000 that was transferred to the account of a customer of the Bank by Citibank N.A. was paid to the related company by the Bank. Citibank N.A. claimed this transfer back, however since the money was paid to the related company and could not be returned, a lawsuit was filed against the Bank. The insurance companies, those paid USD Dollar 11,500,000 of the total amount as the indemnity, were accepted to the case by the court as being intervening party. For the remaining part of the amount (USD Dollar 3,250,000) was prosecuted by Citibank N.A. at the same lawsuit. As of balance sheet date, the court has rejected the demand of 3,250,000 Dollars with Citibank N.A. and 11,500,000 Dollars with the insurance companies, which are involved in the dispute as a result of the hearing on 20 December 2011.

27. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

Risk management framework

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

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

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

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

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

• The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
• The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
• The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

Exposure to credit risk

	Loans and advances to customers		Other assets	
	31 December 2011	31 December2010	31 December2011	31 December2010
Impaired	108,383	90,678	1,271	727
Allowance for impairment	89,652	76,329	1,199	727
Carrying amount	**18,731**	**14,349**	**72**	**-**
Past due but not impaired	84,844	60,265	-	-
Carrying amount	**84,844**	**60,265**		**-**
Neither past due nor impaired	4,428,066	3,578,748	-	-
Loans with renegotiated terms	-	25	-	-
Carrying amount	**4,428,066**	**3,578,773**	**-**	**-**
Total carrying amount	**4,531,641**	**3,653,387**	**72**	**-**

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Impaired loans and receivables

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

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and the completion of the legal procedure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 or 2010.

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

Cash loans	**31 December 2011**	**31 December 2010**
Secured loans:		
Secured by cash collateral	66,005	88,439
Secured by mortgages	1,003,572	874,159
Secured by government institutions or government securities	996	31,622
Guarantees issued by financial institutions	241,011	2,717
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,365,780	1,962,615
Unsecured loans	835,474	679,486
Total performing loans and receivables	**4,512,838**	**3,639,038**

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Non-cash loans	31 December 2011	31 December 2010
Secured loans:		
Secured by mortgages	36,428	19,723
Guarantees issued by financial institutions	54,173	49,713
Secured by cash collateral	276	234
Secured by government institutions or government securities	129	222
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,232,411	882,601
Unsecured loans	96,804	200,385
Total non-cash loans	**1,420,221**	**1,152,878**

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

	31 December 2011	31 December 2010
Mortgages	25,340	15,328
Pledge on automobile	2,495	2,103
Corporate and personal guarantees	150	317
Total	**27,985**	**17,748**

Sectoral and geographical concentration of impaired loans

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

	31 December 2011	31 December 2010
Construction	10,469	6,773
Food	10,721	9,132
Textile	9,680	9,494
Service sector	6,266	6,396
Durable consumption	914	958
Metal and metal products	5,301	4,065
Consumer loans	13,430	10,962
Agriculture and stockbreeding	2,851	3,167
Others	50,022	40,458
Total non-performing loans and receivables	**109,654**	**91,405**

	31 December 2011	31 December 2010
Turkey	109,512	91,242
United States of America	142	163
Total non-performing loans and receivables	**109,654**	**91,405**

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Sectoral break down of cash and non-cash loans

	31 December 2011				31 December 2010			
	Cash	Cash (%)	Non-cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	**254,337**	**5.64**	**29,221**	**2.06**	**178,411**	**4.90**	**28,893**	**2.51**
Farming and stockbreeding	233,992	5.19	25,187	1.78	162,249	4.46	25,974	2.25
Forestry	17,287	0.38	4,034	0.28	14,001	0.38	2,919	0.26
Fishing	3,058	0.07	-	-	2,161	0.06	-	-
Industry	**1,321,167**	**29.28**	**520,017**	**36.62**	**1,079,324**	**29.66**	**444,741**	**38.58**
Mining and quarrying	32,866	0.73	7,941	0.56	27,115	0.75	13,021	1.13
Manufacturing	1,283,764	28.45	492,396	34.67	1,045,219	28.72	413,982	35.91
Electricity, gas, water	4,537	0.10	19,680	1.39	6,990	0.19	17,738	1.54
Construction	**356,719**	**7.90**	**329,415**	**23.19**	**243,903**	**6.70**	**269,516**	**23.38**
Services		**37.35**	**525,679**	**37.01**	**1,240,863**	**34.10**	**395,915**	**34.34**
Wholesales and retail trade	656,800	14.55	270,671	19.06	435,390	11.96	165,693	14.37
Hotel and restaurant services	27,590	0.61	8,382	0.59	18,653	0.51	5,521	0.48
Transportation and communication	107,918	2.39	33,270	2.34	75,482	2.07	30,709	2.66
Financial institution	701,696	15.55	111,748	7.87	534,563	14.69	115,769	10.04
Real estate and rent services	2,607	0.06	1,738	0.12	5,421	0.15	1,124	0.09
Professional services	124,972	2.77	74,924	5.28	104,705	2.88	43,530	3.78
Educational services	2,599	0.06	592	0.04	3,085	0.08	645	0.06
Health and social services	61,576	1.36	24,354	1.71	63,564	1.76	32,924	2.86
Consumer loans	**738,619**	**16.37**	**-**	**-**	**643,975**	**17.70**	**-**	**-**
Credit card	**80,279**	**1.78**	**-**	**-**	**54,331**	**1.49**	**-**	**-**
Others	**75,959**	**1.68**	**15,889**	**1.12**	**198,231**	**5.45**	**13,813**	**1.19**
Total	**4,512,838**	**100.00**	**1,420,221**	**100.00**	**3,639,038**	**100.00**	**1,152,878**	**100.00**

(c) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Management of liquidity risk

The Bank management is very conservative on maintaining an acceptable level of immediately available funds on hand both in TL as well as in foreign currencies. The level that the Bank management feels comfortable is around 10% of the assets size. The Treasury department is responsible for keeping either cash on hand or liquid assets that could be exchanged into cash immediately by making use of instruments in financial markets in consideration of cash outflows within next two weeks.

To mitigate the liquidity risk, the Group diversifies funding sources and assets are managed with liquidity in mind, maintaining balance of cash and cash equivalents.

Within the risk management framework, the Treasury Department manages the liquidity position of the Bank and the liquidity ratios are monitored closely by the top management of the Bank. In order to manage the liquidity risk, Treasury Department receives information from other business departments and regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department maintains a portfolio of short-term liquid assets, short-term loans and placements to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.
The daily liquidity position is monitored by the Treasury Department prepared daily reports cover the liquidity position of both the Bank and its subsidiaries. All liquidity policies and procedures are subject to review and approval of ALCO.

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by BRSA. November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007.

Residual contractual maturities of monetary liabilities

31 December 2011	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	99,601	99,770	37,735	24,395	37,471	-	-	-
Deposits from customers	4,244,933	4,296,060	676,040	2,248,796	1,007,385	171,700	140,926	86
Obligations under repurchase agreements	556,896	558,144	-	128,639	175,218	253,039	-	-
Funds borrowed	476,360	485,077	-	121,291	149,326	199,704	6,039	-
Total	**5,377,790**	**5,439,051**	**713,775**	**2,523,121**	**1,369,400**	**624,443**	**146,965**	**86**

31 December 2010	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	77,484	77,808	13	1,048	50,281	26,466	-	-
Deposits from customers	3,109,050	3,129,458	644,320	206,510	1,995,464	35,821	213,792	33,551
Obligations under repurchase agreements	529,931	531,517	-	31,007	106,573	379,583	14,354	-
Funds borrowed	379,855	382,765	-	107,859	-	145,412	129,494	-
Total	**4,096,320**	**4,121,548**	**644,333**	**346,424**	**2,152,318**	**587,282**	**357,640**	**33,551**

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

Non-cash loans

31 December 2011	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non-cash loans	-	572,197	120,692	330,714	161,509	235,109	**1,420,221**

31 December 2010	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non-cash loans	-	127,952	112,770	331,164	528,643	52,349	**1,152,878**

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(d) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based mainly on Monte Carlo simulation. Taking account of market data from the previous 252 days, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios and stress tests for market price movements. The VaR model used is based on and Monte Carlo simulation with using with Nelson Siegel method for yield curve and GARCH method for volatility. The VaR analysis of the Bank are not reported outside and used only by the top management.

The consolidated value at market risks as of 31 December 2011 and 2010 calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.26333 dated 1 November 2006, are as follows:

	31 December 2011			31 December 2010		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rates risk	7,778	9,362	6,143	10,386	20,824	3,530
Common share risk	103	111	96	59	85	42
Currency risk	2,576	3,868	803	3,238	5,440	669
Option risk	-	-	-	1,498	3,302	88
Total value at risk (12.5 times)	**130,713**	**166,763**	**101,638**	**189,750**	**370,638**	**54,113**

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

Exposure to interest rate risk – non-trading portfolios

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

31 December 2011	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	-	-	-	-	-	502,391	502,391
Deposits with banks and other financial institutions	354,613	-	-	-	-	6,039	360,652
Financial assets at fair value through profit and loss	205,164	291	113,704	97,917	6,441	775	424,292
Derivative financial assets held for trading purpose	11,071	-	-	-	-	-	11,071
Receivables from reverse repurchase transactions	-	-	-	-	-	-	-
Loans and receivables	1,816,083	477,373	1,005,714	882,569	331,099	18,803	4,531,641
Investment securities	-	12,160	25,016	68,661	546,863	-	652,700
Other assets	-	285	-	8	-	199,357	199,650
Total assets	**2,386,931**	**490,109**	**1,144,434**	**1,049,155**	**884,403**	**727,365**	**6,682,397**
Deposits from banks	24,395	37,471	-	-	-	37,735	99,601
Deposits from customers	2,248,796	1,370,033	171,700	140,926	86	313,392	4,244,933
Obligations under repurchase agreements and interbank money market borrowings	128,639	175,218	253,039	-	-	-	556,896
Funds borrowed	121,291	149,326	199,704	6,039	-	-	476,360
Derivative financial liabilities held for trading purposes	-	-	-	-	-	-	-
Other liabilities, provisions and equity	65,403	1,456	10,071	209	1,800	1,225,668	1,304,607
Income taxes payable	-	-	-	-	-	-	-
Total liabilities	**2,588,524**	**1,733,504**	**634,514**	**147,174**	**1,886**	**1,576,795**	**6,682,397**
Net	**(201,593)**	**(1,243,395)**	**509,920**	**901,981**	**882,517**	**(849,430)**	**-**

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

31 December 2010	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	-	-	-	-	-	352,691	352,691
Deposits with banks and other financial institutions	168,463	-	-	-	-	32,627	201,090
Financial assets at fair value through profit and loss	286	103	1,949	81,492	11,258	475	95,563
Derivative financial assets held for trading purpose	29,310	-	44	-	-	-	29,354
Receivables from reverse repurchase transactions	15,430	-	-	-	-	-	15,430
Loans and receivables	1,577,390	198,015	720,611	866,547	276,475	14,349	3,653,387
Investment securities	241,627	46,929	8,197	3,654	449,149	-	749,556
Other assets	-	1,041	-	-	-	119,086	120,127
Total assets	**2,032,506**	**246,088**	**730,801**	**951,693**	**736,882**	**519,228**	**5,217,198**
Deposits from banks	33,521	29,557	14,393	-	-	13	77,484
Deposits from customers	1,843,131	717,897	84,535	112,010	-	351,477	3,109,050
Obligations under repurchase agreements and interbank money market borrowings	58,188	257,269	214,474	-	-	-	529,931
Funds borrowed	122,418	64,935	191,938	564	-	-	379,855
Derivative financial liabilities held for trading purposes	-	-	-	-	-	-	-
Other liabilities, provisions and equity	66,471	7,644	-	155	10,473	1,029,097	1,113,840
Income taxes payable	-	-	-	-	-	7,038	7,038
Total liabilities	**2,123,729**	**1,077,302**	**505,340**	**112,729**	**10,473**	**1,387,625**	**5,217,198**
Net	**(91,223)**	**(831,214)**	**225,461**	**838,964**	**726,409**	**(868,397)**	**-**

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for 2011 and 2010:

31 December 2011	Euro %	US Dollar %	Japanese Yen %	TL %
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.75	0.47	-	-
Loans and advances to customers	3.73	4.22	5.53	16.51
Investment securities	-	7.32	-	13.37
Deposits from banks	4.04	3.11	-	11.22
Deposits from customers	3.78	5.17	-	11.40
Obligations under repurchase agreements	-	1.97	-	10.55
Funds borrowed	4.31	2.37	-	7.41

31 December 2010	Euro %	US Dollar %	Japanese Yen %	TL %
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.64	0.26	-	-
Loans and advances to customers	3.24	4.22	4.80	12.39
Investment securities	-	7.26	-	14.25
Deposits from banks	2.54	1.21	-	8.67
Deposits from customers	2.96	2.91	-	8.93
Obligations under repurchase agreements	-	1.24	-	7.15
Funds borrowed	3.26	2.28	-	7.56

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

Interest rate sensivity of the trading and non-trading portfolios

Interest rate sensitivity of the consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the consolidated net interest income as at and for the year ended 31 December 2011, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2010.

31 December 2011	Profit or loss		Equity (*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets at fair value through profit or loss	(7,280)	7,657	(7,280)	7,657
Floating rate financial assets	(4,275)	4,095	(4,275)	4,095
Floating rate financial liabilities	-	-	-	-
Derivative financial instruments	1,006	(907)	1,006	(907)
Total, net	**(10,549)**	**10,845**	**(10,549)**	**10,845**

31 December 2010	Profit or loss		Equity (*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets at fair value through profit or loss	(5,332)	5,583	(5,332)	5,583
Floating rate financial assets	(2,977)	2,647	(2,977)	2,647
Floating rate financial liabilities	-	-	-	-
Derivative financial instruments	9,147	(9,801)	9,147	(9,801)
Total, net	**838**	**(1,571)**	**838**	**(1,571)**

(*) Equity effect also includes profit or loss effect of 100 bp increase or decrease in interest rates.

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in profit or loss except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into TL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2011, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

(AMOUNTS EXPRESSED IN THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

As at 31 December 2011	US Dollar	Euro	Japanese Yen	Others	Total
Assets:					
Cash and balances with the Central Bank	345,725	8,959	133	584	355,401
Deposits with banks and other financial institutions	198,148	158,105	817	3,430	360,500
Receivables from reverse repo transactions	-	-	-	-	-
Financial assets at fair value through profit or loss	96,385	6,785	-	-	103,170
Investment securities	546,885	97,580	-	-	644,465
Loans and receivables	574,069	495,001	111,477	17,266	1,197,813
Other assets	44	5,814	-	-	5,858
Total assets	**1,761,256**	**772,244**	**112,427**	**21,280**	**2,667,207**
Liabilities:					
Deposits from other banks	32,193	60,785	-	-	92,978
Deposits from customers	922,343	941,642	249	4,447	1,868,681
Other money market deposits	527,567	25,506	-	-	553,073
Funds borrowed	194,498	155,076	-	35,522	385,096
Other liabilities and provisions	10,176	2,997	-	-	13,173
Total liabilities	**1,686,777**	**1,186,006**	**249**	**39,969**	**2,913,001**
Net Position on the consolidated statement of financial position	**74,479**	**(413,762)**	**112,178**	**(18,689)**	**(245,794)**
Off-balance sheet position:					
Net notional amount of derivatives	(66,581)	406,853	(107,511)	36,996	269,757
Net position	**7,898**	**(6,909)**	**4,667**	**18,307**	**23,963**

As at 31 December 2010	US Dollar	Euro	JapaneseYen	Others	Total
Total assets	1,246,593	602,311	133,017	21,801	2,003,722
Total liabilities	1,412,684	891,951	114	5,174	2,309,923
Net Position on the consolidated statement of financial position	**(166,091)**	**(289,641)**	**132,903**	**16,627**	**(306,201)**
Off-balance sheet position:					
Net notional amount of derivatives	95,951	323,129	(132,673)	(9,932)	276,475
Net position	**(70,140)**	**33,488**	**230**	**6,695**	**(29,727)**

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

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Exposure to currency risk sensitivity analysis

A 10 percent devaluation of the TL against the following currencies as at 31 December 2011 and 2010 would have increased/(decreased) equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2011		31 December 2010	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	790	1,999	(7,014)	(6,051)
EUR	(691)	14,709	3,349	11,563
Other currencies	2,297	2,297	693	693
Total, net	**(2,396)**	**19,005**	**(2,972)**	**6,205**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.
Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, during financial crisis, judgment is necessary requirement to interpret market data to determine the estimated fair value.

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

Fair values of held to maturity investment securities and loans and receivables are TL 746,671 and TL 4,521,634 (31 December 2010: TL 813,111 and TL 3,666,255), respectively, whereas the carrying amounts are TL 652,700 and TL 4,531,641 (31 December 2010: TL 749,556 and TL 3,653,387), respectively, in the accompanying consolidated statement of financial position as at 31 December 2011.

Fair values of held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of long-term fixed interest rate loans are calculated by discounting cash flows with current market interest rates. For the loans with floating interest rate and short term loans with fixed interest rate, carrying value also represents fair value.

Classification of fair value measurement

IFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Bank. This distinction brings about a fair value measurement classification generally as follows:

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

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

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

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Classification requires using observable market data if possible.

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	423,517	-	-	423,517
Equity securities	775	-	-	775
Derivative financial assets held for trading purpose	-	11,071	-	11,071
Total financial assets	**424,292**	**11,071**	**-**	**435,363**
Financial liabilities at fair value through profit or loss:	-	-	-	-
Derivative financial liabilities held for trading purpose	-	56,698	-	56,698
Total financial liabilities	**-**	**56,698**	**-**	**56,698**

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	94,843	-	-	94,843
Equity securities	720	-	-	720
Derivative financial assets held for trading purpose	-	29,354	-	29,354
Total financial assets	**95,563**	**29,354**	**-**	**124,917**
Financial liabilities at fair value through profit or loss:	-	-	-	-
Derivative financial liabilities held for trading purpose	-	84,743	-	84,743
Total financial liabilities	**-**	**84,743**	**-**	**84,743**

(e) Operational risk

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

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

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

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2007, using gross profit of the last three years 2008, 2009 and 2010. The amount calculated as TL 51,322 (31 December 2010: TL 44,490) as at 31 December 2011 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk is amounting to TL 641,525 (31 December 2010: TL 556,125).

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(f) Capital management – regulatory capital

The Banking Regulation and Supervision Agency ("BRSA"), the regulator of the banking industry sets and monitors capital requirements for the banks in Turkey. In implementing the current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. However, if operations include activities in the offshore regions, as is the case with Anadolubank A.Ş., BRSA imposes 12%. The BRSA regulation requires the calculation of capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

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

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interest after deduction of goodwill, prepaid expenses and othr certain costs.

- Tier 2 capital, is composed of the total amount of general provisions for loans, revaluation fund on immovables, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement as at 31 December 2011 and 2010 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year.

There have been no material changes in the Bank's management of capital during the year.

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 31 December 2011 and 2010 was as follows:

	31 December 2011	31 December 2010
Tier 1 capital	909,059	797,868
Tier 2 capital	33,928	18,288
Total regulatory capital	942,987	816,156
Risk-weighted assets	4,688,708	3,667,049
Value at market risk	124,063	166,013
Operational risk	641,525	556,125
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	17.29%	18.59%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	16.67%	18.17%

28. Subsequent events

None.

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