Anadolubank

Nothing can hold us back

Annual Report 2012

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Nothing can hold us back...

ANADOLUBANK IN BRIEF

Young, highly motivated, well qualified:
We advance our goals every year...

Anadolubank was acquired from the Turkish Privatisation Administration by the HABAŞ Group in 1997, and is currently one of the youngest, most dynamic and reputable institutions of the Turkish banking sector. Heading out with three branches under the umbrella of the HABAŞ Group, the Bank has reached 91 branches in 14 years thanks to 2024 employees and advanced information technology supporting the business processes. It has built up an active structure and has managed to continuously grow its performance by meeting all the requirements of contemporary banking within a short period of time, thanks to its efficient, profitable and sustainable growth strategy.

Closely following the dynamics in the banking sector with a proactive approach, Anadolubank presents one of the best practices of banking with its wide product range and customer oriented approach. The Bank also makes a difference with its competitive pricing and innovative applications, making no compromises in contemporary risk management principles.

In addition to core banking services, Anadolubank also offers a diverse range of services in the fields of commercial, retail and individual banking. However, the Bank's primary strategic goal is to become Turkey's SME bank. In order to meet all types of financial requirements of SMEs, which are accepted as the basis of the country's economy, to provide a more efficient service in this field, and to enhance efficiency, the Bank has carried out a drastic change in its organisational and operational structure in recent years.

Producing innovative and creative solutions by taking the changing needs of its customers into consideration, Anadolubank acts upon the principle of original and high quality service. Anadolubank, configuring the services of innovation / creativity and product development as an alternative line of business, has shown remarkable success in just a short span of time. The main factor behind this success is the fact that it has internalised a corporate culture that is carefully protected by all employees.

Aside from Anadolubank's domestic success, its reputation in the international market is growing day by day, thanks to persistent and productive relationships established with correspondent banks, based on mutual cooperation. Having established a strong network of more than 900 correspondent banks, thanks to its successful marketing strategy, advanced technological infrastructure and expert staff, Anadolubank is able to easily access regions with high business potential and expand its foreign trade volume each year.

Identifying the most significant elements of its corporate identity as reliability, transparency and high quality service, Anadolubank aims to confirm and maintain its position in the national banking environment in the upcoming years with a healthy and sustainable growth perspective. Anadolubank will proceed on its path with the aim of becoming one of the longest-established and most reliable firms in the Turkish banking sector together with its robust capital structure, experienced senior management staff and employees that are the best in the sector.

HABAŞ GROUP

Hamdi Başaran (1913-1987) laid the foundations of HABAŞ when he established the Hamdi Başaran Topkapı Oxygen Plant in 1956. HABAŞ is one of the pioneering groups in our country, operating in the industrial and medical gases, iron and steel, LPG, natural gas, heavy machinery production, and energy sectors.

Setting the innovative vision of its founder as a guide, the Group conducts its activities with an uninterrupted, efficient and sustainable growth strategy.

Leading the industrial and medical gases sector, HABAŞ has widespread facilities, an extensive dealer network, and technical support and maintenance teams throughout the country. In parallel with rising demand for industrial and medical gases in Turkey, the Group improved and expanded its production, storage and transport facilities, as well as its sales points and product range. Following the liberalisation of the natural gas sector, the Group acquired the necessary licenses and further strengthened its pioneer position in the market with liquefied natural gas (LNG) and compressed natural gas (CNG) products.

Aiming to be involved in every field of energy, HABAŞ also undertook large-scale investments in power generation. After upgrading the capacity of the energy production plants, which were originally installed especially to meet the needs of only the Group companies, HABAŞ today ranks among Turkey's leading power generation companies with an installed capacity of 300 MWH.

Another sector pioneered by HABAŞ is iron and steel production. After commencing iron and steel production in 1987, the Group currently has a production capacity of 4.7 million tons of liquid steel. Exporting the majority of its production to various countries on five continents, HABAŞ has achieved an annual export volume of $ 1.7 billion and total foreign trade volume of $ 3.3 billion.

The port facilities owned by the Group are among the largest facilities in the country, with high loading and unloading capacities, and serve mainly for import and export transactions.

Another of HABAS' fields of operation is the construction of industrial plants. Building turnkey processing plants, air separation plants, steel production plants, rolling mills, power generation plants and gas filling and storage plants for a variety of industrial sectors, HABAŞ also offers engineering services in this area.

For many years now, HABAŞ has ranked among the top industrial enterprises 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 11th among the top 500 industrial enterprises with its performance in sales from production, and 10th with its performance in export volume, in 2010.

Success is ingrained in our nature:
Our roots have grown out of a dynamic, entrepreneurial and innovative institution...

As of the end of 2012, HABAŞ' total sales turnover reached $ 3 billion. Fitch Ratings has affirmed HABAŞ's National Long-term rating at 'A-(tur)'. Fitch has also affirmed HABAŞ's long-term foreign currency and local currency Issuer Default Rating (IDR) at 'B+'. The outlook on all ratings are "Stable".

MESSAGE FROM THE CHAIRMAN

Despite the uncertainty and variability in the financial markets, we have completed another successful year thanks to our young and innovative structure, our sustainable growth strategy, and to our qualified human resources which enhance every step of the way. In 2012, as well as supporting the Turkish economy with our determined, prudent and stable stance, we also showed once more that we are resistant to all types of financial circumstances.

The year 2012 was a period during which the financial crisis that has gripped world markets since its inception in 2008 began to abate gradually. Although the markets' inability to instil full confidence due to stability problems, rising unemployment, and stress in debtor countries due to politicians, has exacerbated the crisis, especially in Europe, the developing countries, the emerging market economies in particular, have managed to protect themselves to some extent from this cycle of crisis.

Notwithstanding the fact that it is certain that the global economic and financial difficulties will continue for some time, the growth data has evolved in a positive way not only in Turkey, but also in the USA, Asian countries and even in the EU. Last year, Turkey's economy grew by 2.2% despite the negative external conditions.

Low inflation rates, high export volume, fiscal discipline and improving current account deficit were among the top positive developments recorded in 2012. Despite the ongoing difficulties in Europe, Turkey's main market, and the general lack of demand in foreign markets, our exports climbed by 13.9% to $ 163 billion.

Another area of focus for Turkey when expanding its exports, the current account deficit, continued its downward trend and contracted by 36.7% compared to last year. Turkey's macroeconomic success has also been recognised in the international arena, after Fitch raised Turkey's credit rating in June as a result of all of these positive developments.

Thanks to rational policies targeting controlled growth, Turkey's projected economic performance for 2013 promises stability. International trade relations and large-scale investments are being supported, funds allocated for growth are rising, and the dynamism visited on the country's economy by our young population is accelerating. When all these data are considered together, it is predicted that Turkey will remain one of the most popular destinations for foreign investors in 2013, as well.

Anadolubank is proud to have completed another successful year in terms of operational and financial results, thanks to its strong capital structure and profitability, despite the fluctuations in the global markets and the consequent periods of pressure on the country's economy. The consolidated asset size, which was TL 6.682 million at the end of 2011, grew by 10.17% to TL 7.362 million by the end of the year. Our Bank recorded growth of 11.16% in consolidated loans, establishing the ratio of loans to total assets at 68.70%. Continuing operations with a capital adequacy ratio of 17.95%, our Bank managed to maintain its reliable structure thanks to its prudent policies, and achieved a net consolidated profit of TL 176 million as a result of successful operations in 2012.

Focusing on the real sector, in line with its strategic objectives, the Bank is proud to be prepared for any type of environment, thanks to its proactive approach and prudent risk management principles, guiding growth perseverance. The major goal of the bank, which plans to grow and become the driving force of Turkey on the basis of its services for SMEs, is determined as expanding its service network by raising the number of branches to 150 by the end of 2015.

Anadolubank, operating in every region where there are SMEs, stands out with its young and dynamic structure and high growth potential.

I would like to express my sincere thanks on behalf of our Bank, which has already displayed the signals of a long and reliable future despite its short history, with the hope of creating a stronger future for Turkey in general, to our employees for their intensive diligence, to our customers for their concrete trust, and to our business partners and social stakeholders for their unlimited support.

Sincerely,

Mehmet Başaran
Chairman of the Board of Directors

MESSAGE FROM THE GENERAL MANAGER

The economic developments taking place in the world and in Turkey in 2012, point to a more robust and stable economic structure. Turkey's economy continues to grow. We are happy to have signed off on a profitable year, and proud to be contributing to the growing power and prestige of Turkey at national and international levels, thanks to our circumspect and prudent banking principles.

It is a great pleasure for me to take this occasion to share our success, which is clearly reflected in our operational and financial results, on behalf of our Bank, which further reinforces its strong position in the finance sector with each passing year, with our shareholders, employees, customers and each and everyone of our esteemed social and economic stakeholders.

A partial improvement was observed in risk appetite in early 2012, thanks to positive economic policies developed in order to solve the problems deepening in Europe in recent years. This led to a decline in our country's risk premium in parallel with the fall in risk premiums of the developing countries. The value of the Turkish Lira remained stable compared to developing countries' currencies, thanks to capital inflows and flexible monetary policy. However, the problems in Europe surfaced again in May due to recurring difficulties, including the political uncertainty in Greece, and this led to the distortion of the risk balances once again. As in the past few years, the driving force of the global economy in 2012 was identified by the growth performance of developing countries. Contrary to expectations, Turkey's economy, among those which succeeded in minimising damage from the negative effects of the problems in the developed economies, recorded growth of 2.2%, although it was influenced by global fluctuations. The Turkish banking sector kept pace with the growth trend of the economy, and recorded growth of 12.6% in total assets as of the end of 2012. The annual growth of the sector in volume of deposits and loans stood at 11%, and 16.4%, respectively.

In 2012, the most significant issues concerning Anadolubank were proper risk management, regular SME financing, and sustainable profitability. Anadolubank has managed to maintain its stable growth performance while continuing to develop its products and services with a proactive approach. It has continued to support Turkey's economy and the real sector by giving priority to SMEs, and has continued its operations by focusing on its area of specialisation, without deviating from its strategic targets. Foreseeing that the SME market, which is expanding in parallel with the growth of the country, will also ignite innovation and growth in providing finance and service to the SMEs, Anadolubank strategically focused itself on this area. Anadolubank, which produces effective lending policies especially in the SME segment, grew by 11% in commercial loans and 32% in retail loans, in 2012. The Bank achieved high level growth of 15 % compared to the previous year in non-cash loans. We now have 91 branches following the opening of 3 new branches in 2012. The Bank, aiming to reach 115 branches by the end of 2013 and 150 branches by the end of 2015 in order to secure a wider distribution channel, will continue to grow steadily.

Anadolubank, as ever, follows a prudent credit policy against any kind of turmoil which occurs or may occur around the world, in Turkey and in the finance sector. The results of our 2012 operations were remarkable when compared to the previous year. Profitability, due to both interest income and capital market operations, rose by 95%.

The number of branches in Agricultural Banking, one of the Bank's areas of operation, climbed to 28, and loans in this segment went up by 40% as a result. Another area exhibiting high performance in 2012 has been credit card and POS turnover. Credit card turnover grew by 24% compared to the previous year, while POS turnover rose by over 30%, thanks to our profitable growth strategy. Meanwhile, many of the Bank's contracted merchants were granted the WorldCard Merchant Member feature during this period.

By the end of 2012, Anadolu Yatırım, a subsidiary of the Bank, was ranked 42nd in the ISE stock market, with a market share of 0.61%, whereas the Bank was ranked 42nd in the VOB market with a market share of 0.39%. On the other hand, the Bank, which offered Turkey's first online real time forex trade services through the "Paritem®" platform, obtained successful results and steadily advanced the volume of transactions in relevant markets thanks to Webborsam, which enables the execution of stock, VOB and parity transactions on a single platform.

All these achievements were reflected in the evaluations of Fitch Ratings, which confirmed Anadolubank's credit rating as BB, and outlook as "stable", in November 2012.

Dear shareholders,

As always, our prudent risk policies, dynamism and strategic perspective lie behind all of our achievements. In the firm belief that the year 2013 will confirm our strength, I would like to express my sincere thanks to our dedicated staff who have fully-contributed to all the remarkable data within this report, to our shareholders for their unrelenting support, and to our customers who have assisted intensely in our outstanding success, business partners and all of our social stakeholders. I also would like to underline that we, Anadolubank, will continue to stride forward towards our goal of achieving the leading position among the medium-sized commercial banks of the sector, and to carry our country to a more solid future.

Gökhan Günay
Member of the Board of Directors and General Manager

CAPITAL AND SHAREHOLDING STRUCTURE

Every part of the whole is invaluable
Together we grow...

Anadolubank was established as a private sector deposit bank, via a division of the assets of Etibank Bankacılık A.O., within the framework of the Law on Regulation of Privatisation Applications dated November 24, 1994 and numbered 4046. The relevant decree was issued in the Official Gazette on October 11, 1996.

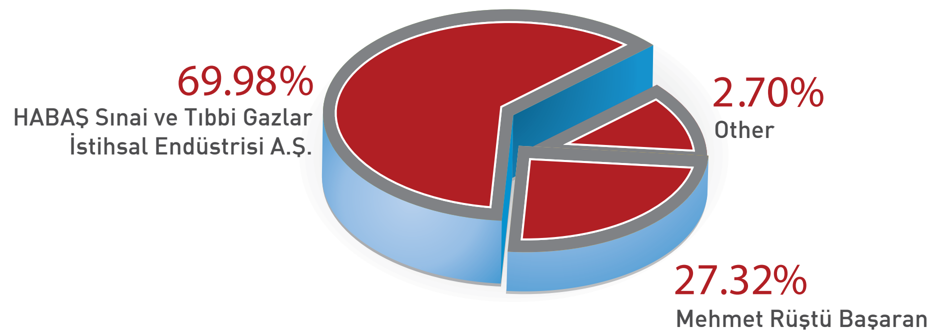
All of the shares of Anadolubank were transferred to the new shareholders of the Bank by the Privatisation Administration on May 7, 1997. The Bank went into action on September 25, 1997 with the permission of the Undersecretariat of Treasury dated August 25, 1997 and numbered 39692.

With 91 branches and 2,024 employees spread throughout the major regions of Turkey, Anadolubank is a bank which provides short term working capital and commercial finance to small and medium-sized enterprises.

69.98% of the shares of Anadolubank, which is under control of the Başaran Family, belong to HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. (HABAŞ), and 27.32% of the shares belong to M. Rüştü Başaran.

Shareholding Structure

Trade Name/Name, Family Name of the Shareholder	Share in the Capital (TL)	Current Distribution of Shares (%)
HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.	419,866,933	69.98
Mehmet Rüştü Başaran	163,894,945	27.32
Aysel Başaran	6,956,583	1.16
Erol Altıntuğ	3,790,100	0.63
Elif Altıntuğ	3,728,961	0.62
HABAŞ Endüstri Tesisleri A.Ş.	1,200,000	0.20
Fikriye Filiz Haseki	562,478	0.09
Total	**600,000,000**	**100.00**



SENIOR MANAGEMENT

Experience and innovation:
We know very well those who direct success...

(1) Cengiz DOĞRU
Member of the Board of Directors and Audit Committee Internal Systems

(2) Taner AYHAN
Assistant General Manager Credit Cards and Electronic Banking

(3) Merih YURTKURAN
Assistant General Manager International Banking

(4) Recep ATAKAN
Assistant General Manager Treasury and Retail Banking

(5) Hüseyin ÇELİK
Assistant General Manager Financial Affairs

(6) Gökhan GÜNAY
Member of the Board of Directors and General Manager

(7) Tunç BERGSAN
Assistant General Manager Information Technologies

(8) Ali Tunç DORÖZ
Assistant General Manager Loans

(9) Sibel AKIN
Assistant General Manager Commercial Banking

(10) İsmet DEMİR
Assistant General Manager Human Resources

(11) Kürşad ORHUN
Assistant General Manager Operations

SUMMARY FINANCIAL HIGHLIGHTS (CONSOLIDATED)

(TL thousands)	31 December 2012	31 December 2011
ASSETS		
Cash and balances with the Central Bank	661,375	502,391
Deposits with banks and other financial institutions	272,087	360,652
Receivables from reverse repo transaction	80,014	-
Financial assets at fair value through profit or loss	153,480	424,292
Derivative financial assets held for trading purpose	18,229	11,071
Investment securities	875,878	652,700
Available for sale investment	700,680	-
Investment held to maturity	175,198	652,700
Loans and receivables	5,058,518	4,531,641
Property and equipment	24,094	18,910
Intangible assets	2,906	1,889
Deferred tax assets	3,865	9,826
Other assets	211,867	169,025
Total assets	**7,362,313**	**6,682,397**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits from banks	209,109	99,601
Deposits from customers	4,493,886	4,244,933
Obligations under repurchase agreements	592,810	556,896
Funds borrowed	368,846	476,360
Derivative financial liabilities held for trading purpose	6,625	56,698
Other liabilities and provisions	374,898	289,211
Income taxes payable	7,743	10,445
Deferred tax liabilities	37,747	-
Total liabilities	**6,091,664**	**5,734,144**
Share capital	602,619	602,619
Reserves	205,923	54,686
Retained earnings	459,959	289,002
Total equity attributable to equity holders of the Bank	**1,268,501**	**946,307**
Minority interest	**2,148**	**1,946**
Total shareholders' equity	**1,270,649**	**948,253**
Total liabilities and shareholders' equity	**7,362,313**	**6,682,397**
Financial Ratios (%)	**2012**	**2011**
Return on average equity (ROE)	15.84	11.54
Return on average assets (ROA)	2.50	1.72
Net interest margin (NIM)	6.34	4.93
Efficiency ratio	43.30	58.07
Capital adequacy ratio (BIS)	17.95	17.29
Total equity to total liabilities	20.86	16.54

CREDIT RATINGS

FITCH Ratings: July, 2012	
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: December 2012[*]	
Foreign Currency	
Long Term	Ba2/NP
Outlook	Stable
Local Currency	
Long Term	Ba1/NP
Outlook	Negative
Financial Strength	
Rating	D+
Outlook	Negative

[*] As of December 2012, the Bank's management has decided not to work with Moody's.

Committed and stable:

We are acutely aware of our desired destination...

2012 ACTIVITIES

Closely following the rapidly changing financial markets both in Turkey and worldwide, and the dynamics of the banking sector, Anadolubank successfully maintained its stable growth in 2012. Persisting with its strategic targets and focuses in a consistent and stable manner while developing studies on new areas, Anadolubank has achieved a positive differentiation thanks to its advanced technology and know-how. Focusing on the areas in which it has in-depth knowledge and expertise, and benefiting from its competitive advantages, Anadolubank stood out in the sector with its performance in 2012, in terms of its capital structure, growth and profitability.

Anadolubank branches are structured in accordance with the demands of different economic operation groups pertaining to the banking sector. Each branch consists of retail marketing, commercial marketing and SME banking units, depending on the area of operation required by these groups. Conducting their operations in close collaboration with the Bank's operations departments, each unit is headed by an assistant manager who reports directly to the relevant branch manager. The Head Office, which has a similar structure, contains marketing and support service departments under the supervision of Assistant General Managers.

In addition, permanent and temporary committees have been formed in accordance with the Bank's requirements, with the participation of different branches and departments. The relationship between the branches and the various departments of the Head Office is conducted through the workflow systems supported by these committees.

The Head Office departments, excluding the Risk Management Department, Legal Compliance Department, Internal Control Centre and the Board of Inspection, reporting directly to the Board of Directors, are as follows:

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

COMMERCIAL BANKING

Fast and solution-oriented: Our banking approach differentiates us from our counterparts...

Conducting its activities in Anadolubank's primary strategic business area, the Commercial Banking Department offers innovative and creative solutions to all of its commercial customers, SMEs in particular, thus enhancing their competitive advantage. The main factor that separates Anadolubank from its counterparts is the fast and solution-oriented banking approach. The Bank's commercial banking mission is to create high added value by focusing on the customer, and providing them with the best quality service in line with their demands and expectations.

What lies beneath the commercial banking culture of Anadolubank is the capacity of creating long term and sustainable cooperation with its customers, thanks to its prudent commerce approach. The linchpins of this capacity are our highly qualified human resources, which are able to offer effective and creative solutions to the changing needs of our customers, and the advanced technology we possess.

The Bank's customer density ratio in commercial banking is significantly lower than the sector average thanks to its widespread customer base. This offers the Bank the potential to create assets at a high efficiency ratio, together with a wide range of products.

Anadolubank has raised its number of branches to 91 as of the end of 2012. In 2013, the Bank will continue to grow in terms of the size of its target group, SME customers, by further expanding its branch network, and to provide high quality services by expanding banking services and the volume of business and transactions.

The Commercial Banking Department conducts its activities under three main segments:

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

SME 1

Anadolubank has included small enterprises along with medium-sized enterprises in its loans portfolio, through the SME-1 banking segment, since 2005. Anadolubank's main objective in this field is to identify the product requirements of its customer base with an annual turnover of TL 3-12 million, and to accelerate marketing activities for this group. Through diversification of distribution channels created in 2012, more than 1500 new customers were brought on board, and the share of this segment in total loans reached 29%. The Small and Medium-sized Enterprises Development Organisation (KOSGEB) and the Credit Guarantee Fund (KGF) bonded loans, which have been in great demand since 2009, have also significantly deepened the customer relations of this segment.

The SME-1 segment, which is of great significance in terms of efforts towards enhancing overall efficiency, is also supported by new product designs. Anadolubank aims to intensify its activities in this segment, and to raise the total asset share of SME 1 banking assets to 20% in the upcoming period.

SME 2 AND COMMERCIAL BANKING

This segment is responsible for the implementation of traditional commercial banking activities.

The Commercial Banking segment, which aims to raise the medium and long-term commercial added value of the Bank, consists of;

• SME 2 Banking Unit, which serves customers with an annual turnover of between TL 12 - 25 million,
• Large Commercial and Corporate Banking Unit, which serves customers with an annual turnover of over TL 25 million.

The Commercial Banking segment, operations of which contain the majority of commercial activity, provides services with a customer-oriented approach in strong cooperation with its solution partners. In this way, the number of customers has risen with every passing year and more than 1000 new customers were acquired in 2012. The total assets of the commercial banking segment grew by 33%, which is considerably higher than the sector average.

CASH MANAGEMENT DEPARTMENT

The development of methods to mediate customers' cash flows, commissioning of new commercial banking products and services, conducting of customer and market analysis, and the creation of branch-portfolio performance measurement models, are among the Cash Management Department's responsibilities. The effective implementation of these activities contributes to the acquisition of new customers, as well as providing solutions for productivity growth.

Maintaining its distinction of being the first and only application in the banking sector, "PotansiyeliM", plays a significant role in the identification of target customers. Through its "corporate memory" feature, the infrastructure, which gives users assistance support, provides the opportunity to closely monitor the stages of a firm, from being identified as a potential target until it is acquired as a customer. On the other hand, growth of 64.78% was achieved this year, compared to the previous year, in another of the department's areas of interest, the collection of taxes, customs and social security SGK premiums.

In line with the Bank's aim of boosting its activities in the cash flow of its customers, the Department will continue to analyse and provide incentive programmes aimed at channelling customers' loan, deposit and other banking requirements to Anadolubank.

RETAIL BANKING

Offering services to 4 different customer groups, namely Individual Banking, Micro Enterprises, Small Enterprises, and Agricultural Banking, the Retail Banking Division supports the real sector and the economy by producing solutions not only for individual customers but also for the requirements of small and medium-sized enterprises.

The target customer group of Anadolubank's individual 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 commercial portfolio. The Bank creates different types of loan options in order to fund the consumption and investments of customers, and provides investment products offering maturity, interest, and opportunity to move freely in the management of assets.

Full support to Anatolian manufacturers:
It is we who carry Turkey to the future...

In 2012, while offering dozens of different payment scenarios to its customers, such as "Draw Your Own Loan - Housing Loans" in residential purchases, the Bank also generated an option with the concept of "Café Credit" , to specify their own expense or interest in consumer loans.

The Gold Account has been added to classic deposit accounts and the ZAP Account, the Convertible Currency Time Deposit Account (TL-USD-Euro). Deposit, Term and Cumulative Gold Accounts have been put into service in order to support the efforts of the economy administration to channel mattress savings into the system. The Gold Gift Certificate application has been a product through which the small savings of gifts will be integrated to the banking system.

MICRO ENTERPRISES

These are the small enterprises, which constitute Turkey's largest group of enterprises in number, but the smallest in terms of turnover, with annual turnover not exceeding TL 1 million. The customers in this segment are those who have recently been registered, started to work with the bank, and thus most in need of financial advice. As well as a wide range of investment and loan products for Micro Enterprises, the bank also provides credit cards, debit cards, POS, cheque books, automatic bill payment and regular payment facilities. Loan volume of the Micro Enterprises Segment, which started in 2010 and continues to grow successfully by the year, grew by 100% this year.

The Small Enterprises segment consists of enterprises with annual turnover not exceeding TL 3 million. The Bank develops products as a special package for sectoral service groups, and offers loan and banking product options compatible with the cash flow and guarantee properties of the sectors. The Bank has adopted the integration of small enterprises into the economy as its mission. To this end, it has prepared loans such as the low-interest flexible-payment plan loan package to meet the cash needs of KOSGEB members, and Home to Capital Loans with up to five-year maturity options, just two of the major "tailor-made" products prepared for the customers of this segment.

Anadolubank has been operating in Agricultural Banking for the last 5 years in order to support production, producers and the development of the agro-industry in Turkish agriculture. The Bank has made waves in the sector and continues its exemplary efforts in specialised banking.

Recording growth of 43% in volume compared to the previous year, Agricultural Banking maintains a notable pace in expanding the number of agricultural service branches, in order to provide more support to the nation's agricultural producers. Taking the wealth of geographical features and extremely varied bounteous climatic conditions of our country into consideration, Anadolubank places special emphasis on Agricultural Banking activities, with 27 specialised branches across the country.

In addition, by using the Tarım Kart (Agricultural Card), producers may; Conduct single-payment shopping transactions from the deposit or agricultural loans account through all domestic bank POSs, as well as benefiting from suitable opportunities offered to Tarım Kart holders at Anadolubank's contracted Merchant Members.

Our mission is to meet every kind of demand that the producer needs, such as operating and investing, in the fastest and most appropriate way. Working with a fully-equipped team of staff, who are experts in their field, the Agricultural Banking segment will continue to expand its support to Anatolian producers in the Turkish Agricultural sector.

LOANS

The Loans Division is responsible for evaluating customer loan applications, meeting the customers' loan demands with sufficient credibility, and determining the limits / conditions of the loans in accordance with the Bank's loans policy principles, as well as monitoring the return of the loans extended.

Prudent approach, rational decisions:
We build our loans policy on solid foundations...

The Loans Division consists of the following 6 departments:

- Commercial Loans Allocations Department
- SME Credit Allocations - I Department
- SME Credit Allocations -II Department
- Retail and Individual Loan Allocations Department
- Financial Analysis and Intelligence Department
- Credit Control and Risk Monitoring Department

The allocations departments were established according to annual turnover of the enterprises:

The Commercial Loans Allocations Department evaluates and finalises loan applications by enterprises with turnover exceeding TL 25 million.

The SME Loans Allocations I-II Department evaluates and finalises loan applications by enterprises with turnovers of TL 2.5 - 25 million.

The Retail and Individual Loans Allocations Department evaluates and finalises loan applications by enterprises with turnover of up to TL 2.5 million, and by individuals.

The Financial Analysis and Intelligence Department supports the Allocations Departments in the allocations processes in terms of financial analysis and inquiry.

The Credit Control and Risk Monitoring Department ensures that loan allocations are carried out in accordance with the notification terms, and monitors the return of the risks on time. It also ensures that necessary measures are taken by sharing any identified problems with the Allocations Departments and with branches when required.

Anadolubank doesn't discriminate between sectors in terms of loan allocations. It includes all companies that are managed with a rational approach, have a strong financial structure, and are resistant to economic crisis in its loans portfolio. However, the Bank takes factors such as the company's background, financial and corporate structure, experience of the partners / executives, and the conditions of the relevant sector into consideration as well as collateral, in the evaluation process of small and medium sized enterprises.

It is crucial to monitor the effects of periodical movements in the financial markets and the economy on various sectors, in order to reduce risks in loan allocations. Accordingly, Anadolubank raises the share of sectors showing improvements in its total loan portfolio and reduces the share of other sectors, in order to minimise risk.

With three new branches opened in 2012, Anadolubank now has 17 agricultural branches and 27 agricultural service branches, and has expanded the business volumes of these branches. As a result, the volume of loans in the agricultural banking segment rose by 40% to TL 180 million.

Anadolubank retains a huge competitive advantage in this area thanks to its faster decision-making process and the flexibility which enables rapid implementation of these decisions. Including all the companies generating added value, and prone to permanent and healthy cooperation in its target customer base, the Bank primarily takes into account the ability of the company to undertake and repay the loan, instead of applying collateral-based allocations.

Producing effective lending policies, especially in the SME segment, Anadolubank's commercial loan volume grew by 11%, whereas retail loan volume grew by 32%, in 2012. In addition, the Bank achieved a remarkable rise of 15% in non-cash loans compared to the previous year.

TREASURY

The Treasury Division is responsible for monitoring potential risks that might arise from the Bank's routine operations, as well as managing the assets and liabilities on the Bank's Balance Sheet.

We manage risks in the changing Turkish landscape...

The operations of the Treasury are composed of three main categories: Turkish Lira and foreign exchange liquidity, fixed-income instruments, and management of derivative products. Maintaining its portfolio, which consists of a diverse range of products, within the framework of the policies and principles set by the Board of Directors and the Assets and Liabilities Committee, the Treasury Division undertakes and manages only calculated risks and works by taking into account all risks and market opportunities.

The Treasury Division conducts all treasury and securities activities by means of 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 of all "Paritem®" transactions, fall under the responsibility of the Treasury Marketing Desk. The Treasury Division offers the most favourable market opportunities to its customer base through government bonds, Eurobonds, derivatives, mutual funds and special investment opportunities.

Anadolubank has become one of the most significant players in the funds markets thanks to three successfully managed mutual funds. Type B bonds, Type B liquid funds and Type A variable funds, designed for investors with different risk profiles, have come to the fore in the sector with the higher yields they earn.

At the same time, the department closely monitors the derivatives and structured product markets that have grown very rapidly over the last few years, and adapts these imported financial products to domestic market conditions by redesigning them according to customer needs.

INTERNATIONAL BANKING

Useful collaborations:
We are at your service anywhere in the world...

The International Banking Division is responsible for the regulation of relationships with international correspondent banks and the financing of foreign trade. Anadolubank's volume of foreign trade has been growing with each passing year thanks to a strong network of over one thousand correspondents, and expert staff consisting of the best in the sector. Through close and productive relations with correspondent banks, the Bank has procured access to all areas with high potential business in the international arena, and offers a fast, effective and top-quality service to its foreign trade customers.

In 2012, Anadolubank achieved foreign trade volume of $ 2.1 billion.

The Division strives to establish relations with correspondent banks based on the principle of mutual benefit and always approaches the decision-making process in a solution-oriented, broad and flexible manner. The Division also has strong and lasting relations with institutions such as US Exim, CCC, Hermes, SACE and ERG, which provide international export financing. Anadolubank meets the medium and long-term financing needs of its customers arising from international trade through the loans provided by these institutions.

New technologies, innovative products: We intensify our pace and consolidate our profit...

CREDIT CARDS AND ELECTRONIC BANKING

In today's world of rapidly developing and updating technology, the banking sector is also in the process of rapid change, with new technologies and products. The Credit Cards and Electronic Banking Division undertakes a vital mission in the delivery of Anadolubank's products and services to large masses, and directing customers in non-branch transaction channels in such an environment.

The Division consists of four departments:

- Credit Cards and Merchant Marketing
- Electronic Banking
- Credit Card Allocations and Risk Monitoring
- Insurance

Credit Cards and Merchant Marketing Department

The Department is responsible for the external calls team, which determines target customers through segmentation, and performs telemarketing with the best sales and marketing strategies.

The Department is responsible for;

- Managing the sales and marketing activities of the branches created for credit cards, POS products and their derivatives,
- Determination of marketing strategies,
- Organising campaigns to enhance customer satisfaction and card usage, and
- Development and diversification of new products.

In 2012, Anadolubank exhibited growth performance well above the market average in terms of both credit card and POS turnover. When compared to the previous year, Anadolubank achieved a rise of 24% in credit card turnover and over 30% in POS turnover, thanks to the profitable growth strategy it pursues.

In accordance with **the cross sales and productivity principle**, potential and profitability have been identified by using Anadolubank' loans prowess, and some mutual studies have been conducted among relevant departments for more effective tapping of the potential of Businesscard. As a result of these studies, the Bank has become one of the fastest growing banks in the sector in terms of Businesscard numbers and turnover.

As part of the strategic partnership carried out with Yapı Kredi Bank, Anadolubank's POS devices espouse the World feature, which has enabled more than 10 million YKB cards to benefit from pay-by-instalment, campaigns, and World–point sales. As of the end of 2012, the World Member Merchant feature has been made available to the Bank's Member Merchants.

The Credit Cards and Member Merchant Marketing Department began developing several strategic products in 2012. It is planned to implement developments which directly affect the productivity and profitability of projects such as Instalment Cash Advance for Credit Cards, Automatic Bill Payment via Credit Card, Loan on POS Turnover, and automatic allocations of Member Merchant POS fees and rents. The Department will also continue to support other departments planning to release the card payment system with which other products will be integrated.

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 application, merchant owners are indemnified free of charge up to TL 20,000 depending on their turnover.

POS package: Advantageous package products are offered to member merchants in certain periods according to the sectors they operate in. Thus, customer loyalty is strengthened as well as the merchants being encouraged to use different products.

AnadoluPOST application: AnadoluPOST is a monthly e-bulletin sent to all member merchants. Informing readers about the latest developments related to the Bank and its products, this bulletin also lays the groundwork to foster closer ties and ongoing relations with member merchants.

Electronic Banking Division

The basic principle of the Electronic Banking Division is to offer continuous, high-quality and reliable service with a customer-oriented approach.

The Division is responsible for;

- Operation of the Bank's credit card, POS terminal, ATM and debit card products,
- Management of the Call Centre, one of the Bank's alternative distribution channels, and
- Management of internet banking.

Departmental activities are updated every single day in order to provide the best service to the customer in accordance with technological developments,

- Anadolubank now has 94 ATMs throughout the country.
- Credit cards and Debit cards have been opened to 3D Secure online shopping. Thus, cardholders have been secured against fraud in online shopping.
- The Online Fraud Tracking System has been activated in order to take immediate action on suspicious transactions at our member merchants and to prevent fraud.
- The BKM (Interbank Card Centre) and Mastercard Moneysend infrastructure were activated in 2012. Money transfer transactions from other banks to our credit and debit cards have been initiated.

Credit Card Allocations and Risk Monitoring Division

The Division consists of two separate units responsible for allocations and risk monitoring.

The Allocations Unit is in charge of determining the terms and conditions for credit card and POS terminal usage in compliance with the Bank's lending policies and strategies, as well as evaluating branch level requests in line with the Bank's policies.

For Credit Card and POS customers;

- Potential customer data is prepared to support the branches,
- Collective CCB inquiries are made, and the results analysed for the relevant departments when required,
- Product analysis is carried out for portfolio management,
- Credit Card risk analysis studies are conducted, and the list of customers performing commercial use / funding is shared on a branch basis as an early warning,
- Process improvement and development projects are managed,
- Systemic improvements in CCB screens have been made and implemented,
- CCB inquiry cost savings have been achieved,
- Limit increase requests have been collected through alternative book-building channels and online shopping.
- Automatic Credit Card flow has been started and implemented for customers availing of Consumer Loans.

The Risk Monitoring Unit is in charge of taking the necessary measures for the return of Consumer loans and credit cards in a healthy way, and following up and recovery of any consumer loans and credit cards that are not or cannot be settled on maturity.

Insurance Division

In 2012, Anadolubank focused intensely on projects for developing the Anadolubank Insurance Platform (ASP), which has been established by the Bank in recent years, and enables the Bank to procure offers from all of the insurance companies in collaboration with the Bank, and to effect policies.

By means of these projects, the Bank aims to enable branches to respond more quickly to customer requirements on the one hand, and to enhance efficiency by reducing the operational workload in the branches on the other hand. One of the projects that have been developed within this structure enabled our customers to view their policies through the internet banking channel, and to follow up allocations and maturities.

In 2012, the Bank gave ample space to new system studies and development of new products with the partner insurance companies in order to boost production. In this context, the "Education Assurance Plan", which indemnifies accidental death and permanent disability risks, and enables the children of the insurance holders to continue their education in the event of the occurrence of the risks, and "My Family's Regular Income Plan", which provides long term fixed income assurance to the survivors in the event of an accidental death or permanent disability, have been offered to customers with HDI Insurance.

Anadolubank will continue to be one of the most important building blocks of bancassurance thanks to its production size, quality of service and new insurance products, in 2013.

INVESTMENT BANKING

Anadolubank's Investment Banking Division provides services for depositors and companies that prefer to finance their growth projects through capital markets.

The following services are included in the main activities of the Division:

- Brokerage services in primary and secondary markets
- Micro and macro research and reporting,
- Corporate finance,
- Derivative products (Derivatives Exchange)
- Brokerage on stock / TurkDEX transactions through the WEBBORSAM platform,
- Brokerage on currency pairs and spot gold transactions on the Leveraged Transactions Market

Fast, qualified and reliable: We offer customised services in capital markets...

Anadolubank's ultimate investment banking goal is to offer high quality and fast data transfer, full compliance with codes of ethics and written rules, and customer-oriented service. The main feature differentiating the Bank from its competitors in this field is the customer-centric, fast, high quality and reliable service approach. The macro / micro-scale reports and customised studies prepared by the Department highlight the Bank's service quality and widen the gap to its competitors.

Anadolubank offers effective investment banking services spread throughout Turkey thanks to its strong marketing network. Brokerage services are carried out through a total of 31 bank branches by means of the direct / active marketing activities of the investment experts employed at Anadolu Investment agency. The cross-selling studies of the Bank in other departments also support these activities.

As of the end 2012, Anadolubank ranked 42nd with a market share of 0.61% among brokerage houses trading on the ISE. The Bank's average monthly trading volume on the ISE through Anadolu Yatırım (Anadolu Investment) throughout the year was TL 622 million. 3,037 of Anadolubank's total 11,843 customers registered on the ISE are active traders.

In addition to equity trading brokerage services as agencies, brokerage services for trading three of the Bank's investment funds and for Derivative Exchange (TurkDEX) transactions are also available at the branches.

As of the end 2012, Anadolubank ranks 45th with a market share of 0.39% among brokerage houses trading on the TurkDEX. Anadolubank's average monthly trading volume on TurkDEX throughout the year was TL 263 million. 215 of Anadolu's total 1,731 TurkDEX customers are active traders.

Anadolubank's customer portfolio is composed mainly of medium-sized enterprises. Maintaining its balanced and stable portfolio and implementing a growth strategy for the coming period, the Bank aims to expand the market share to 0.80% for ISE transactions, and to 0.70% for TurkDEX transactions.

Breaking new ground on August 11, 2010, Anadolubank offered WEBBORSAM, which enables the execution of stock, TurkDEX and currency pair transactions on a single platform, to the service of customers. WEBBORSAM possesses user-friendly features with a structure that integrates the latest technology, and allows the customer entry in any environment with internet access, in addition to the existing practices of the overall market. Users of this product can access WEBBORSAM at www.webborsam.com and www.anadoluyatirim.com.tr.

Thanks to the developable infrastructure of this platform, the system allows modifications / updates in line with any kind of demand communicated by the customers. It is possible for potential customers without active Bank accounts to access this platform using WEBBORSAM trial accounts.

Through this web-based product, investors are able to conduct transactions in the 26 most heavily-traded currency pairs in the world, as well as spot transactions in gold, 24 hours a day, five days a week, without interruption, from anywhere around the globe with internet access. Users of this product can conduct arbitrage transactions in the "Paritem®" section of the Bank's website at www.anadolubank.com.tr or www.paritem.com.tr.

Thanks to WEBBORSAM, Anadolubank aims to boost the number of customers who conduct their stock / TurkDEX transactions by accessing the required market information through this platform without any need for customer representatives.

Anadolubank's goals determined for 2013 and beyond in the field of investment banking are:

- to enhance market share and the number of customers by providing more effective and higher quality services,
- to ensure that the investment banking products are used in all the products marketed by other departments of Anadolubank in cross-selling purposes,
- to focus on Derivative Market (TurkDEX) products, which are appropriate financial instruments for the Bank's customers, and develop new projects to enhance trading,
- to broaden the market share of the Bank by engaging in brokerage for new ISE products,
- to continue to work with customers of a wide variety of sizes (large/ medium/ small) to push up average commission income while achieving market share targets,
- to strengthen the technology infrastructure with the support of the Information Technologies department,
- to proliferate the number of customers conducting online transactions by active promotion of the WEBBORSAM financial platform, and
- to plan new products for the "Paritem®" application to enable intermediation in brokerage of various investment instruments.

Fast, talented and productive:
We host
the best quality
IT applications
in the sector...

INFORMATION TECHNOLOGIES

Since its establishment, Anadolubank has placed great emphasis on its information technology infrastructure. The Bank has one of the most talented and productive IT divisions, which closely monitors all developments in the sector and implements them without delay.

The Division, providing software, hardware and communication services to the Bank and its subsidiaries, Anadolu Yatırım and Anadolubank N.V., is responsible for ensuring compliance and integrity in the field of information technology, research, suggestions, installations, 24/7 operations, maintenance, security, and development and renewal of the systems, which includes continuity, speed and ease of use.

One of Anadolubank's greatest advantages in making a difference in the sector is its flexibility in rapidly meeting the expectations and demands of the units, thanks to the dynamism in its organisational structure. Risks that are quite commonly observed in the organisational structures of IT units among the sector have been minimised in the Anadolubank IT organisation. In this way, the IT Division is able to offer services in line with the business objectives and strategies that will maximise the level of customer satisfaction for the Bank.

The Information Technologies Division consists of seven main functional sub-departments:

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

Projects and Applications in 2012

Working with an approach that centralises quality of service and customer satisfaction, the Information Technologies Division implemented approximately 4,500 modifications and projects for its customers and employees, in 2012.

Focusing on business continuity and redundancy studies, infrastructure and systems investments have been completed, and the maturity level of the Disaster Recovery Centre has been upgraded.

Monitoring and upgrading of the performance of existing infrastructure and applications continued unrelentingly in 2012. More than 600 system components are centrally monitored online thanks to the system-monitoring platform, which was created as a result of long-term efforts. The platform enables the identification of the source of the problem, faster and more accurately, by producing predefined alarm signals when an emergency occurs on any of the server, storage or network devices.

In 2012, within the scope of the review of banking business processes, a number of studies were conducted with the aim of improving and optimising the applications used in the Bank. We began to carry out all processes concerning the allocation and extension of individual loans through the new banking system. Different intelligence inquiries could now be conducted together, after the introduction of the new Financial Analysis and Intelligence application. Images of cheques can now be monitored online, and the cheque scanning devices, which used to be available only in the Head Office, are now being used in all branches. Third-party law firms and lawyers working under contract with the Bank are now equipped to observe and carry out operations for which they are authorised through the system.

Compliance with regulations, together with the automation of the banking processes, was ensured for Anadolubank Nederland NV, one of the subsidiaries of the Bank, by activating the intranet application, Portalım NL and the discount loans module. The operational processes have become faster and more efficient with these improvements.

It is now possible to evaluate the performance of the Branch Marketing Service personnel based on allocated / achieved targets against predefined metrics, thanks to the Portfolio Manager Report Card application implemented during the year.

Within the framework of compliance with legal regulations, several projects have been developed pertaining to the necessary amendments, due to new EFT systems and modules, ICC Debit Card Dual Interface transition, and the addition of the closing session to the ISE processes.

Today, technological developments have brought the efficient use of smart phones and tablets into our lives. In terms of Information Technology, a number of projects have been developed within this context to enable the use of current applications and products on the mobile platform. iPhone and iPad applications have been launched for Parite Mini, the Leveraged transactions platform.

It was intended to conduct cross marketing by automatically allocating credit cards to World Acquiring individual loan customers, and to bring up the credit card usage rate by means of transactions with Agricultural Card payment and Mastercard Money Send Payment projects.

The online security level has been upgraded in order that online transactions with the Bank's cards could be made through 3D Secure. It is now easier for customers, due to the Soft OTP application, which enables online banking entries with one-time passwords on smart phones.

The account statements of customers of Anadolu Yatırım, one of the Bank's subsidiaries, have been reorganised. On the other hand, ease and flexibility of use have been assured with the chain command feature. The aim is to enhance customer satisfaction and commission incomes by means of these projects.

Superonline allocations have been integrated to the current corporate allocations module. Online allocation has been launched for the İski, Eskişehirgaz, Kentgaz and İzsu institutions. At the same time, the project for the integration of the Social Security Institution (SGK)) allocations has been completed.

The Information Technologies Division will carry on with its support and maintenance activities for the current applications in use in 2013.

OPERATIONS

The Central Operations Division (MEROPS) incorporates the following functions:

- Foreign Trade,
- Loans,
- Branch Operations and
- Organisation and Business Development.

Merkezi olarak tasarlanan ve yönetilen süreç ve operasyonlar sayesinde, müşterilerimize en yüksek kalitede hizmeti en yüksek hızda verir, müşteri memnuniyeti temelinde şekillenen güvenli bir çalışma ortamı yaratırız.

Due to processes and operations which are designed and managed centrally, we offer the highest quality service in the shortest possible time and create a reliable working environment based on customer satisfaction.

Fast, reliable service:
Focus on total customer Satisfaction...

At Anadolubank, we offer the following services centrally to our customers:

- All foreign trade transactions,
- Domestic and foreign guarantees,
- Entering commercial loan collateral surety and documents, lending and repayments,
- Entering personal loan collateral surety and documents and lending,
- Entering agricultural loan collateral surety and defining limits,
- Domestic and foreign cheque and bond transactions,
- Cash collections and distribution by means of Cash reserve management.

In addition to these activities, the Operations Division communicates all necessary information to its branches and Head Office Units by following national and international legislations, presents its opinions on legislations, and directs the system development studies conducted with Information Technologies in order to adapt any amendments in the legislations to the Banking system.

Our goal is to design all processes in accordance with the principles of safety and efficiency and to ensure the continuity as well as the enhancement of customer satisfaction by consistently improving the current processes. We maintained our efforts in 2012, using all the opportunities offered by technology, with our customer-centric approach, in order to eliminate the manual steps within the processes, to conduct operations in a fully integrated and automatic manner, and to further reduce operational risks. In 2013, we intend to persist with these efforts as well.

FINANCIAL AFFAIRS

Financial Affairs consists of the Budget and Financial Control Department and the Financial Operations Department.

Budget and Financial Control Department

The Budget and Financial Control Department is responsible for supporting the senior management in the decision-making process and determination of the Banks's strategies with the financial reports prepared by the department. All reports produced within the Bank are collected and analysed by this department to be submitted to the senior management of the Bank, particularly the Board of Directors and the Assets and Liabilities Committee.

In 2012, the Budget and Financial Control Department conducted studies on regular and systematic evaluation of branch performances and improvement of the accounting infrastructure, which is the foundation of the MIS infrastructure. Going forward, the aim is to computerise the reports that are manually prepared and to diversify these reports.

The distinction is concealed in the details:
We support effective strategies with appropriate decisions...

The department;

- Analyses the balance sheet and income statement on a daily basis, conducts a detailed analysis of the Bank's interest and non-interest income and expenses, reports the results, and makes projections for the future,
- Prepares the Bank and branch budgets and reports the results compared with the budgeted amounts,
- Prepares efficiency reports, monitors customer and branch contributions to the Bank through these reports, and assists the marketing staff in the decision-making processes in line with the i nformation in the reports, and
- Prepares reports on a daily, weekly, monthly, quarterly and annual basis for the Banking Regulation and Supervision Agency (BRSA), the Central Bank of Turkey (CBT), the Capital Markets Board (CMB), the Turkish Statistics Institute (TSI) and the Banks' Association of Turkey.

Financial Operations Department

The Department is responsible for carrying out the Bank's accounting and operating the transactions conducted by the Treasury Department.

The department;

- records and keeps track of bonds, treasury bills, and placement and borrowing transactions with banks,
- establishes the infrastructure required by operational applications and taxation operations for all financial instruments offered by the Bank,
- accounts and makes payments for all product and service purchases of the Bank, and
- fulfils every kind of tax liability of the Bank.

In 2013, the Financial Operations Department plans to complete the overhaul of the accounting infrastructure of the derivative instruments that were developed substantially in 2012.

HUMAN RESOURCES

The heroes behind the scene:
We are proud of our highly qualified human resources...

Producing innovative and creative solutions to the continuously evolving requirements of the market and our customers, Anadolubank enjoys the interminable and utmost support from its highly qualified human resources. The major objective of the Human Resources Division is to maintain and improve its professional staff, consisting of well-equipped, dynamic, creative and visionary bankers.

Knowing that the most valuable asset of an organisation is its human resources, maximum care is shown for the recruitment process in Anadolubank. The senior management team is personally involved in this process, applying scientifically designed interview and selection methods. The Bank continues its tradition of recruiting employees for vacancies in the organisation by evaluating existing human resources and promoting staff within the Bank itself. This philosophy strengthens the sense of corporate loyalty and belonging by boosting employee motivation. Anadolubank supports its employees on every step of their career development process. The primary objective of career planning is to enrich professional knowhow as much as possible, maintain motivation at the highest of levels, and expand their vision while they are fulfilling the terms of their respective jobs.

As of the end of 2012, Anadolubank's total number of employees reached 2,024. Of this number, 697 work at the Head Office and the remaining 1,327 employees operate in branches.

In full awareness of the fact that the quality of services offered to the customer depends critically on the qualifications of its employees, Anadolubank is also aware that education is a prerequisite, not only for personal but also for organisational development. For this reason, employee participation in internal and external training programmes is actively encouraged. The training programmes are designed by expert trainers, with versatile and rich content to ensure the technical and personal development of all employees. In 2012, a total of 113,311 hours of training, including e-trainings, was provided to a total of 11,508 participants. Average training time per employee amounted to 57.58 hours.

The Human Resources Division consists of six sub-departments: Legal Proceedings Monitoring, Human Resources, Training, Communications and Administrative Affairs, Protection and Security, and Purchasing.

Legal Proceedings Monitoring Department

The Legal Proceedings Monitoring Department operates under the Assistant General Manager of the Human Resources Division. The main task of the department is to ensure the necessary coordination and collaboration between the Legal Counsel, the branches and the departments of the Head Office, and the most effective return on risk of non-performing loans until the conclusion of the legal proceedings process for said non-performing loans.

The Legal Proceedings Monitoring Department organised planning, research and evaluation meetings at regular intervals by ensuring the participation of the Branch Legal Proceedings Investigation teams and the Legal Counsel in 2012.

Human Resources

To strengthen the sense of corporate loyalty and belonging by enhancing employee motivation.

Personnel Statistics

	2012	2011	2010
Number of Employees			
Head Office	697	639	596
Branches	1,327	1,272	596
Total	2,024	1,272	1,238
Average Number of Employees per Branch	22.2	21.7	21.3
Male	1,085	991	937
Female	939	920	897
Education Level of Employees			
PhD and Masters	93	99	87
Bachelor's Degree	1,540	1,416	1,346

Financial services, different specialisations:

We direct synergy competently

SUBSIDIARIES

AnadolubankNederland N.V.

Incorporated as a fully owned Anadolubank subsidiary, with an issued capital of € 55 million, Anadolubank N.V. began operations at the beginning of 2008, after obtaining its banking license from the Central Bank of the Netherlands on August 2, 2007. Anadolubank N.V. is engaged in retail banking, funding of small and medium sized enterprises and financing of foreign trade in the Eurozone, mainly in the Netherlands, and in Turkey.

Building up a wide customer base in a short space of time with the support of its robust capital, experienced management team and parent bank, Anadolubank N.V. expanded its customer numbers to 16,000 as of the end of 2012. Despite the rapid growth in its assets, the Bank succeeded in maintaining its asset quality at a high level thanks to its prudent loan policies. The Bank's total assets, which amounted € 372.6 million as of the end of 2011, reached € 460.5 million as of the end of 2012.

Following a determined and consistent strategy without compromising its risk-sensitive approach, with an issued capital of € 55 million, Anadolubank N.V. retains its position among the banks with the strongest capital structures, with a capital adequacy ratio of 16.53% in 2012.

Anadolu Factoring (Anadolu Faktoring Hizmetleri A.Ş.)

Commencing operations on March 20, 2007, and with 99.9 % of its shares held by Anadolubank, Anadolu Factoring is the number one representative of the factoring sector, which has a very short history in Turkey, according to the order of permits issued by the Banking Regulation and Supervision Agency. Anadolu Factoring provides support with competitive, flexible and reliable financing options to enterprises in all regions with a strong and dynamic commercial life, particularly in and around Istanbul.

Maintaining its successful performance in 2012, as exhibited from day one, Anadolu Factoring augmented its active customer numbers by 20%, to 611 as of the end of the year. The company achieved a return on assets of 7.8%, and a return on equity of 18.3%, whereas its net factoring receivables reached TL 115 million as of the end of 2012.

Anadolu Factoring's net profit for the year 2012 stands at TL 9.2 million, and its equity reached TL 55.2 million as of the end of the year.

Anadolu Yatırım

Established on September 21, 1998, Anadolubank Yatırım signed the agency contract with Anadolubank on April 28, 1999. The company is engaged in securities trading, leveraged trading transactions, IPO, portfolio management, repo / reverse repo, and investment consultancy services.

Anadolu Yatırım's capital stands at TL 5.4 million, and its total assets and net profit for the year have reached TL 34 million and TL 1.08 million, respectively, as of the end of the year.

In 2012, Anadolu Yatırım's average monthly trading volume on the ISE was TL 622 million with a market share of 0.61%. With this market share, the company ranks 42nd among the brokerage houses trading on the ISE.

Anadolu Yatırım aims to expand its customer numbers along with its trading volume, in order to enhance its market share in the stock market to 0.80%.

"Paritem®"

The Forex transactions platform, "Paritem®" enables investors to make transactions on silver and gold with 26 currency pairs 5 days a week, 24 hours a day, on the web, iPhone and iPad.

Anadolubank International Banking Unit Ltd.

Founded on April 17, 2003, Anadolu Offshore's trade name was changed to Anadolubank International Banking Unit Ltd as required by the TRNC International Banking Units Law. With 99.4% of its shares held by Anadolubank, the Bank's total assets and net profit reached $ 7.3 million and $ 0.2 million respectively, as of the end of 2012.

MANAGEMENT AND CORPORATE GOVERNANCE APPLICATIONS

Reliability, transparency and high quality services: We identify our corporate identity in line with our principles.

Corporate Governance Principles

Putting up intensive efforts in order to continue its activities with a more professional management approach and more effectively, Anadolubank aims to fully comply with the Corporate Governance Principles stated in the relevant article of the Banking Law. Closely following BRSA regulations as well as its own corporate management principles, Anadolubank believes that a governance practice complying with these principles, will boost the profitability of the Bank in line with its sustainable growth target, and strengthen its reputable position in the sector.

Board of Directors and Auditors

Board of Directors

Members of the Audit Committee and other committees attended all meetings held during the year unless there were valid excuses.

Board of Directors;

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

Mehmet Başaran
Chairman and Executive Member
Mr Başaran graduated from Istanbul Academy of Economics and Commercial Sciences. He started his professional career in HABAŞ Sınai ve Tıbbi Gazlar A.Ş. in 1972. Mr Başaran currently serves as the Chairman and Executive Member of the Boards of Directors of HABAŞ Group companies, Başaran Holding and Anadolubank.

Pulat Akçin
Vice Chairman
Mr Açkın completed the MBA programme at the University of Technology after graduating from the Faculty of Economics at Istanbul University. He set out on his professional career at International Industry and Commerce Bank and worked as a senior manager for several domestic and international banks. After serving as the General Manager in Tekstilbank, Mr Akçin joined Anadolubank in 2002. He currently serves as the Vice Chairman of the Board of Directors of Anadolubank.

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

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

Yusuf Gezgör
Member of the Board of Directors
Mr Gezgör completed his education in the Faculty of Economics at Istanbul University. He began his professional career in Osmanlı Bank. After having served for that bank for 23 years, he was appointed as Assistant General Manager of Commercial Banking and Loans in TEB. Joining Anadolubank in 2001, Mr Gezgör currently serves as the Member of the Board of Directors responsible for Loans and Marketing.

Engin Türker
Member of the Board of Directors
Mr Türker is a graduate of Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Business Administration. He has served in various positions in Mertaş and HABAŞ. Besides having served as the General Manager of HABAŞ Industrial Facilities since 1984, Mr Türker has been serving as a Member of the Board of Directors of Anadolubank since 1997.

Cemal Düzyol
Member of the Board of Directors and Audit Committee
Mr Düzyol completed his education in the Faculty of Economics and Administrative Sciences at Ege (Aegean) University. He commenced his professional career in Garanti Bank. Afterwards, he served in several positions as Chairman of the Audit Board, Group Manager, Assistant General Manager and Member of the Board of Directors in various banks. After serving as the Assistant General Manager in Tekstilbank, Mr Düzyol joined Anadolubank in 2007. He currently serves as a Member of the Board of Directors of Anadolubank.

Cengiz Doğru
Member of the Board of Directors and Audit Committee Responsible for Internal Systems
After graduating from the Department of Public Finance at Hacettepe University, Mr Doğru completed his Masters education (MBA) in the Department of Business Administration at Boğaziçi University. He started his professional career on the Board of Certified Bank Auditors of the Undersecretariat of Treasury, in 1988. He served in various positions as Auditor, Chief Auditor and Vice Chairman of that Board. He began working as the Assistant General Manager of Kentbank in 1999. Having joined Anadolubank as Assistant General Manager in 2002, Mr Doğru has been serving as a Member of the Board of Directors of Anadolubank since 2008.

Auditors

The term of office of the auditors lasts for one year.

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

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

Senior Management

Gökhan Günay
Member of the Board of Directors and General Manager
Mr Günay graduated from the Faculty of Business Administration at Marmara University and received his MBA from Tennessee State University. He started his professional career at Türkiye Sınai Kalkınma Bankası and later served as Head of the Securities Department at Pamukbank, and as the Assistant General Manager of Treasury in Sümerbank and Bayındırbank. Having joined Anadolubank in 2002, Mr Günay currently serves as the General Manager.

Recep Atakan
Assistant General Manager
Retail Banking, Treasury, Agricultural Banking, Advertising and Public Relations
Mr Atakan graduated from the Department of Management Engineering at Istanbul Technical University. He started his banking career in Yapı Kredi Bank and served at various levels such as Director and Department Head in Yapı Kredi Bank and Sümerbank. He then served as the General Manager of Bayındır Bank from 2001 to 2003. He served as the General Manager of Anadolu Yatırım between 2003 and 2007. He has been serving as the Assistant General Manager of Anadolubank responsible for Retail Banking, Treasury, Agricultural Banking and Advertising and Public Relations since 2007.

Sibel Akın
Assistant General Manager
Commercial Banking
Ms Akın is a graduate of the Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Business Administration. She commenced her professional career in Türk Dış Ticaret Bankası (Turkish Foreign Trade Bank) in 1991. After serving in various positions, she joined Anadolubank in 2002. Ms Akın currently serves as the Assistant General Manager responsible for Commercial Banking.

Merih Yurtkuran
Assistant General Manager
International Banking
Ms Yurtkuran received her Master's degree in Chemical Engineering at the University of Michigan after graduating from Chemical Engineering at Yıldız Technical University. Following her career in the chemistry sector in various positions, she started her banking career in Garanti Bank in 1978. She then served as a senior manager in various public and private sector banks. Joining Anadolubank as a consultant in 1999, Ms Yurtkuran has been serving as the Assistant General Manager responsible for International Banking since 2000.

Taner Ayhan
Assistant General Manager
Credit Cards and Electronic Banking
Mr Ayhan received his Bachelor's degree and PhD in Computer Engineering at Middle East Technical University, and his MBA from Bilgi University. He served as a consultant at the London and Istanbul offices of Andersen Consulting (Accenture) between 1989 and 1993. Then he served as the Manager responsible for Alternative Distribution Channels (ADC) and Individual Banking in Pamukbank, and the Chairman of the Board of Directors of the Interbank Card Centre (ICC) between 1993 and 2000. He served as the Assistant General Manager responsible for ADC and Consumer Finance in Fortis Bank between 2000 and 2007. He later went on to serve as the Country Manager of Citibank between 2007 and 2008. Having joined Anadolubank in 2009, Mr Ayhan currently serves as the Assistant General Manager responsible for Credit Cards and Electronic Banking.

Tunç Bergsan
Assistant General Manager
Information Technologies
Mr Bergsan graduated from the Department of Electronics and Communication Engineering at Istanbul Technical University. He commenced his professional career as a Software Engineer at Netbank in 1989. From 1993, Mr Bergsan served in various positions at Mardata Information Systems, later to be called Baysis and YAZ Information Systems, respectively. There he was involved in projects primarily related to banking software development, including internet banking software, credit cards and ATM integration, database, system and network management, and banking information technologies outsourcing production. Following his service at YAZ Information Systems as General Manager between 2001 and 2007, Mr Bergsan joined Anadolubank. He currently serves as the Assistant General Manager responsible for Information Technologies.

Kürşad Orhun
Assistant General Manager
Operations
Mr Orhun received his Bachelor's degree from the Faculty of Economic and Administrative Sciences, Department of Economics at the Middle East Technical University, and his MBA from Sabancı University. He set out on his professional career at Akbank's Audit Board in 1993 and then he served as External Operations Manager and Head of the Customer Services Department. Between 2008 and 2012, he served as Head of the Central Operations Department at Eurobank Tekfen. Mr Orhun undertook centralisation, and system and process improvement activities at the banks he worked for. Having joined Anadolubank in 2012, Mr Orhun currently serves as the Assistant General Manager responsible for Operations.

Hüseyin Çelik
Assistant General Manager
Financial Affairs
Mr Çelik graduated from the Faculty of Economic and Administrative Sciences, Department of Public Finance at Uludağ University. 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 the Assistant General Manager responsible for Financial Affairs.

İsmet Demir
Assistant General Manager
Human Resources
Mr Demir completed his Masters education in the Department of Business Administration at Maltepe University after graduating from the Department of Banking and Insurance at Gazi University. He started his professional career at Sümerbank and later served as an Inspector and Assistant Personnel Manager at Akbank. Mr Demir joined Anadolubank in 1997 and he currently serves as the Assistant General Manager responsible for Human Resources.

Ali Tunç Doröz
Assistant General Manager
Loans
Mr Doröz graduated from Istanbul University, Faculty of Economics, Department of Business Administration and Public Finance. Mr Doröz commenced his professional career as the Assistant Auditor at Osmanlı Bank in 1982. He served as Manager responsible for the Commercial Loans Allocation Unit at the Head Office and the branches. Having joined Anadolubank in December 1998 as Loans Allocations Manager, Mr Doröz currently serves as the Assistant General Manager responsible for Loans.

Audit Committee

The Audit Committee is charged with and responsible for overseeing, on behalf of the Board of Directors, the effectiveness and adequacy of the Bank's internal systems, the functioning of these systems as well as the accounting and reporting systems in compliance with the Banking Law and related regulations, and the integrity of the information generated by such systems. The Committee is also responsible for performing the requisite preliminary assessments to assist the Board of Directors' election of independent audit companies as well as credit rating agencies, appraisal firms and support service providers, regularly monitoring the activities of these organisations.

The committee is responsible for ensuring that the internal audit activities of the subsidiaries that are subject to consolidation are performed on a consolidated basis, in accordance with the regulations that became effective pursuant to the Law, and fulfilling other tasks and responsibilities stated in Article 7 of the "Regulation on Internal Systems of Banks" published in the Official Gazette No. 26333 dated 01.11.2006

The Audit Committee receives regular reports from all units created under the legal compliance, internal control, and internal audit and risk management systems as well as from independent auditors regarding the execution of their respective duties. It is incumbent on the Committee to notify the Board of Directors of any issues that may undermine the sustainability and credibility of the Bank's business and/or lead to breach of legislation and internal regulations of the Bank, and to oversee, evaluate and ensure the effectiveness and adequacy of the Bank's internal systems within the context of the Banking Law, the Regulation on Internal Systems of Banks, and the relevant regulations.

The Audit Committee is tasked with reporting the activities that the Committee has performed during the period, not to exceed six months, and the results of such activities, to the Board of Directors. The Audit Committee's opinions on the measures that need to be taken and practices that need to be initiated within the Bank, as well as other matters significant for the ability to continue the Bank's operations in safety are included in these reports.

The Audit Committee is authorised to receive documents and information from all units of the Bank and the contracted outsourcing institutions and independent audit firms and to procure consulting services from outside experts, as subject to the approval of the board of directors and financing by the bank. The Audit Committee's duties, powers and responsibilities, as well as the working principles and procedures, are regulated by the Board of Directors.

Members of the Audit Committee

Cemal Düzyol
Member of the Board of Directors – Member of the Audit Committee

Cengiz Doğru
Member of the Board of Directors – Member of the Audit Committee
Internal Systems

Remuneration Committee

A Remuneration Committee was established pursuant to the "Regulation pertaining to the Amendments to the Regulation on the Banks' Corporate Governance and Principles", published in the Official Gazette dated 01.01.2012. The Remuneration Committee is responsible for monitoring and auditing whether or not the remuneration activities of the Bank are executed in compliance with the remuneration policies stated in the relevant parts of this regulation.

Members of the Remuneration Committee

Erol Altıntuğ
Member of the Board of Directors

Cengiz Doğru
Member of the Board of Directors - Member of the Audit Committee - Internal Systems

The CVs of the members of the Committee are located in the "Board of Directors, Auditors and Audit Committee" section.

Managers of Internal Systems Units

Tuba Burçe Önal Yaman
Chairman of the Board of Inspection
Ms Önal Yaman started her professional career in the Anadolubank Internal Control Centre in 2001, after graduating from the Department of Labour Economics and Industrial Relations, Faculty of Economic and Administrative Sciences at Dokuz Eylül University. She served as an Inspector in the Board of Inspection, as a Director in the Budget and Financial Control Department and as Head of the Internal Control Centre, respectively. Ms Önal Yaman has been serving as the Chairman of the Board of Inspection since 2010.

Gülsüm Akay
Chairman of the Internal Control Centre
Ms Akay received her Master's degree from the Department of European Union Economics, European Union Institute at Marmara University after graduating from the Department of Politics and International Relations, Faculty of Economics and Administrative Sciences at Marmara University. She started to work on the Board of Inspection in 2003. Serving as an Inspector and an Assistant Manager respectively in the Internal Control Centre, Ms Akay has been serving as Chairman of the Internal Control Centre since April 2010.

Hakan Eker
Chairman of the Risk Management Department
Mr Eker commenced his professional career at Yapı Kredi Bank after graduating from the Department of Economy, Faculty of Economics and Administrative Sciences at Uludağ University. He then served as the Assistant Manager of the Risk Management Department of Bank Asya. Having joined Anadolubank in 2007, Mr Eker currently serves as the Chairman of the Risk Management Department.

Fatma Kaya
Head of Legal Compliance Department / MASAK: (Financial Crimes Investigation Board) Compliance Officer
After graduating from the Department of Public Administration, Faculty of Economics and Administrative Sciences at Marmara University, Ms Kaya worked in various positions at Vakıfbank, Esbank, Demirbank and HSBC, respectively. Before joining Anadolubank in 2006, she served as the Manager of Legislations at HSBC. Ms Kaya has been serving as the Head of the Legal Compliance Department at Anadolubank since then.

Corporate Governance Committee

The Committee is responsible for defining the corporate governance principles of the Bank on behalf of the Board of Directors, monitoring the compliance in the Bank's activities, making improvements in this field, and offering suggestions to the Board of Directors pursuant to the provisions of the Regulation on the Bank's Corporate Governance Principles, published in the Official Gazette numbered 20333, and dated November 1, 2006.

Members of the Corporate Governance Committee

Cemal Düzyol
Member of the Board of Directors – Member of the Audit Committee

Cengiz Doğru
Member of the Board of Directors – Member of the Audit Committee
Responsible for Internal Systems

Tuba Burçe Önal Yaman
Chairman of the Board of Inspection

The CVs of the members of the Committee are located in the "Board of Directors, Auditors and Audit Committee" section.

Assets and Liabilities Committee

The Committee is responsible for setting the policies regarding the management of the Bank's assets and liabilities and the movement of funds within that scope, taking decisions regarding the management of the Bank's Balance Sheet, and monitoring the implementations of the related units in accordance with these decisions. The committee plans, manages and controls the flow, level, composition, cost and income of the Bank's funds.

Members of the Assets and Liabilities Committee
Chairman of the Board of Directors
Vice Chairman
General Manager
Member of the Board of Directors responsible for Loans
Assistant General Manager of Commercial Banking
Assistant General Manager of Retail Banking
Assistant General Manager of Financial Affairs
Assistant General Manager of Treasury

THE AFFILIATE REPORT

Article 199 of the Turkish Commercial Code stipulates that "the Board of the Directors of the subsidiary will prepare a report annually with regard the to relationship of the company with the parent company and other subsidiaries within the first quarter of the year. The report shall also explain the legal transactions made with the parent company or a subsidiary of the parent company, or made in favour of the parent company or one of its subsidiaries upon the direction of the parent company, and the measures to prevent the losses of the parent company or the subsidiaries, which the parent company adopted or refrained from providing. "

Within the scope of the above explanations, the "Affiliation Report" aims to evaluate the legal transactions of the subsidiary made with the parent company or a subsidiary of the parent company, to analyse the losses or benefits resulting from being a subsidiary of the Group of companies, and to check whether compensation was made where some losses had been incurred.

On the other hand, the Turkish Commercial Code's Regulation on Determination of the Minimum Content of the Annual Report of the Companies obliges the companies to include all items of information subject to the affiliation report in their Annual Report, and the Affiliation Report of our company is presented below.

The Bank, as a member of the HABAŞ Group of Companies, naturally has commercial relations with the aforementioned companies, and the said relations and the pricing made in this context are formed within the framework of the market requirements and within the intervals applied to the unrelated companies. In this sense, there are no transactions for the benefit or loss of the parent company or its subsidiaries, made upon the direction of the Group of companies.

In 2012, cash and non-cash loans were disbursed, and agency and other banking services were provided to the other related parties included in the aforementioned

Group of companies and its risk group. Income of TL 10,800,000 was earned from all these transactions. These revenues are in line with the market prices which are also applicable to the unrelated parties.

Likewise, the total amount of interest paid for the deposits of the Group companies and the related parties included in the risk group amounted to TL 2,002,000. The interest rates which constitute the basis of the interests were all determined within the equivalent price ranges in accordance with the banking and other relevant legislations, by using the comparability method. In other words, no discrimination was applied between the Group companies and companies that are not members of the Group in the determination of the interest rates.

In conclusion, the Bank is a member of the HABAŞ Group of companies and maintains commercial relations with the subsidiaries of the aforementioned Group. On the other hand, these relations are formed within the framework of the market requirements and conditions, and no favourable or unfavourable pricing is applied to similar products independent from the unrelated parties. As a natural consequence, there is no loss regarding transactions in favour of the parent company or its subsidiaries, with the parent company and its subsidiaries upon the direction of the parent company, and therefore there is no loss or compensation for a loss due to any benefit acquired by the parent company.

As stated in the earlier sections of the report, it is evaluated that; a counter action was taken in accordance with the known terms and conditions for each and every legal transaction. In the event that a legal transaction is made, or a measure is adopted, or that measure is abstained from, the adopted or abstained measure caused no loss to the company. The transactions of Anadolubank with the related parties are determined in line with the "arm's length principle" regarding the transactions made, the risks undertaken and the assets owned by the Bank.

Risk Group

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		
	2012	2011	2012	2011	Change (%)
Loans	9,951	5,053	0.2	0.1	96.9
Off-balance sheet exposures	103,497	65,057	6.3	4.6	59.1
Deposits	102,021	43,769	2.2	1.0	133.0

Directors' Remuneration

As at and for the year ended 31 December 2012, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 12,426 (31 December 2011: TL 10,097).

EVALUATION OF RISK MANAGEMENT

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 infuse in its employees a shared risk understanding and to organize all of its systems accordingly.

In accordance with the provisions 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 were established to assist the Board of Directors in auditing and monitoring activities.

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

Risk management activities have aimed to establish a prudent risk management concept throughout the Bank and to ensure full compliance with the Basel II criteria, which reflect the best practices in risk management. In line with this aim, the Risk Management Department regularly monitors the following risk types: market, liquidity, loan, operational, structural and interest rate risks.

Risk Management Policies

Internal Audit

Internal audit activities are performed by the Internal Audit Board, which reports directly to the Board of Directors. The Internal Audit Board is responsible for ensuring that the Bank's operations are carried out in full compliance both with the legislations and the Bank's strategies, policies, principles and objectives. The 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 in terms of the risks they pose.

In 2012, the Internal Audit Board conducted 53,144,250 hours of on-site audits at the branches, Head Office units and subsidiaries of the Bank. Aiming to establish a proactive audit structure at the Bank, the Internal Audit Board conducts its activities according to the results of risk-based evaluations.

This year, another milestone was set in the field of internal audit. The month of May is celebrated as "International Internal Audit Awareness Month" worldwide. Within this context, the Turkish Institute of Internal Auditors organises an award ceremony every May in order to support all the people who contribute to the development of the profession of internal auditing and the corporations investing in this field. Anadolubank Internal Audit Board was granted the "2012 Turkish Institute of Internal Auditors (TIIA) Internal Audit Awareness" award.

Internal Control

The monitoring of the internal control activities is conducted by the Internal Control Centre (ICC), which reports directly to the Board of Directors.

Anadolubank aims to establish an efficient internal control system, to perform the internal control activities precisely, and to incorporate a strong internal control culture throughout the Bank's Head Office units, branches and subsidiaries. In line with this aim, the internal control centre conducts studies on the designing of control activities and necessary control points of business processes, and the monitoring of whether or not the internal control activities are performed.

The internal control activities at the branches, Head office units and subsidiaries are carried out via self-evaluation statements of the operational units in addition to site controls of the internal control centre. Certain control points are determined through self-evaluation statements, which include the statements of operational units related to internal control of the activities. The efficiency of the internal control system is strengthened with secondary controls performed on these points.

A risk-based control mechanism was established for the internal control activities of the Bank and its subsidiaries. Transactions bearing high risk are investigated after being identified by the ACL (Audit Command Language) audit programme. A continuous monitoring process has been established through the controls performed in daily, weekly, monthly and quarterly periods for all critical operations carried out by branches, Head office units and subsidiaries.

The Internal Control Centre also expresses opinions on new products and application modifications. The ICC conducts studies to develop procedures and workflows related to business processes, to update the current internal legislation in parallel with application modifications, and to make relevant announcements throughout the Bank.

The Internal Control Department reports any identified control deficiencies to the Audit Committee and the relevant senior management. Thus, the department ensures that the relevant personnel are advised in order to eliminate said control deficiencies. ICC activities are reported on a quarterly and annual basis to the Audit Committee.

A continuous training programme is applied for ICC personnel to improve their professional knowledge, skills and talents. In addition, the job descriptions and posts of the employees are amended so that they are able to perform their duties objectively, without undue influence from the executive units.

Legal Compliance Department

Anadolubank'ın Genel Müdürlük ve şubelerinde 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 trends, as well as with the moral and ethical norms required by the banking profession, and thus manages the reputation risk of the Bank.

Reporting to the Audit Committee, the tasks and responsibilities of the Legal Compliance Department are as follows:

To monitor the regulations related to the Banking Law and banking practices, and to inform the Bank personnel with regard these regulations,

To create the necessary systems and to adopt the necessary measures in line with national and international regulations in order to prevent money laundering and the funding of terrorism,

To review, evaluate and communicate the Bank's reports for suspicious transactions to MASAK (Financial Crimes Investigation Board) through the compliance officer.

To ensure the compliance of new products and transactions and planned activities with legal regulations, and to prepare the annual compliance plan in order to ensure and monitor said legal compliance,

The Legal Compliance Department also monitors and coordinates the efforts of the Bank's subsidiaries to comply with the relevant national and international legislations.

Risk Management

Anadolubank Risk Management Department reports directly to the Board of Directors. The Risk Management Department is responsible for defining, classifying, measuring, monitoring, and analysing the risks borne by the Bank, and reporting them to the relevant parties, within the framework of the relevant legislations, and the rules set by risk management principles approved by the Bank's Board of Directors.

Information Regarding Risk Management Policies by Type of Risk

The Bank uses best international practices, Basel practices and the recommendations, resolutions and regulations of the Banking Regulation and Supervision Agency (BRSA) as points of reference in the studies regarding risk management.

Market Risk

The Bank's Board of Directors ensures that the Risk Management Department and the senior management have implemented the necessary steps for measuring, controlling and managing the market risks that the Bank faces and/or will be exposed to.
The amount of the Bank's capital exposed market risk is calculated according to the standard method determined by the BRSA. Since 2007, the "Value at Risk" (VAR) estimations have been derived, and then reported to the Bank's senior management and to the related units on a daily basis.

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

The Board of Directors sets market risk limits and periodically updates these limits in light of market conditions and the Bank's strategies. The total transaction and stop-loss limits are determined on a product basis with regard to the Bank's daily transactions. The Board of Directors allocates transaction limits for the Bank's futures transactions and other related contract positions, and all transactions are performed within these limits. These limits are monitored and reported on a daily basis.

Interest Rate Risk

The interest rate risk is managed by the Bank's Assets & Liabilities Committee. Avoiding the effects of interest rate fluctuations is the key priority of the Bank's management.

The sensitivity of assets, liabilities and off-balance sheet items to interest rates is calculated to determine the interest rate risk. The Bank's management monitors the prevailing market interest rates on a daily basis and has the capacity to adjust the Bank's deposit/loan interest rates as appropriate. 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 minimised by a variety of measures. The Bank's Assets & Liabilities Committee manages the maturity mismatch and adopts the principle of working with a positive balance sheet margin as its pricing policy when establishing the short, medium and long-term pricing strategies. The decisions made 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. The Bank's Board of Directors regularly sets and monitors the standard for liquidity rates in order to attain a high level of liquidity.

The Bank's management has set certain limits regarding liquidity to ensure the presence of sufficient liquidity. The Bank's current liquidity position, the products through which liquidity is provided, its funding sources and asset structure, as well as the market conditions, are all monitored in light of these limits. The cash flow analyses are performed based on maturity and currency breakdowns, maturity mismatches are monitored, and concentrations in funding sources are analysed.

Credit Risk

One of the most central characteristics of Anadolubank is its prudent lending policy implemented together with its stable growth target and its strong asset structure. The ultimate authority for allocating loan limits in Anadolubank rests with the Board of Directors. This authority was delegated to Head Office level as documented by written rules, and is regularly monitored and reported by the Risk Management unit.

Various rating systems are used in the credit rating processes of Anadolubank's customers. A special system developed internally by the Bank is used for rating loan collaterals. Credit risks are monitored alongside customer and collateral ratings.

Anadolubank sets the maximum credit limit for a single customer with a more prudent approach than that required by law, thereby preventing the concentration of loans. In the process of the creation of an infrastructure including the data to be used in the measurement of the credit risk through the standard method within the scope of the Basel II criteria, the Risk Management Department agreed with a supplier company and the compliance/measurement studies were completed in 2012.

Exchange Rate Risk

The exchange rate risk represents the potential loss that banks may incur as a result of foreign exchange rate fluctuations. When calculating the capital liabilities due to exchange rate risk, all of the Bank's foreign currency assets, liabilities and forward exchanges are taken into consideration. The Value at Risk is then calculated and reported with the standard method.

The position limit set by the Board of Directors and the position details are reported on a daily basis. 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. At the same time, the operational risk also includes the possibility of loss from internal and external fraud as well as natural disasters. Operational risk management activities are performed with the coordination of the Bank's Risk Management Department.

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

All policies, procedures, workflows and processes used at Anadolubank are analysed and evaluated with a risk-oriented approach. The Board of Inspection and the Internal Control Centre audit the compliance of the Bank's transactions with laws and regulations, and monitor personnel errors or abuses.

FINANCIAL INFORMATION

Evaluation of the Financial Statements

Balance Sheet Analysis

Loans, particularly those allocated to small and medium-sized companies to meet their working capital needs, constitute the foundation of Anadolubank's strategy. This important product is complemented by consumer loans (mostly housing loans), and credit cards, which make up the total loans portfolio. The very low non-performing loan ratio has been achieved as a result of a prudent lending policy, which avoids interest rate risk and targets maximum diversification.

The share of loans in Anadolubank's total assets amounted to 68.7% in 2012.

Cash Loans By Industry (%)	2012	2011
Agriculture	6.17	5.64
Farming and stockbreeding	5.69	5.19
Forestry	0.36	0.38
Fishing	0.12	0.07
Industry	32.11	29.28
Mining and quarrying	0.88	0.73
Manufacturing	30.72	28.45
Electricity, gas, water	0.51	0.1
Construction	9.15	7.9
Services	35.88	37.35
Wholesales and retail trade	15.85	14.55
Hotel and restaurant services	0.70	0.61
Transportation and communication	2.99	2.39
Financial institution	12.46	15.55
Real estate and rent services	0.14	0.06
Professional services	2.25	2.77
Educational services	0.15	0.06
Health and social services	1.34	1.36
Consumer loans	12.90	16.37
Credit card	2.14	1.78
Others	1.65	1.68
Total	100	100

Non-Cash Loans By Industry (%)	2012	2011
Agriculture	1.58	2.06
Farming and stockbreeding	1.38	1.78
Forestry	0.19	0.28
Fishing	0.01	-
Industry	32.7	36.62
Mining and quarrying	0.31	0.56
Manufacturing	31.34	34.67
Electricity, gas, water	1.05	1.39
Construction	21.18	23.19
Services	43.55	37.01
Wholesales and retail trade	17.39	19.06
Hotel and restaurant services	0.35	0.59
Transportation and communication	3.57	2.34
Financial institution	16.97	7.87
Real estate and rent services	0.02	0.12
Professional services	3.57	5.28
Educational services	0.17	0.04
Health and social services	1.51	1.71
Consumer loans	-	-
Credit card	-	-
Others	1	1.12
Total	100	100

Loan Balances (TL thousands)	Year ended on December 31,		Percent to Total		
	2012	2011	2012	2011	Change (%)
Corporate loans	4,297,938	3,628,366	85.0	80.4	18.5
TL loans	3,316,268	2,623,092	65.6	58.1	26.4
FX loans	981,670	1,005,274	19.4	22.3	-2.3
Retail loans	652,392	804,193	12.9	17.8	-18.9
TL loans	576,252	611,685	11.4	13.6	-5.8
FX loans	76,140	192,508	1.5	4.3	-60.4
Credit card receivables	108,188	80,279	2.1	1.8	34.8
Total	5,058,518	4,512,838	100.0	100.0	12.1

Non-performing Loans

Anadolubank places vital importance on the control mechanisms established to monitor loan allocations. Loan evaluation, approval and monitoring activities, which are dealt with at the Head office level, are analysed by four separate departments under the leadership of a member of the Board of Directors. As a result of the care shown in this regard, and the successful risk evaluation strategies, the Bank's non-performing loan ratio is considerably below the sector average. In addition, the Bank allocates 100% provision for non-performing loans.

Non-Performing Loans (TL thousands)	Year ended on	Year ended on
	2012	2011
Balance at the beginning of the year	109,654	91,405
Additions	81,869	30,057
Reductions	14,468	11,808
Payments	14,468	11,808
Written off	-	-
Balance at the end of the year	177,055	109,654
Provision for non-performing loans	177,055	90,851
Net non-performing loans	-	18,803
NPL/Total Loans	3.39%	2.37%

Liquidity

Liquidity is used to fund assets and to benefit from investment opportunities that may arise in the markets. Liquidity management gains importance in Turkey's fast-changing economic environment, and in occasional periods of uncertainty. Unused credit limits with other banks, repurchase agreements, and investments in financial institutions with very short-term loans are all considered as liquidity. Short-term loan portfolios raise liquidity. The broad base of the liquidity depends on customer deposits and the following funding sources.

Liquid Assets (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2012	2011	2012	2011	Change (%)
Cash on hand	45,528	44,404	0.6	0.7	2.5
Central Bank deposits/Legal reserves	615,847	457,987	8.4	6.8	34.5
Receivables from reverse repurchase agreement	80,014	-	1.1	-	-
Placement with banks	272,087	360,652	3.7	5.4	-24.6
Total	1,013,476	863,043	13.8	12.9	17.4

Securities

Anadolubank's activities in this field are limited to Turkish treasury bills and government bonds. The investments in government bonds are generally financed by very short-term repurchase 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	Year ended on December 31,		Percent to Total Assets		
	2012	2011	2012	2011	Change (%)
Held-for-trading	153,480	424,292	2.1	6.3	-63.8
Government bonds in TL	131,011	320,347	1.8	4.8	-59.1
Eurobonds issued by the Turkish Government	64	6,855	-	0.1	-99.1
Equity securities	1,959	775	-	-	152.8
Other	20,446	96,315	0.3	1.4	-78.8
Available for sale investments	700,680	-	9.5	-	-
Government bonds in TL	-	-	-	-	-
Eurobonds issued by the Turkish Government	689,032	-	9.4	-	-
Other	11,648	-	0.2	-	-
Investment securities	175,198	652,700	2.4	9.8	-73.2
Turkish Government bonds	9,003	8,235	0.1	0.1	9.3
Eurobonds issued by the Turkish Government	-	534,469	-	8.0	-100.0
Corporate bonds	166,195	109,996	2.3	1.6	51.1
Total	1,029,358	1,076,992	14.0	16.1	-4.4

Deposits

As a result of the efforts to establish a reliable and diversified funding base, Anadolubank's retail banking services, and deposits in particular, which is our major individual product, grew compared to the previous year. The following table summarises our efforts in this regard.

Composition of Deposits (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2012	2011	2012	2011	Change (%)
TL deposits	2,658,260	2,376,252	36.1	35.6	11.9
Demand deposits	258,421	205,362	3.5	3.1	25.8
Time deposits	2,399,839	2,170,890	32.6	32.5	10.5
FX deposits	1,835,626	1,868,681	24.9	28.0	-1.8
Non-interest bearing demand	421,109	470,679	5.7	7.0	-10.5
Time	1,414,517	1,398,002	19.2	20.9	1.2
Total	4,493,886	4,244,933	61.0	63.5	5.9

Shareholders' Equity

Shareholders' Equity Growth	Year ended on December 31,		Percent to Total Assets		
	2012	2011	2011	2010	Change (%)
Total shareholders' equity	1,270,649	948,253	17.3	14.2	34.0

Guarantees and Suretyships

Non-Cash Loans (TL thousands)	2012	2011	Change (%)
Letters of guarantee	1,180,978	1,012,768	16.6
Letters of credit	294,490	242,367	21.5
Other guarantees and acceptances	173,131	165,086	4.9
Total	1,648,599	1,420,221	16.1

Income Statement Analysis

Interests

Interests (TL thousands)	2012	2011	Change (%)
Interest on loans	698,209	531,083	31.5
Interest on securities	112,067	41,044	173.0
Other interest income	12,877	8,366	53.9
Total interest income	**823,153**	**580,493**	**41.8**
Interest on customer deposits	304,968	244,207	24.9
Interest on borrowing from banks	72,619	43,129	68.4
Total interest expense	**377,587**	**287,336**	**31.4**
Net interest income	**445,566**	**293,157**	**52.0**
NIM (Net Interest Margin)	6.34	4.93	-

Non-interest Income-Expenses

Anadolubank's efforts to manage its non-interest income were focused on three main areas in 2012:

a) Strict control of costs,
b) Acquisition of commissions within the context of off balance sheet items such as letters of guarantee and letters of credit, and
c) Enhancing existing non-risk products and development of new products.

As a note, the product known as "Paritem®", which was introduced to Turkey by Anadolubank, continues to enable the Bank's customers to execute real-time spot foreign exchange transactions through a highly developed web-based trading platform following the amendments in the legislation.

Non-Interest Income (TL thousands)	2012	2011	Change (%)
Net fees and commissions	56,280	73,506	-23.4
Trading & FX income/loss	23,193	-36,628	163.3
Other income	10,185	12,534	-18.7
Total non-interest income	**89,658**	**49,412**	**81.4**
Personnel expenses	159,626	134,698	18.5
Other non-interest expenses	72,144	64,412	12.0
Total non-interest expense	231,770	199,110	16.4
Net non-interest income	-142,112	-149,698	5.1

Net Income (TL thousands)	2012	2011	Change (%)
Net interest income	445,566	293,157	52.0
Net non-interest income	-142,112	-149,698	5.1
Gross income	**303,454**	**143,459**	**111.5**
Provision for loan losses	-86,204	-14,086	-512.0
Income before taxation	**217,250**	**129,373**	**67.9**
Tax charge	-41,477	-27,014	-53.5
Profit from continuing operations	**175,773**	**102,359**	**71.7**
ROA (Return on Assets)	**2.50**	**1.72**	**-**
ROE (Return on Equity)	**15.84**	**11.54**	**-**
Operational Efficiency	43.30	55.78	-

ANADOLUBANK A.Ş.

TO THE GENERAL ASSEMBLY OF SHAREHOLDERS

We hereby submit the Audit Report for the Period 01.01.2012 - 31.12.2012, issued in accordance with the provisions of the Turkish Commercial Code pertaining to the auditors, for your information and approval.

GENERAL INFORMATION

Company Name : Anadolubank A.Ş.
Head Office : Cumhuriyet Mah. Silahşör Cad. No: 69 Bomont, Şişli - Istanbul
Registered Capital : TL 600,000,000
Field of Activity : Banking

INFORMATION ABOUT THE AUDITORS

Full Name : İbrahim KAZANCI - Faruk ERÇEK
Duties at the Bank : None

ACTIVITIES OF THE AUDITORS

The members of the Audit Committee participated in four meetings of the Board of Directors, and four other meetings were held in order to audit the books and the transactions of the Bank.

It was audited and noted, by taking the inventory on a quarterly basis, that the assets and the records match.

As a result of investigations on this subject, it was observed that the security papers submitted to the Bank were present and in order.

There were no notices of complaints and corruptions submitted to the Audit Committee in the aforesaid period.

Through the investigations we made regarding the activities in 2012, no negative conditions were encountered within the scope of the provisions of the Banking Law, Turkish Commercial Code, other laws and regulations, or the Bank's Articles of Association, and we reached the conclusion that the Balance Sheet and Profit & Loss Statements accurately reflect the financial results of the aforesaid period.

In this regard, we hereby submit the Balance Sheet, Profit & Loss Statements and Dividend Distribution proposal of the Board of Directors, and the discharge of the members of the Board of Directors and the Audit Board, for the approval of the General Assembly

İbrahim KAZANCI	Faruk ERÇEK
Auditor	Auditor

REPORT OF THE AUDIT COMMITTEE REGARDING THE FUNCTIONING OF INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS

Legal compliance, internal audit, internal control and risk management, issues on which the Bank has placed great emphasis since its establishment, have all been structured in compliance with the Regulation on the Bank's Internal Systems, dated November 1, 2006 and issued by the Banking Regulation and Supervision Agency. This structure is compatible with the scope and nature of our activities and is qualified and efficient enough to respond to changing conditions.

The Legal Compliance Department, which was restructured in 2008 to serve under the member of the Board of Directors responsible for Internal Systems, responsibly performed its duties of ensuring 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 moral and ethical norms required by the banking profession, and managing the reputation risk of the Bank within the overall framework. In addition, the department also continued its studies in order to ensure compliance with Law numbered 5549 and relevant legislations, and the Regulation Pertaining to the Program for Compliance with the Requirements on the Prevention of Money Laundering and Financing of Terror.

The aim of the internal audit (inspection) system is to provide assurance to the senior management that the Bank's operations are carried out in full compliance both with the legislations and the Bank's strategies, policies, principles and objectives, and to oversee the adequacy and effectiveness of the Internal Control and Risk Management systems. The internal audit (inspection) system has been configured in such a way that it covers all activities and units of the Bank. The Board of Directors has taken all the necessary measures for the Internal Audit Board to investigate all of the activities and the units of the subsidiaries that are subject to consolidation controlled by the Bank, without any limitations.

The Internal Audit Board carries out its auditing activities mainly as a result of the risk-based evaluations. In 2012, general, ordinary and special purpose audits were carried out and the feasibility studies were conducted by the Internal Audit Board among the branches, Head Office and the subsidiaries of the Bank. Furthermore, the adequacy and effectiveness of the Internal Control and Risk Management systems of the Bank are also monitored and audited.

In 2012, the Internal Control Centre investigated all of the banking transactions conducted by the Head Office units, branches and subsidiaries of the Bank, with a risk-based approach by means of central and on-site control methods. The transactions carried out by all of the branches were examined on the pre-determined risk-based control points by means of central controls. In addition to the transaction-based controls, it was ensured that the required regulations were made to eliminate the discrepancies being encountered in the workflows, banking system or practices, and to make them more efficient. Through on-site controls, the compliance of the transactions made and documentation produced in the branches, Head Office units and the subsidiaries of the Bank with the internal and external legislations were controlled. As a result of these controls, it was ensured that the identified problems were resolved, or elsewise were reported to the related units for monitoring, and the operational risks arising from the banking activities were minimised.

The Centre contributed to the determination of the control points in the work flows by analysing the Bank's legislation, and offered various recommendations aiming to improve the work processes by performing process analysis.

The controls pertaining to the errors and deficiencies that may occur in the financial reporting systems were conducted.

The compliance of the authority and approval profiles defined in various banking programmes used for the conducting of banking transactions with the authority and responsibilities provided to the personnel were examined on a regular basis.

It was ensured that the results of the controls performed by the branches, Head Office units and subsidiaries conducting the operational activities were reported to the Internal Control Centre on a regular basis, and that the self-evaluation forms created within this framework enabled said reporting to the Internal Control Centre on a regular basis.

The Risk Management Department is responsible for defining, classifying, measuring, monitoring, and analysing the risks borne by the Bank, and for reporting them to the relevant parties, within the framework of the relevant legislations and the rules set by risk management principles approved by the Bank's Board of Directors

The Risk Management process consists of the definition and measurement of the risks, identification of risk policies and application methods, analysing, monitoring, reporting and auditing of the risks, within the framework of the relevant legislations and the rules set by the Risk Management Department and the senior management, and approved by the Bank's Board of Directors. The risk management process, which is projected within the frame of the risk management regulations, and contributes to the adoption of a risk culture throughout the Bank, aims to ensure "good corporate governance". The risk management process is a structure in which the risks are defined, measured, analysed, monitored, reported and audited in accordance with international regulations. In line with the efforts of creating a "common risk culture and awareness", risk limits were determined for each risk group, and the process of adaptation to these limits was monitored through periodical observations.

ANADOLUBANK ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

Independent Auditors' Report

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

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 31 December 2012 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 2012 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

Istanbul, Turkey
18 April 2013

Notes to the consolidated financial statements

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

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

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and balances with the Central Bank	6	661,375	502,391
Deposits with banks and other financial institutions	6	272,087	360,652
Receivables from reverse repurchase transactions	6	80,014	-
Financial assets at fair value through profit or loss	7	153,480	424,292
Derivative financial assets held for trading purpose	8	18,229	11,071
Investment securities	9	875,878	652,700
Available for sale investments		700,680	-
Investments held to maturity		175,198	652,700
Loans and receivables	10	5,058,518	4,531,641
Property and equipment	12	24,094	18,910
Intangible assets	13	2,906	1,889
Deferred tax assets	18	3,865	9,826
Other assets	14	211,867	169,025
Total assets		7,362,313	6,682,397
LIABILITIES			
Deposits from banks	15	209,109	99,601
Deposits from customers	15	4,493,886	4,244,933
Obligations under repurchase agreements	15	592,810	556,896
Funds borrowed	16	368,846	476,360
Derivative financial liabilities held for trading purpose	8	6,625	56,698
Deferred tax liabilities	18	37,747	-
Other liabilities and provisions	17	374,898	289,211
Income taxes payable	18	7,743	10,445
Total liabilities		6,091,664	5,734,144
EQUITY			
Share capital	19	602,619	602,619
Reserves		205,923	54,686
Retained earnings		459,959	289,002
Total equity attributable to equity holders of the Bank		**1,268,501**	**946,307**
Non-controlling interests	19	**2,148**	**1,946**
Total equity		**1,270,649**	**948,253**
Total liabilities and equity		**7,362,313**	**6,682,397**

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 2012

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

	Notes	1 January-31 December 2012	1 January-31 December 2011
Continuing operations:			
Interest income:			
Interest on loans and receivables	21	698,209	531,083
Interest on marketable securities	21	112,067	41,044
Interest on deposits with banks and other financial institutions	21	1,521	2,593
Interest on other money market placements	21	7,278	3,651
Other interest income	21	4,078	2,122
Total interest income		**823,153**	**580,493**
Interest expenses:			
Interest on deposits	21	(304,968)	(244,207)
Interest on other money market deposits	21	(58,433)	(18,217)
Interest on funds borrowed	21	(14,084)	(24,775)
Other interest expenses	21	(102)	(137)
Total interest expenses		**(377,587)**	**(287,336)**
Net interest income		**445,566**	**293,157**
Fee and commission income	22	70,391	85,515
Fee and commission expenses	22	(14,111)	(12,009)
Net fee and commission income		**56,280**	**73,506**
Other operating income:			
Trading income from marketable securities	23	29,203	-
Trading gains from derivatives	23	51,393	-
Other income	23	10,185	12,534
Total other operating income		**90,781**	**12,534**
Other operating expenses:			
Salaries and employee benefits	23-24	(159,626)	(134,698)
Trading losses from marketable securities	23	-	(6,504)
Trading losses from derivatives	23	-	(7,892)
Foreign exchange losses, net	23	(57,403)	(22,232)
Provision for possible loan losses, net of recoveries	23	(86,204)	(13,795)
Depreciation and amortization	23	(6,916)	(6,641)
Taxes other than on income	23	(11,528)	(10,316)
Other expenses	23-25	(53,700)	(47,746)
Total other operating expense		**(375,377)**	**(249,824)**
Income from operations		**217,250**	**129,373**
Taxation	18	(41,477)	(27,014)
Profit from continuing operations		**175,773**	**102,359**
Profit for the year attributable to:			
Equity holders of the Bank		175,564	102,279
Non-controlling interests		209	80
Earnings per share from continuing operations (full TL)			
Equity holders of the Bank		0.002926	0.001705
Non-controlling interests		0.000003	0.000001
Equity holders of the Bank		0.002926	0.001705
Non-controlling interests		0.000003	0.000001

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 2012

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

	Notes	1 January- 31 December 2012	1 January- 31 December 2011
Profit for the year		**175,773**	**102,359**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		(6,464)	20,332
Fair value reserve of available for sale financial assets transferred to profit or loss		191,359	(385)
Income tax on other comprehensive income		(38,272)	77
Other comprehensive income for the year, net of income taxes		**146,623**	**20,024**
Total comprehensive income for the year		**322,396**	**122,383**
Profit attributable to:			
Equity holders of the Bank		175,564	102,279
Non-controlling interests		209	80
Profit for the year		**175,773**	**102,359**
Total comprehensive income attributable to:			
Equity holders of the Bank		322,194	122,290
Non-controlling interests		202	93
Total comprehensive income for the year		**322,396**	**122,383**

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 2012

(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 interests	Total
Balances at 1 January 2011		602,619	7,481	(2,382)	21,609	194,690	824,017	1,853	825,870
Net profit for the year		-	-	-	-	102,279	102,279	80	102,359
Currency translation adjustments		-	20,319	-	-	-	20,319	13	20,332
Net losses on available for sale financial assets transferred to profit or loss, net of 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									
Gains on sale of asset		-	-	-	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

		Attributable to equity holders of the Bank							
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total
Balances at 1 January 2012		602,619	27,800	(2,690)	29,576	289,002	946,307	1,946	948,253
Net profit for the year		-	-	-	-	175,564	175,564	209	175,773
Other comprehensive income		-	-	153,087	-	-	153,087	-	153,087
Currency translation adjustments		-	(6,457)	-	-	-	(6,457)	(7)	(6,464)
Total other comprehensive income		-	(6,457)	153,087	-	-	146,630	(7)	146,624
Total comprehensive income for the year		-	(6,457)	153,087	-	175,564	322,194	202	322,396
		-	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity		-	-	-	-	-	-	-	-
Gains on sale of assets		-	-	-	60	(60)	-	-	-
Transfers to other reserves		-	-	-	4,547	(4,547)	-	-	-
Balances at 31 December 2012		602,619	21,343	150,397	34,183	459,959	1,268,501	2,148	1,270,649

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 2012

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

	Notes	1 January- 31 December 2012	1 January- 31 December 2011
Cash flows from operating activities:			
Profit for the year		175,773	102,359
Adjustments for:			
Taxation	18	41,477	27,014
Provision for loan losses		91,510	20,149
Depreciation and amortization	23	6,916	6,641
Provision for retirement pay liability	17	5,168	2,140
Unused vacation accruals	17	1,565	1,420
Derivative financial instruments		(57,231)	(9,762)
Currency translation differences		(6,464)	20,332
Net interest income		(487,107)	(309,875)
Gain on sale of property and equipment		(98)	(343)
Other		48,830	(74,027)
Operating profit before changes in operating assets/liabilities:		**(179,661)**	**(204,190)**
Reserve deposits at the Central Bank		(181,148)	(159,619)
Financial assets at fair value through profit or loss		275,436	(324,921)
Loans and receivables		(602,610)	(874,692)
Other assets		33,343	(84,573)
Deposit with other banks and customers		347,020	1,131,264
Other liabilities and provisions		101,182	71,269
		(206,438)	(455,224)
Interest paid		(385,436)	(270,654)
Interest received		823,898	594,998
Retirement benefits paid	17	(2,813)	(1,810)
Unused vacation accruals	17	(380)	(407)
Income taxes paid		(40,360)	(23,056)
Cash provided by/(used in) operating activities		**188,471**	**(156,153)**
Cash flows from investing activities			
Acquisition of investment securities	9	(127,388)	(26,954)
Proceeds from sale of investment securities	9	64,574	220,467
Acquisition of property and equipment		(10,302)	(6,196)
Proceeds from sale of property and equipment		8,219	1,286
Cash provided by/(used in) investing activities		**(64,897)**	**188,603**
Cash flows from financing activities			
Change in funds borrowed		(67,237)	111,422
Cash provided by/(used in) financing activities		**(67,237)**	**111,422**
Effect of exchange rate fluctuations on cash held		(5,699)	(12,564)
Net decrease in cash and cash equivalents		50,638	131,308
Cash and cash equivalents at the beginning of the year	6	518,053	386,745
Cash and cash equivalents at the end of the year	6	**568,691**	**518,053**

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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

1. Overview of the Bank

Anadolubank Anonim Şirketi (the "Bank"), has commenced its operations on 25 September 1997 in Turkey under the Turkish Banking Law and the Commercial Code 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 91 (31 December 2011: 88) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No:69 34380 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ. was founded by Hamdi Başaran in 1956 with the name "Hamdi Başaran Topkapı Oxygen Plant " to implement modern industrial gas production. The growth of the company started in 1967 with the production of oxygen, nitrogen and argon gases in liquid form for the first time in Turkey. Today, Habaş, is one of the major companies of Turkey, producing industrial and medical gases, steel, electrical energy, heavy machinery, distributing Liquified Petroleum Gas (LPG), Liquified Natural Gas (LNG) and Compressed Natural Gas (CNG), offering sea transportation services for LPG and operating sea ports.

The Bank has four 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 2012.

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2. Basis of preparation (Cont'd)

(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 purposes, financial assets at fair value through profit or loss and available for sale financial assets.

(c) Functional currency and presentation currency

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

(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 8 – Derivative financial assets and liabilities held for trading purpose
- Note 10 – Loans and receivables
- Note 17 – Other liabilities and provisions
- Note 18 – Income taxes
- Note 27 – Financial risk management

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2. Basis of preparation (Cont'd)

(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

None.

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

None.

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 7 *Disclosures - Transfers of Financial Assets*

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.

These amendments to IFRS 7 did not 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.

Amendments to IAS 12 *Deferred Taxes – Recovery of Underlying Assets*

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Group does not have investment property. The amendment did not have any effect on the consolidated financial statements.

2. Basis of preparation (Cont'd)

(f) Adoption of International Financial Reporting Standards (IFRS) (Cont'd)

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 IAS 1	*Presentation of Items of Other Comprehensive Income*[1]
Amendments to IAS 1	*Clarification of the Requirements for Comparative Information*[2]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[3]
IFRS 11	*Joint Arrangements*[3]
IFRS 12	*Disclosure of Interests in Other Entities*[3]
IFRS 13	*Fair Value Measurement*[3]
Amendments to IFRS 7	*Disclosures – Offsetting Financial Assets and Financial Liabilities*[3]
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[5]
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide*[3]
IAS 19 (as revised in 2011)	*Employee Benefits*[3]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[3]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[3]
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[4]
Amendments to IFRSs	*Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 13*

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle issued* in May 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2014.
[5] Effective for annual periods beginning on or after 1 January 2015.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* is effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. 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 items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may 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 do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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2.Basis of preparation (Cont'd)

(f) Adoption of International Financial Reporting Standards (IFRS) (Cont'd)

Amendments to IAS 1 *Presentation of Financial Statements* (as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012)

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- 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 value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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2.Basis of preparation (Cont'd)

(f) Adoption of International Financial Reporting Standards (IFRS) (Cont'd)

New and Revised IFRSs in issue but not yet effective (Cont'd)

New and revised Standards on consolidation, joint arrangements, associates and disclosures

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* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that 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 return 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* will be withdrawn upon the effective date 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 proportional consolidation.

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.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management anticipates that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements. A detailed review will be performed by the Group management to quantify the impact on the application of IFRS 10.

IFRS 13 *Fair Value Measurement*

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.

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2.Basis of preparation (Cont'd)

(f) Adoption of International Financial Reporting Standards (IFRS) (Cont'd)

New and Revised IFRSs in issue but not yet effective (Cont'd)

IFRS 13 *Fair Value Measurement (Cont'd)*

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.

Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 *Employee Benefits*

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. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. However, the Group management have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation.*

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2.Basis of preparation (Cont'd)

(f) Adoption of International Financial Reporting Standards (IFRS) (Cont'd)

New and Revised IFRSs in issue but not yet effective (Cont'd)

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012 (Cont'd)

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

3. Consolidation

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (including special purpose entities, if any), 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/(loss) for the period and total comprehensive income/(loss) 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 in 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.

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3. Consolidation (Cont'd)

Basis of consolidation (Cont'd)

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 expenses 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

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4. Significant accounting policies (Cont'd)

(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 fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading losses

Net trading losses include 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. 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.

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4. Significant accounting policies (Cont'd)

(g) Income taxes (Cont'd)

2. Deferred tax (Cont'd)
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.

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4. Significant accounting policies (Cont'd)

(h) Financial assets and liabilities designated at fair value through profit or loss (Cont'd)
Held for trading (Cont'd)

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.

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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

(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.

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4. Significant accounting policies (Cont'd)

(h) Financial assets and liabilities designated at fair value through profit or loss (Cont'd)

Interest earned while holding investment securities is reported as interest 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

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4. Significant accounting policies (Cont'd)

(k) Impairment losses on loans and advances to customers (Cont'd)

(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.

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4. Significant accounting policies (Cont'd)

(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.

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4. Significant accounting policies (Cont'd)

(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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4. Significant accounting policies (Cont'd)

(p) Fair value of financial instruments (Cont'd)

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.

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4. Significant accounting policies (Cont'd)

(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.

(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 2012 is TL 3,033 (full TL); at 31 December 2011 it was TL 2,732 (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 2012 and 2011 are as follows;

	31 December 2012	31 December 2011
Discount rate	3.53%	4.66%
Expected rate of salary/limit increase	5.81%	5.10%
Turnover rate to estimate the probability of retirement	18.84%	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).

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4. Significant accounting policies (Cont'd)

(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 chief operating decision maker, 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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5. Operating segments (Cont'd)

Information about operating segments

31 December 2012	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Net interests, fees, and commissions income	202,294	246,595	42,999	9,665	293	501,846
Other operating income and expenses, net	(106,490)	(156,496)	(15,483)	(5,849)	(278)	(284,596)
Profit before taxes	**95,804**	**90,099**	**27,516**	**3,816**	**15**	**217,250**

31 December 2012	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Segment assets	1,760,958	3,511,927	1,806,592	40,104	242,732	7,362,313
Total assets	**1,760,958**	**3,511,927**	**1,806,592**	**40,104**	**242,732**	**7,362,313**
Segment liabilities	1,402,861	2,797,764	1,439,214	31,949	419,876	6,091,664
Equity and non-controlling interests	-	-	-	-	1,270,649	1,270,649
Total liabilities and equity	**1,402,861**	**2,797,764**	**1,439,214**	**31,949**	**1,690,525**	**7,362,313**
Other Segment Assets:						
Capital expenditures	-	-	-	-	15,911	**15,911**
Depreciation and amortization expenses	-	-	-	-	6,916	**6,916**
Other non-cash income/expenses	**20,269**	**22,754**	**6,594**	**878**	**-**	**50,495**

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	1,060,604	2,531,332	1,726,840	43,208	372,160	5,734,144
Equity and non-controlling interests	-	-	-	-	948,253	948,253
Total Liabilities and Equity	**1,060,604**	**2,531,332**	**1,726,840**	**43,208**	**1,320,413**	**6,682,397**
Other Segment Assets:						
Capital expenditures	-	-	-	-	10,605	**10,605**
Depreciation and amortization expenses	-	-	-	-	6,641	**6,641**
Other non-cash income/expenses	20,862	29,390	5,603	1,011	(1,105)	**55,760**

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6. Cash and cash equivalents

	31 December 2012	31 December 2011
Cash on hand	45,528	44,404
Reserve deposits at the Central Bank	615,786	456,367
Balances with the Central Bank	61	1,620
Total	**661,375**	**502,391**
Deposits with banks and other financial institutions	272,087	360,652
Receivables from reverse repurchase agreement	80,014	-
Total cash and cash equivalents in the consolidated statement of financial position	**1,013,476**	**863,043**
Statutory reserves at the Central Bank	(434,977)	(263,636)
Blocked deposits with banks and other financial institutions	(9,808)	(81,348)
Interest accruals on cash and cash equivalents	-	(6)
Cash and cash equivalents in the consolidated statement of cash flows	568,691	518,053

As at 31 December 2012, deposits with banks amounted to TL 9,808 (31 December 2011: TL 81,348) are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

As at 31 December 2012 and 2011, details of cash and cash equivalents are as follows:

	31 December 2012				31 December 2011			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Balances with the Central Bank	123,531	492,316	-	-	131,020	326,967	-	-
Deposits with banks and other financial institutions	23,907	248,180	5.25	0.07-0.50	152	360,500	-	0.17-2.82
Receivables from reverse repurchase agreements	80,014	-	6.2-6.5	-	-	-	-	-
Total	**227,452**	**740,496**			**131,172**	**687,467**		

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7.Financial assets at fair value through profit or loss

	31 December 2012		31 December 2011	
Debt instruments:	Carrying value	Effective Interest Rate (%)	Carrying value	Effective Interest Rate (%)
Eurobonds issued by the Turkish Government	64	3.80-4.48	6,855	2.44-9.43
Government bonds in TL	131,011	6.16-13.68	320,347	3.45-10.97
Equity securities				
	1,959	-	775	-
Other	20,446	15.98	96,315	4.90-9.43
Total financial assets at fair value through profit or loss	**153,480**		**424,292**	

Debt instrument is given as collateral under repurchase agreements:

	31 December 2012	31 December 2011
Deposited at financial institutions for repurchase transactions	37,827	63,804

As at 31 December 2012, carrying values of underlying financial assets at fair value through profit or loss collateralized against repurchase agreements were amounted to TL 37,827 (31 December 2011: TL 63,804).

As at 31 December 2012, 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 61 (31 December 2011: TL 2,605).

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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 2012

	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	63	-	348,872	340,973	5,189	1,374	1,336	-	-
Forward sale contract	-	172	340,832	332,944	5,183	1,372	1,333	-	-
Currency swap purchase	18,077	-	1,352,797	1,052,086	53,939	100,645	65,425	80,702	-
Currency swap sale	-	6,453	1,351,106	1,050,817	53,550	97,836	65,347	83,556	-
Credit default swap sale	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	3,484	-	-	3,484	-	-	-
Interest rate swap sale	-	-	3,484	-	-	3,484	-	-	-
Put option purchase	89	-	654,301	474,560	92,384	83,529	3,828	-	-
Put option sale	-	-	661,412	481,671	92,384	83,529	3,828	-	-
Total	**18,229**	**6,625**	**4,716,288**	**3,733,051**	**302,629**	**375,253**	**141,097**	**164,258**	**-**

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**

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9. Investment securities

As at 31 December 2012 and 2011, investment securities classified as held-to maturity comprised of the following:

	31 December 2012		31 December 2011	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments:				
Turkish government bonds	-	-	-	-
Eurobonds issued by the Turkish Government	689,031	6.69-7.41	-	-
Foreign currency denominated bonds	11,649	0.87-5.94	-	-
Total available for sale securities	**700,680**		**-**	
Debt instruments:				
Turkish government bonds	9,003	14.99	8,235	13.37
Eurobonds issued by the Turkish Government	-	-	534,469	6.5-7.69
Foreign currency denominated bonds	166,195	1.24-5.00	109,996	4.18-9.43
Total held to maturity securities	**175,198**		**652,700**	

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 2012	31 December 2011
Deposited at financial institutions for repurchase transactions	71,557	571,162
Other collaterals	65,585	83,822
Total	**137,142**	**654,984**

	31 December 2012	31 December 2011
Balances at beginning of period	**652,700**	**749,556**
Foreign currency differences on monetary assets	(28,087)	112,995
Purchases during the period	127,388	26,954
Disposals through sales and redemptions(*)	(64,574)	(220,467)
Allowance for impairment(**)	(7,223)	(18,127)
Changes in amortised cost(***)	(5,411)	1,789
Transfer to available for sale portfolio(****)	(499,595)	-
Balances at end of period	**175,198**	**652,700**

(*) 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 its 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 per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank transferred for the purpose of selling a part of its Eurobonds with a total face value of USD 238,000,000 from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale of securities originally classified under the securities held-to-maturity in cases where the capital requirement increases due to legal legislation.

As at 31 December 2012, carrying values of underlying financial assets classified as held-to-maturity investments collateralized against repurchase agreements were amounted to TL 71,557 (31 December 2011: TL 571,162).

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9. Investment securities (Cont'd)

As at 31 December 2012, 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 9,003 and TL 7,300 (31 December 2011: TL 8,235 and TL 7,300); respectively.

As at 31 December 2012, 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 56,581 and TL 56,882 (31 December 2011: TL 75,587 and TL 78,729); respectively.

10. Loans and receivables

	31 December 2012						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	3,200,804	847,032	134,638	4,182,474	6.10-35.75	1.76-10.90	4.00-10.00
Consumer loans	576,252	-	76,140	652,392	4.32-30.60	-	4.08-11.88
Credit cards	108,130	58	-	108,188	28.08	-	-
Factoring receivables	115,464	-	-	115,464	6.10-35.53	-	-
Total performing loans	**4,000,650**	**847,090**	**210,778**	**5,058,518**			
Non-performing loans				177,055			
Allowance for:							
Individually impaired loans				(124,366)			
Collectively impaired loans				(52,689)			
Loans and receivables, net				**5,058,518**			

	31 December 2011						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	2,504,056	853,683	217,072	3,574,811	6.25-36.00	2.14-13.50	3.90-10.50
Consumer loans	611,685	-	126,934	738,619	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**			

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.

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10. Loans and receivables (Cont'd)

Movements in the reserve for possible loan losses:

	31 December 2012	31 December 2011
Reserve at the beginning of the year	90,851	77,056
Provision for possible loan losses	93,481	27,375
Recoveries	(7,277)	(13,580)
Provision, net of recoveries	177,055	90,851
Reserve at the end of the year	**177,055**	**90,851**

11. Factoring receivables

As at 31 December 2012 and 2011 short-term and long-term factoring receivables included in the loans and receivables above are as follows:

	31 December 2012	31 December 2011
Short-term	112,760	116,966
Long-term	2,704	2,163
Total	**115,464**	**119,129**

12. Property and equipment

Movements of tangible assets as at and for the year ended 31 December 2012 and 2011 are as follows:

	1 January 2012	Additions	Disposals	31 December 2012
Cost:				
Buildings	3,799	-	-	3,799
Motor vehicles	7,949	788	(75)	8,662
Furniture, office equipment and leasehold improvements	68,794	10,566	(833)	78,527
	80,542	**11,354**	**(908)**	**90,988**
Accumulated Depreciation:				
Buildings	1,084	76	-	1,160
Motor vehicles	4,195	1,414	(57)	5,552
Furniture, office equipment and leasehold improvements	56,353	4,032	(203)	60,182
	61,632	**5,522**	**(260)**	**66,894**
Net Book Value	**18,910**			**24,094**

	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**

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13. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2012 and 2011 are as follows:

	1 January 2012	Additions	Disposals	31 December 2012
Cost:				
Software	13,003	1,661	-	14,664
Other intangibles	1,356	-	-	1,356
	14,359	**1,661**	**-**	**16,020**
Accumulated Amortization:				
Software	11,074	644	-	11,718
Other intangibles	1,396	-	-	1,396
	12,470	**644**	**-**	**13,114**
Net Book Value	**1,889**			**2,906**

	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**

14. Other assets

	31 December 2012	31 December 2011
Transfer cheques	148,955	125,511
Assets held for resale	6,166	11,030
Prepaid expenses	5,450	4,790
Advances given	1,639	511
Collateral for leveraged operations[*]	21,542	20,871
Collateral for derivatives	10,466	-
Credit card payments	9,595	1,639
Other	8,054	4,673
Total	**211,867**	**169,025**

As at 31 December 2012, TL 6,166 (31 December 2011: TL 11,030) 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 2012				31 December 2011			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	12	96	-	-	83	37,652	-	-
Time	22,166	186,835	7.50-8.25	0.59-2.45	6,286	55,580	6.90-11.65	1.25-4.50
Total	**22,178**	**186,931**			**6,369**	**93,232**		

Deposits from customers

	31 December 2012				31 December 2011			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	35,795	368,332	-	-	37,974	396,252	-	-
Time	1,733,107	743,502	5.00-11.25	0.25-4.50	1,831,903	1,044,068	5.10-12.00	0.25-6.00
	1,768,902	**1,111,834**			**1,869,877**	**1,440,320**		
Commercial and other deposits:								
Demand	222,626	52,777	-	-	167,388	74,427	-	-
Time	666,732	671,015	3.00-11.00	0.25-5.25	338,987	353,934	5.00-12.95	0.25-6.00
	889,358	**723,792**			**506,375**	**428,361**		
Total	**2,658,260**	**1,835,626**			**2,376,252**	**1,868,681**		

Other money market deposits

	31 December 2012				31 December 2011			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	36,308	556,502	4.66-5.25	0.50-1.77	3,823	553,073	10.55	1.23-3.39
Total	**36,308**	**556,502**			**3,823**	**553,073**		

As at 31 December 2012, carrying values of underlying financial assets at fair value through profit or loss collateralized against repurchase agreements are amounted to 37,827 TL (31 December 2011: TL 63,804), carrying values of underlying financial assets classified as held-to-maturity investments collateralized against repurchase agreements are amounted to TL 71,557 (31 December 2011: TL 571,162) and carrying values of underlying financial assets classified as available-for-sale investments collateralized against repurchase agreements are amounted to TL 649,441 (31 December 2011: None).

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16. Funds borrowed

	31 December 2012				31 December 2011			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term(*)	77,111	252,099	5.75-8.75	1.72-3.98	90,049	301,442	5.75-8.75	1.68-4.57
Medium/long term(*)	1,497	38,139	7.75-9.25	0.99-4.01	1,215	83,654	6.25-8.00	1.68-4.60
Total	**78,608**	**290,238**			**91,264**	**385,096**		

(*) Borrowings are presented considering their original maturities.

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

	31 December 2012	31 December 2011
2013	334,294	6,039
2014	1,440	-
2015	33,112	-
Total	**368,846**	**6,039**

17. Other liabilities and provisions

	31 December 2012	31 December 2011
Transfer orders	209,816	163,227
Collections from guarantee cheques	47,378	24,732
Other various provisions	17,359	13,570
Payables due from credit cards	31,374	25,416
Taxes other than on income	13,516	15,695
Reserve for employee severance indemnity and unused vacation accruals	12,006	8,466
Factoring payables	238	299
Collateral for leveraged operations	21,618	20,871
Other	21,715	16,935
Total	**374,898**	**289,211**

The movement of employee severance indemnity is as follows:

	31 December 2012	31 December 2011
Movement in net liability:		
Net liability at January 1	2,608	2,278
Benefit paid directly	(2,813)	(1,810)
Total expense recognized in the income statement	5,168	2,140
Total	**4,963**	**2,608**

The movement of unused vacation accruals is as follows:

	31 December 2012	31 December 2011
Total provision at the beginning of the year	5,858	4,845
Paid during the year	(380)	(407)
Total expense recognized in the income statement	1,565	1,420
Total	**7,043**	**5,858**

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18. Income taxes payable

Major components of income tax expense:

	31 December 2012	31 December 2011
Current income taxes:		
Current income tax charge	(37,658)	(26,463)
Deferred taxes:		
Relating to origination and reversal of temporary differences	(3,819)	(551)
Income tax expense	**(41,477)**	**(27,014)**

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

	31 December 2012	31 December 2011
Current income tax charge	37,658	26,463
Advance taxes	(29,915)	(16,018)
Income taxes payable	**7,743**	**10,445**

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

As at 31 December 2012 and 2011, deferred tax assets and liabilities are as follows:

	31 December 2012 Deferred tax Assets/(Liabilities)		31 December 2011 Deferred tax Assets/(Liabilities)	
Deferred taxes:	**Asset**	**Liability**	**Asset**	**Liability**
Valuation difference of derivative financial instruments	-	(1,717)	6,643	-
Differences in the measurement of the debt securities	-	(3,194)	-	(746)
Personnel bonuses	1,995	-	1,469	-
Reserve for employee severance indemnity and liability for unused vacation	2,367	-	1,669	-
Property and equipment and intangibles	2	-	2	-
Transfer from AFS portfolio	-	(37,598)	-	-
Specific provision expenses	3,746	-	-	-
Other	828	(311)	810	(21)
Total deferred tax assets/(liabilities)	**8,938**	**(42,820)**	**10,593**	**(767)**
Offsetting	(8,938)	8,938	(767)	767
Deferred tax assets/(liabilities)	**-**	**(33,882)**	**9,826**	**-**

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18. Income taxes payable (Cont'd)

	2012	2011
Deferred tax asset / (liability) at January 1	**9,826**	**11,571**
Deferred tax recognized in income statement	(3,819)	(551)
Deferred tax recognized in equity	(38,272)	77
Prior period corporate tax that was paid in the current period	(1,617)	(1,271)
Deferred tax asset / (liability) at December 31	**(33,882)**	**9,826**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis based on the legally enforceable right to set off the recognized amounts such as offsetting current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	31 December 2012	31 December 2011
Deferred tax asset	3,865	9,826
Deferred tax liability	(37,747)	-
Total	**(33,882)**	**9,826**

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 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
Net profit from ordinary activities before income taxes and non-controlling interest	**217,250**	**129,373**
Taxes on income per statutory tax rate	43,450	25,875
Disallowable expenses	2,002	2,192
Effect of income not subject to tax	(3,975)	(1,053)
Income tax expense	**41,477**	**27,014**

19. Equity

Share capital

	31 December 2012	31 December 2011
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 2012 and 2011, the authorized nominal share capital of the Bank amounted to TL 600,000 thousands.

As at 31 December 2012 and 2011, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,867	69.98	419,823	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,238	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**	

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19. Equity (Cont'd)

Other reserves

Other reserves consist of the legal reserves which are amounted to TL 34,123 and gain on sales of assets which are amounted to TL 60 (31 December 2011: TL 29,516 and TL 60; respectively).

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 2012 net non-controlling interest amounts to TL 2,148 (31 December 2011: TL 1,946).

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 is amortized under profit or loss over the remaining life of the transferred securities using the effective interest method.

As per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank transferred, for the purpose of selling, a part of its Eurobonds with a total face value of USD 238,000,000 from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale/transfer of securities originally classified under the securities held-to-maturity in cases where the capital requirement increases due to legal legislation. As at 31 December 2012, such gains/(losses) recognized under equity, after deduction of related tax effect, amounted to TL 150,397 (31 December 2011: None).

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 2011: 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.

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20. Related parties (Cont'd)

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

Outstanding balances

	31 December 2012	31 December 2011
Cash loans	9,951	5,053
Non-cash loans	103,497	65,057
Deposits taken	102,021	43,769

Transactions

	31 December 2012	31 December 2011
Interest income	2,818	7,084
Interest expense	1,421	2,404
Other operating income	1,051	1,478

Directors' Remuneration

As at and for the year ended 31 December 2012, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 12,426 (31 December 2011: TL 10,097).

21. Interest income / expenses

	1 January- 31 December 2012	1 January- 31 December 2011
Interest on loans and receivables	698,209	531,083
Interest on marketable securities	112,067	41,044
Financial assets at FVTPL	76,834	14,905
Available for sale investments	6,761	-
Held to maturity	28,472	26,139
Interest on deposits with banks and other financial institutions	1,521	2,593
Interest on other money market placements	7,278	3,651
Other interest income	4,078	2,122
Total interest income	**823,153**	**580,493**

	1 January- 31 December 2012	1 January- 31 December 2011
Interest on deposits	304,968	244,207
Interest on funds borrowed	14,084	24,775
Interest on other money market deposits	58,433	18,217
Other interest expenses	102	137
Total interest expenses	**377,587**	**287,336**

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22. Fee and commission income / expenses

	1 January-31 December 2012	1 January-31 December 2011
From non cash loans	12,824	13,025
Other	57,567	72,490
From cash loans	14,829	18,382
From individual loan application	530	8,356
From fund commissions	1,376	5,399
Other	40,832	40,353
Fee and commission income	**70,391**	**85,515**

	1 January-31 December 2012	1 January-31 December 2011
ATM commissions	1,715	2,285
Credit card commissions	8,776	5,534
Non-cash loan commissions	92	62
Other	3,528	4,128
Fee and commission expenses	**14,111**	**12,009**

23. Other operating income / expenses

	1 January-31 December 2012	1 January-31 December 2011
Trading income from marketable securities	29,203	-
Trading gains from derivatives	51,393	-
Other income	10,185	12,534
Other operating income	**90,781**	**12,534**

Other operating expenses

	1 January-31 December 2012	1 January-31 December 2011
Salaries and employee benefits (Note:24)	159,626	134,698
Trading losses from marketable securities	-	6,504
Trading losses from derivatives	-	7,892
Foreign exchange losses, net	57,403	22,232
Provision for possible loan losses, net of recoveries	86,204	13,795
Depreciation and amortization	6,916	6,641
Taxes other than on income	11,528	10,316
Other expenses (Note:25)	53,700	47,746
Other operating expenses	**375,377**	**249,824**

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24. Salaries and employee benefits

	1 January-31 December 2012	1 January-31 December 2011
Staff costs:		
Wages and salaries	110,346	93,366
Cost of defined contribution plan		
(employer's share of social security premiums)	15,855	12,945
Other fringe benefits	29,833	26,984
Provision for employee termination benefits and unused vacation accruals	3,592	1,403
Total	**159,626**	**134,698**

The average number of employees during the year is:

	31 December 2012	31 December 2011
The Bank	2,024	1,911
Subsidiaries	92	153
Total	**2,116**	**2,064**

25. Other expenses

	1 January-31 December 2012	1 January-31 December 2011
Operating lease charges	16,466	14,131
Communication expenses	5,974	5,900
Saving deposit insurance fund premium	2,086	2,319
Transportation expenses	4,275	3,451
Maintenance expenses	1,838	1,485
Other provisions	308	288
Hosting cost	2,492	2,063
Energy costs	2,770	2,456
Cleaning service expenses	2,629	2,421
Advertising expenses	734	851
Office supplies	1,309	1,050
POS service expenses	526	514
Expertise expenses	1,718	2,270
Chartered accountants	652	189
BRSA participation fee	685	574
Credit card service expenses	477	645
Other	8,761	7,139
Total	**53,700**	**47,746**

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 2012	1 January-31 December 2011
Letters of guarantee	1,180,978	1,012,768
Letters of credit	294,490	242,367
Acceptance credits	8,549	18,331
Other guarantees	164,582	146,755
Total non-cash loans	**1,648,599**	**1,420,221**
Credit card limit commitments	243,429	215,054
Other commitments	350,745	342,519
Total	**2,242,773**	**1,977,794**

Litigations

The Bank

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 would 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.

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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.

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.

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27. Financial risk management (Cont'd)

(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 2012	31 December 2011	31 December 2012	31 December 2011
Impaired	175,939	108,383	1,116	1,271
Allowance for impairment	175,939	89,652	1,116	1,199
Carrying amount	**-**	**18,731**	**-**	**72**
Past due but not impaired	190,110	84,844	-	-
Carrying amount	**190,110**	**84,844**		
Neither past due nor impaired	4,868,408	4,428,066	-	-
Loans with renegotiated terms	-	-	-	-
Carrying amount	**4,868,408**	**4,428,066**	**-**	**-**
Total carrying amount	**5,058,518**	**4,531,641**	**-**	**72**

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.

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27. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

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 2012 or 2011.

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

Cash loans	31 December 2012	31 December 2011
Secured loans:		
Secured by cash collateral	61,318	66,005
Secured by mortgages	954,253	1,003,572
Secured by government institutions or government securities	330	996
Guarantees issued by financial institutions	489,720	241,011
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,691,219	2,365,780
Unsecured loans	861,678	835,474
Total performing loans and receivables	**5,058,518**	**4,512,838**

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27. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Non-cash loans	31 December 2012	31 December 2011
Secured loans:		
Secured by mortgages	36,991	36,428
Guarantees issued by financial institutions	44,478	54,173
Secured by cash collateral	266	276
Secured by government institutions or government securities	33	129
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,064,026	1,019,652
Unsecured loans	502,805	309,563
Total non-cash loans	**1,648,599**	**1,420,221**

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

	31 December 2012	31 December 2011
Mortgages	26,056	25,340
Pledge on automobile	3,340	2,495
Corporate and personal guarantees	146	150
Total	**29,542**	**27,985**

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 2012	31 December 2011
Construction	11,793	10,469
Food	13,799	10,721
Textile	9,505	9,680
Service sector	5,970	6,266
Durable consumption	1,400	914
Metal and metal products	38,759	5,301
Consumer loans	38,321	21,436
Agriculture and stockbreeding	2,921	2,851
Others	54,587	42,016
Total non-performing loans and receivables	**177,055**	**109,654**

	31 December 2012	31 December 2011
Turkey	176,916	109,512
United States of America	139	142
Total non-performing loans and receivables	**177,055**	**109,654**

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27. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Sectoral break down of cash and non-cash loans

	31 December 2012				31 December 2011			
	Cash	Cash (%)	Non-cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash(%)
Agriculture	**312,289**	**6.17**	**25,984**	**1.58**	**254,337**	**5.64**	**29,221**	**2.06**
Farming and stockbreeding	288,056	5.69	22,816	1.38	233,992	5.19	25,187	1.78
Forestry	18,121	0.36	3,078	0.19	17,287	0.38	4,034	0.28
Fishing	6,112	0.12	90	0.01	3,058	0.07	-	-
Industry	**1,624,467**	**32.11**	**539,084**	**32.70**	**1,321,167**	**29.28**	**520,017**	**36.62**
Mining and quarrying	44,607	0.88	5,036	0.31	32,866	0.73	7,941	0.56
Manufacturing	1,553,918	30.72	516,728	31.34	1,283,764	28.45	492,396	34.67
Electricity, gas, water	25,942	0.51	17.320	1.05	4,537	0.10	19,680	1.39
Construction	**462,932**	**9.15**	**349,097**	**21.18**	**356,719**	**7.90**	**329,415**	**23.19**
Services	**1,814,750**	**35.88**	**717,948**	**43.55**	**1,685,758**	**37.35**	**525,679**	**37.01**
Wholesales and retail trade	801,594	15.85	286,693	17.39	656,800	14.55	270,671	19.06
Hotel and restaurant services	35,248	0.70	5,901	0.35	27,590	0.61	8,382	0.59
Transportation and communication	151,377	2.99	58,843	3.57	107,918	2.39	33,270	2.34
Financial institution	630,658	12.46	279,815	16.97	701,696	15.55	111,748	7.87
Real estate and rent services	6,919	0.14	251	0.02	2,607	0.06	1,738	0.12
Professional services	113,669	2.25	58,786	3.57	124,972	2.77	74,924	5.28
Educational services	7,691	0.15	2,787	0.17	2,599	0.06	592	0.04
Health and social services	67,594	1.34	24,872	1.51	61,576	1.36	24,354	1.71
Consumer loans	**652,392**	**12.90**	**-**	**-**	**738,619**	**16.37**	**-**	**-**
Credit card	**108,188**	**2.14**	**-**	**-**	**80,279**	**1.78**	**-**	**-**
Others	**83,500**	**1.65**	**16,486**	**1.00**	**75,959**	**1.68**	**15,889**	**1.12**
Total	**5,058,518**	**100.00**	**1,648,599**	**100.00**	**4,512,838**	**100.00**	**1,420,221**	**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.

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27. Financial risk management (Cont'd)

(c) Liquidity risk (Cont'd)

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.

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. In November 2006, the 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 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	209,109	209,646	108	7,984	123,678	77,876	-	-
Deposits from customers	4,493,886	4,544,617	679,530	140,546	2,973,887	335,974	283,618	131,062
Obligations under repurchase agreements	592,810	593,345	-	43,789	8,342	541,214	-	-
Funds borrowed	369,084	372,454	-	60,341	82,525	146,373	83,215	-
Total	**5,664,889**	**5,720,062**	**679,638**	**252,660**	**3,188,432**	**1,101,437**	**366,833**	**131,062**

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	9,447	23,779	28,809	-	-
Deposits from customers	4,244,933	4,296,060	676,040	65,837	2,776,224	486,755	255,061	36,143
Obligations under repurchase agreements	556,896	558,144	-	86,357	98,496	66,849	306,442	-
Funds borrowed	476,360	485,077	-	23,918	12,054	270,364	178,741	-
Total	**5,377,790**	**5,439,051**	**713,775**	**185,559**	**2,910,553**	**852,777**	**740,244**	**36,143**

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 2012	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non-cash loans	-	762,530	89,734	328,968	185,304	282,063	**1,648,599**

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**

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27. Financial risk management (Cont'd)

(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 risk as of 31 December 2012 calculated as per the statutory consolidated financial statements prepared for the BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.28337 dated 28 June 2012 based on the Basel II requirements effective from 1 July 2012 is as follows:

	31 December 2012		
	Average	Highest	Lowest
Interest rates risk	26,098	42,043	11,741
Common share risk	177	235	105
Currency risk	4,081	5,624	2,960
Option risk	1,463	5,852	-
Total value at risk (12.5 times)	**397,732**	**598,776**	**185,844**

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

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 2012	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	-	-	-	-	-	661,375	**661,375**
Deposits with banks and other financial institutions	250,254	244	-	-	-	21,589	**272,087**
Financial assets at fair value through profit and loss	14,256	103,425	121	31,489	22,136	282	**171,709**
Receivables from reverse repurchase transactions	80,014	-	-	-	-	-	**80,014**
Available for sale investments	-	11,648	-	-	689,032	-	**700,680**
Loans and receivables	1,930,389	578,217	1,309,347	961,573	278,347	645	**5,058,518**
Investment securities	2,348	27,897	65,890	13,808	65,255	-	**175,198**
Other assets	-	86	-	-	-	242,646	**242,732**
Total assets	**2,277,261**	**721,517**	**1,375,358**	**1,006,870**	**1,054,770**	**926,537**	**7,362,313**
Deposits from banks	157,798	49,054	2,149	-	-	108	**209,109**
Deposits from customers	2,735,309	955,590	254,218	200,306	5	348,458	**4,493,886**
Obligations under repurchase agreements and interbank money market borrowings	366,644	226,166	-	-	-	-	**592,810**
Funds borrowed	102,549	101,665	130,080	34,552	-	-	**368,846**
Other liabilities, provisions and equity	6,076	2,145	-	64	-	1,689,377	**1,697,662**
Total liabilities	**3,368,376**	**1,334,620**	**386,447**	**234,922**	**5**	**2,037,943**	**7,362,313**
Net	**(1,091,115)**	**(613,103)**	**988,911**	**771,948**	**1,054,765**	**(1,111,406)**	**-**

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

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**
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	11,071	285	-	8	-	199,357	**210,721**
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**
Other liabilities, provisions and equity	65,403	1,456	10,071	209	1,800	1,225,668	**1,304,607**
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)**	**-**

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for 2012 and 2011:

31 December 2012	Euro%	US Dollar %	Japanese Yen %	TL %
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.44	0.47	-	5,36
Loans and advances to customers	3.36	4.82	4.60	14.66
Investment securities	2.11	2.75	-	14.99
Deposits from banks	2.07	1.33	-	8.18
Deposits from customers	2.91	2.96	-	8.37
Obligations under repurchase agreements	0.43	0.56	-	4.75
Funds borrowed	2.32	2.81	-	7.72

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

Interest rate sensitivity of the trading and non-trading portfolios

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviours. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

Interest rate sensitivity of the trading and non-trading portfolios (Cont'd)

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

As of 31 December 2012, the economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method are as follows;

Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity-Losses/Equity
TL	(+) 500 bps	(108,100)	9.62%
TL	(-) 400 bps	195,798	17.42%
US$	(+) 200 bps	8,564	0.76%
US$	(-) 200 bps	(22,647)	2.02%
EUR	(+) 200 bps	29,897	2.66%
EUR	(-) 200 bps	(70,408)	6.27%
Total (of negative shocks)		**102,743**	**9.13%**
Total (of positive shocks)		**(69,639)**	**6.20%**

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 2012, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

Currency risk (Cont'd)

As at 31 December 2012	US Dollar	Euro	Other Currencies	Total
Assets:				
Cash and balances with the Central Bank	276,357	146,629	95,972	518,958
Deposits with banks and other financial institutions	113,728	132,291	2,161	248,180
Receivables from reverse repo transactions	-	-	-	-
Available for sale investments	689,032	11,648	-	700,680
Financial assets at fair value through profit or loss	64	20,446	-	20,510
Investment securities	26,744	139,451	-	166,195
Loans and receivables	532,647	449,857	75,364	1,057,868
Other assets	27,545	17,022	476	45,043
Total assets	**1,666,117**	**917,344**	**173,973**	**2,757,434**
Liabilities:				
Deposits from other banks	90,443	87,335	-	177,778
Deposits from customers	892,045	912,093	31,488	1,835,626
Other money market deposits	509,306	47,196	-	556,502
Funds borrowed	148,655	141,583	-	290,238
Other liabilities and provisions	27,230	2,920	196	30,346
Total liabilities	**1,667,679**	**1,191,127**	**31,684**	**2,890,490**
Net Position on the consolidated statement of financial position	**(1,562)**	**(273,783)**	**75,289**	**(133,056)**
Off-balance sheet position:				
Net notional amount of derivatives	**143,795**	**148,609**	**(126,915)**	**165,489**
Net position	**142,233**	**(125,174)**	**(51,626)**	**32,433**

As at 31 December 2011	US Dollar	Euro	Other Currencies	Total
Total assets	1,761,256	772,244	21,280	2,667,207
Total liabilities	1,686,777	1,186,006	39,969	2,913,001
Net Position on the consolidated statement of financial position	**74,479**	**(413,762)**	**(18,689)**	**(245,794)**
Off-balance sheet position:				
Net notional amount of derivatives	(66,581)	406,853	36,996	269,757
Net position	**7,898**	**(6,909)**	**18,307**	**23,963**

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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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

Exposure to currency risk sensitivity analysis

A 10 percent devaluation of the TL against the following currencies as at 31 December 2012 and 2011 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 2012		31 December 2011	
	Profit or loss	Equity(*)	Profit or loss	Equity(*)
US Dollar	14,223	15,392	790	1,999
EUR	(12,517)	650	(691)	14,709
Other currencies	1,537	1,537	2,297	2,297
Total, net	**3,243**	**17,579**	**(2,396)**	**19,005**

(*) 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 184,823 and TL 5,063,459 (31 December 2011: TL 746,671 and TL 4,521,634), respectively, whereas the carrying amounts are TL 175,198 and TL 5,058,518 (31 December 2011: TL 652,700 and TL 4,531,641), respectively, in the accompanying consolidated statement of financial position as at 31 December 2012.

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.

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

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).

Classification requires using observable market data if possible.

	31 December 2012			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	151,521	-	-	151,521
Equity securities	1,959	-	-	1,959
Derivative financial assets held for trading purpose		18,229		18,229
Financial Assets Available For Sale				
Debt instruments	700,680			700,680
Total financial assets	**854,160**	**18,229**	**-**	**872,389**
Financial liabilities at fair value through profit or loss:	-	-	-	-
Derivative financial liabilities held for trading purpose	-	6,625	-	6,625
Total financial liabilities	**-**	**6,625**	**-**	**6,625**

	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**

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27. Financial risk management (Cont'd)

(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 its 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 2009, 2010 and 2011. The amount calculated as TL 56,159 (31 December 2011: TL 51,322) as at 31 December 2012 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 701,988 (31 December 2011: TL 641,525).

(f) Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. 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 period.

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

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27. Financial risk management (Cont'd)

(f) Capital management – regulatory capital (Cont'd)

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

The Bank's and its affiliates' regulatory capital position on a consolidated basis as of 31 December 2012 is as follows:

	31 December 2012
Tier 1 capital	1,061,448
Tier 2 capital	120,368
Deductions from capital	(75)
Total regulatory capital	1,181,741
Risk-weighted assets	5,274,250
Value at market risk	607,788
Operational risk	701,988
Capital ratios	
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	17.95%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	16.12%

The prior period's capital adequacy ratio is not presented above as the calculation base has changed to Basel II starting from 1 July 2012 as stated above. The capital ratios as per the previous legislation were 17.29% and 16.67%, respectively, as of 31 December 2011.

28. Subsequent events

As per the Article 4, first clause of "Regulation On Deposits And Participation Funds Subject to Insurance And Premiums Collected by Saving Deposits Insurance Fund" published on the Official Gazette No.26339 dated November 7, 2006 the phrase of "TL 50,000" was changed as "TL 100,000" with the regulation published in the Official Gazette No.28560 dated February 15, 2013. After this regulation, private current accounts for each individual are included in the scope of insurance up to TL 100,000.

On February 15, 2013, Anadolubank Nederland NV's capital has been increased by EUR 15,000,000.

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