

**ANADOLUBANK ANONİM ŐİRKETİ  
AND ITS SUBSIDIARIES  
CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2012**

# Anadolubank Anonim Şirketi and Its Subsidiaries

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

## Report on Review of Condensed Consolidated Interim Financial Information

We have reviewed the accompanying condensed consolidated financial statements of Anadolubank A.Ş. (“the Bank”) and its subsidiaries (together “the Group”), which comprise the condensed consolidated statement of financial position as at 30 June 2012, and the condensed consolidated statement of income, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review.

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34.

*DRT Bağımsız Denetim ve ŞMMM A.Ş.*

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

İstanbul, 14 September 2012

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2012**

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	Reviewed 30 June 2012	Audited 31 December 2011
<b>ASSETS</b>			
Cash and balances with the Central Bank		579,938	502,391
Deposits with banks and other financial institutions		267,904	360,652
Financial assets at fair value through profit or loss	9	1,084,948	424,292
Derivative financial assets	10	10,045	11,071
Investment securities	11	632,876	652,700
Loans and receivables	12	4,923,878	4,531,641
Property and equipment		17,294	18,910
Intangible assets		2,082	1,889
Deferred tax assets		1,919	9,826
Other assets		207,951	169,025
<b>Total assets</b>		<b>7,728,835</b>	<b>6,682,397</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits from other banks		246,625	99,601
Deposits from customers		4,363,239	4,244,933
Obligations under repurchase agreements		1,438,555	556,896
Funds borrowed	13	295,299	476,360
Derivative financial liabilities	10	15,607	56,698
Other liabilities and provisions		307,872	289,211
Income taxes payable		15,491	10,445
<b>Total liabilities</b>		<b>6,682,688</b>	<b>5,734,144</b>
Share capital issued	14	602,619	602,619
Reserves		48,490	54,686
Retained earnings		392,971	289,002
<b>Total equity attributable to equity holders of the Bank</b>		<b>1,044,080</b>	<b>946,307</b>
<b>Non-controlling interests</b>		<b>2,067</b>	<b>1,946</b>
<b>Total equity</b>		<b>1,046,147</b>	<b>948,253</b>
<b>Total liabilities and equity</b>		<b>7,728,835</b>	<b>6,682,397</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012**

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

Note	Reviewed 1 January- 30 June 2012	Reviewed 1 January- 30 June 2011
<b>Continuing operations:</b>		
<b>Interest income</b>		
Interest on loans and receivables	344,274	230,269
Interest on marketable securities	57,411	28,067
Interest on deposits with banks and other financial institutions	769	1,281
Interest on other money market placements	6,400	-
Other interest income	1,642	1,003
<b>Total interest income</b>	<b>410,496</b>	<b>260,620</b>
<b>Interest expense</b>		
Interest on deposits	(157,581)	(101,971)
Interest on other money market deposits	(35,218)	(5,676)
Interest on funds borrowed	(7,777)	(10,819)
Other interest expense	(88)	(128)
<b>Total interest expense</b>	<b>(200,664)</b>	<b>(118,594)</b>
<b>Net interest income</b>	<b>209,832</b>	<b>142,026</b>
Fees and commissions income	36,728	43,650
Fees and commissions expense	(7,156)	(5,380)
<b>Net fees and commissions income</b>	<b>29,572</b>	<b>38,270</b>
<b>Other operating income</b>		
Trading income from derivatives	1,808	10,929
Trading income on marketable securities	9,108	-
Other income	6,313	4,783
<b>Total other operating income</b>	<b>17,229</b>	<b>15,712</b>
<b>Other operating expense</b>		
Trading loss on marketable securities	-	(4,600)
Foreign exchange loss	(2,614)	(16,711)
Salaries and employee benefits	(77,813)	(67,238)
Provision for possible loan losses, net of recoveries	(5,677)	(1,511)
Depreciation and amortization	(3,497)	(3,300)
Taxes other than on income	(5,774)	(4,888)
Other expenses	(26,470)	(23,103)
<b>Total other operating expense</b>	<b>(121,845)</b>	<b>(121,351)</b>
<b>Income from operations</b>	<b>134,788</b>	<b>74,657</b>
Income tax provision	(26,086)	(15,270)
<b>Profit from continuing operations</b>	<b>108,702</b>	<b>59,387</b>
<b>Profit from discontinued operations</b>	<b>-</b>	<b>-</b>
<b>Profit for the period</b>	<b>108,702</b>	<b>59,387</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012**

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

Notes	Reviewed 1 January- 30 June 2012	Reviewed 1 January- 30 June 2011
<b>Profit for the period</b>	<b>108,702</b>	<b>59,387</b>
<b>Other comprehensive income:</b>		
Foreign currency translation differences for foreign operations	(10,976)	14,049
Fair value reserve of available for sale financial assets transferred to profit or loss	210	49
Income tax on other comprehensive income	(42)	(10)
<b>Other comprehensive income for the period, net of income</b>	<b>(10,808)</b>	<b>14,088</b>
<b>Total comprehensive income for the period</b>	<b>97,894</b>	<b>73,475</b>
<b>Profit attributable to:</b>		
Equity holders of the Bank	108,576	59,272
Non-controlling interests	126	115
<b>Profit for the period</b>	<b>108,702</b>	<b>59,387</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Bank	97,773	73,358
Non-controlling interests	121	117
<b>Total comprehensive income for the period</b>	<b>97,894</b>	<b>73,475</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012**

(Amounts are expressed in thousand of Turkish Lira ("TRY")) unless otherwise indicated.)

	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
Total comprehensive income for the period		-	-	-	-	59,272	59,272	115	59,387
Net profit of the period		-	-	-	-	59,272	59,272	115	59,387
Other comprehensive income		-	14,047	-	-	-	14,047	2	14,049
Currency translation adjustments		-	14,047	-	-	-	14,047	2	14,049
Net gains on available for sale financial assets transferred to profit or loss, net off tax	14	-	-	39	-	-	39	-	39
Total other comprehensive income		-	14,047	39	-	-	14,086	2	14,088
Total comprehensive income for the period		-	14,047	39	-	59,272	73,358	117	73,475
Gain on sale of assets		-	-	-	60	(60)	-	-	-
Transfers to other reserves		-	-	-	7,907	(7,907)	-	-	-
Total contributions by owners		-	-	-	7,967	(7,967)	-	-	-
Total transactions with owners		-	-	-	-	-	-	-	-
Balances at 30 June 2011		602,619	21,528	(2,343)	29,576	245,995	897,375	1,970	899,345
Balances at 1 January 2012		602,619	27,800	(2,690)	29,576	289,002	946,307	1,946	948,253
Total comprehensive income for the period		-	-	-	-	108,576	108,576	126	108,702
Net profit of the period		-	-	-	-	108,576	108,576	126	108,702
Other comprehensive income		-	(10,971)	-	-	-	(10,971)	(5)	(10,976)
Currency translation adjustments		-	(10,971)	-	-	-	(10,971)	(5)	(10,976)
Net gains on available for sale financial assets transferred to profit or loss, net off tax	14	-	-	168	-	-	168	-	168
Total other comprehensive income		-	(10,971)	168	-	-	(10,803)	(5)	(10,808)
Total comprehensive income for the period		-	(10,971)	168	-	108,576	97,773	121	97,894
Gain on sale of assets		-	-	-	-	-	-	-	-
Transfers to other reserves		-	-	-	4,607	(4,607)	-	-	-
Total contributions by owners		-	-	-	4,607	(4,607)	-	-	-
Total transactions with owners		-	-	-	-	-	-	-	-
Balances at 30 June 2012		602,619	16,829	(2,522)	34,183	392,971	1,044,080	2,067	1,046,147

The accompanying notes form an integral part of these condensed consolidated financial statements.

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

	Reviewed 1 January- 30 June 2012	Reviewed 1 January- 30 June 2011
<b>Cash flows from operating activities:</b>		
Profit for the period	108,702	59,387
<b>Adjustments for:</b>		
Income tax expense	26,086	15,270
Provision for loan losses	8,382	6,297
Depreciation and amortization	3,497	3,300
Provision for retirement pay liability	2,277	1,371
Currency translation differences	10,976	14,049
Other various income/expense accruals (net)	26,755	3,162
Net interest income/expense	(228,803)	(142,265)
	<b>(64,080)</b>	<b>(39,429)</b>
<b>Changes in operating assets and liabilities:</b>		
Reserve deposits at the Central Bank	(99,154)	(46,996)
Financial assets at fair value through profit or loss	(663,008)	(183,061)
Loans and receivables	(405,093)	(569,944)
Derivative financial instruments	(40,065)	(42,297)
Other assets	32,767	(18,389)
Deposit with other banks and customers	285,898	567,616
Other liabilities and provisions	27,013	37,176
	<b>(925,722)</b>	<b>(295,324)</b>
Interest paid	(206,935)	(110,219)
Interest received	393,111	201,692
Income taxes paid	(19,705)	(7,065)
<b>Cash used in operating activities</b>	<b>(759,251)</b>	<b>(210,916)</b>
<b>Cash flows from investing activities</b>		
Acquisition of investment securities	11 (53,039)	(22,937)
Proceeds from sale of investment securities	45,661	218,197
Acquisition of property and equipment	(2,028)	(3,070)
Proceeds from sale of property and equipment	7,007	3,091
<b>Cash provided by /(used in) investing activities</b>	<b>(2,399)</b>	<b>195,281</b>
<b>Cash flows from financing activities</b>		
Change in funds borrowed (net)	709,777	159,450
<b>Cash provided by financing activities</b>	<b>709,777</b>	<b>159,450</b>
Effect of exchange rate fluctuations on cash held	8,542	7,557
Net decrease in cash and cash equivalents	(43,331)	151,372
Cash and cash equivalents at the beginning of the period	518,053	386,745
<b>Cash and cash equivalents at the end of the period</b>	<b>474,722</b>	<b>538,117</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012**  
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

**1. Overview of the Bank**

Anadolubank Anonim Şirketi (the “Bank”), has commenced its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 88 (31 December 2011: 88) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 80260 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ. (“Habaş”) established in 1956. Habaş with the sales volume and export performance is one of the major companies of Turkey, producing industrial and medical gases, steel, electrical energy, heavy machinery, distributing Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG), offering sea transportation services for LPG and operating sea ports.

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

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

The Bank has 82.01% 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 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 Anadolu Bank 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. Statement of compliance**

The Bank and its subsidiaries located in Turkey 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”), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code; the Bank’s subsidiaries located outside of Turkey 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 condensed consolidated interim financial statements are authorized for issue by the directors on 14 September 2012.

**3. Basis of preparation**

**New and Revised International Financial Reporting Standards**

**(a) New and Revised IFRSs affecting presentation and disclosure only**

None.

**(b) New and Revised IFRSs affecting the reported financial performance and / or financial position**

None.

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012**  
(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

**3. Basis of preparation (cont'd)**

**(c) New and Revised IFRSs applied with no material effect on the consolidated financial statements**

The following new and revised IFRSs have 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 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.

**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.

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

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

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

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012**  
(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

**3. Basis of preparation (cont'd)**

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

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

The Group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognized in profit or loss). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Key requirements of these five Standards are described below.

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

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012**  
*(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)*

**3. Basis of preparation (cont'd)**

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

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

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

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

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

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

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

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

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

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

The amendments to IAS 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.

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**3. Basis of preparation (cont'd)**

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

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the directors 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.

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

*Annual Improvements 2009/2011 Cycle*

Further to the above amendments and revised standards, the IASB have issued Annual Improvements to IFRSs in May 2012 that cover 5 main standards/interpretations as follows:

- IFRS 1 - Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets
- IAS 1 - Clarification of the requirements for comparative information
- IAS 16 - Classification of servicing equipment
- IAS 32 - Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes
- IAS 34 - Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

All amendments are effective on or after 1 January 2013. Early adoptions of these amendments are allowed. The Group has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

**4. Significant accounting policies**

The interim financial statements as of 30 June 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting of IFRS and are in compliance with the accounting policies used to prepare the financial statements as of 31 December 2011. Therefore the condensed consolidated financial statements should be read in conjunction with the financial statements of the Group for the year ended 31 December 2011.

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**5. Basis of consolidation**

**Methodology**

The accompanying condensed consolidated interim financial statements include the accounts of the Bank and its subsidiaries on the basis as set out below. The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the condensed consolidated interim financial statements.

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

The major principles of consolidation are as follows:

- The statements of financial position and comprehensive income are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the statements of financial position and comprehensive income are eliminated.
- The results of the subsidiaries are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Non-controlling interests in the equity and net profit of the consolidated subsidiaries are separately classified in the condensed consolidated statements of financial position and comprehensive income.
- The assets and liabilities of foreign operations are translated to TL at exchange rates at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates at average exchange rates. Foreign currency differences are recognised directly in equity as currency translation adjustments.

**Subsidiaries**

The subsidiaries included in the consolidation and their ownership percentages are as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			30 June 2012	31 December 2011
Anadolu Yatırım	Istanbul / Turkey	Brokerage	82.00	82.00
Anadolubank Nederland	Amsterdam / the Netherlands	Banking	100.00	100.00
Anadolu Faktoring	Istanbul / Turkey	Factoring	99.99	99.99
Anadolubank International	TRNC	Banking	99.40	99.40

**6. Estimates**

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.

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**7. Financial risk management**

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2011.

The Group's currency risk and interest rate risk sensitivity are presented below:

**Currency risk sensitivity**

The effect of 10 percent devaluation of the TL against the following currencies as at 30 June 2012 is shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 December 2011. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	30 June 2012		30 June 2011	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	(555)	584	(241)	776
EUR	(210)	14,449	4,227	16,446
Other currencies	(799)	(799)	(246)	(246)
<b>Total, net</b>	<b>(1,564)</b>	<b>14,234</b>	<b>3,740</b>	<b>16,976</b>

(\*) Equity effect also includes profit or loss effect of 10% devaluation of the TL against related currencies.

**Interest rate sensitivity**

Interest rate sensitivity of the condensed consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss on the consolidated net interest income as at and for the six-month period ended 30 June 2012. Floating rate non-trading financial assets and financial liabilities held as at 30 June 2012 are also considered in the calculations. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for the period ended 30 June 2011.

	Impact on profit or loss		Impact on equity (*)	
	2012	2011	2012	2011
100 bp increase	(21,405)	(4,443)	(21,405)	(4,443)
100 bp decrease	23,972	4,401	23,972	4,401

(\*) Equity effect, includes the effect of changes in interest rates on the statement of comprehensive income.

**8. Operating Segments**

IFRS 8 – *Operating Segments* was not applied since the equity instruments of the Group are not traded on a stock exchange.

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**9. Financial assets at fair value through profit or loss**

As at 30 June 2012 and 31 December 2011, the financial assets at fair value through profit or loss comprised the following:

	30 June 2012		31 December 2011	
	Carrying Value	Effective Interest Rate (%)	Carrying Value	Effective Interest Rate (%)
Government bonds in TL	978,371	3.07-10.25	320,347	3.45-10.97
Eurobonds issued by the Turkish Government	25,529	3.07-15.98	6,855	2.44-9.43
Equity securities	1,388	-	775	-
Other	79,660	2.64-10.18	96,315	4.90-9.43
<b>Total financial assets at fair value through profit or loss</b>	<b>1,084,948</b>		<b>424,292</b>	

**10. Derivative financial instruments**

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 include forwards and 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 with their TL equivalents. 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 period/year-end and are neither indicative of the market risk nor credit risk.

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

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**10. Derivative financial instruments (Cont'd)**

30 June 2012									
	Fair value assets	Fair value liabilities	Notional amount	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<i>Derivatives held for trading purpose:</i>									
Forward purchase contract	652	207	397,647	396,466	739	442	-	-	-
Forward sale contract	-	3,498	393,289	392,115	736	438	-	-	-
Currency swap purchase	9,393	-	1,457,830	1,296,748	43,891	42,106	49,704	25,381	-
Currency swap sale	-	11,902	1,471,619	1,299,553	44,850	44,511	53,907	28,798	-
Credit default swap	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	3,541	-	-	-	3,541	-	-
Interest rate swap sale	-	-	3,541	-	-	-	3,541	-	-
Put option purchase	-	-	188,667	106,878	51,449	28,412	-	1,928	-
Put option sale	-	-	188,685	106,896	51,449	28,412	-	1,928	-
<b>Total</b>	<b>10,045</b>	<b>15,607</b>	<b>4,104,819</b>	<b>3,598,656</b>	<b>193,114</b>	<b>144,321</b>	<b>110,693</b>	<b>58,035</b>	<b>-</b>

  

31 December 2011									
	Fair value assets	Fair value liabilities	Notional amount	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<i>Derivatives held for trading purpose:</i>									
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	-	-	-
<b>Total</b>	<b>11,071</b>	<b>56,698</b>	<b>3,741,933</b>	<b>3,058,274</b>	<b>121,071</b>	<b>143,551</b>	<b>-</b>	<b>384,648</b>	<b>34,389</b>

**11. Investment securities**

The movement of held to maturity investment securities is as follows:

	30 June 2012	30 June 2011
<b>Balances at the beginning of period</b>	<b>652,700</b>	<b>749,556</b>
Foreign currency differences on monetary assets	(27,805)	29,604
Purchases during the period	53,039	22,937
Disposals through sales and redemptions	(34,886)	(218,197)
Allowance for impairment <sup>(*)</sup>	(7,315)	-
Changes in amortised cost <sup>(**)</sup>	(2,857)	(8,521)
<b>Balances at the end of period</b>	<b>632,876</b>	<b>575,379</b>

<sup>(\*)</sup> 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 nominal values of the Greek bonds in the Anadolubank N.V. portfolio. As a result of recent negotiations held on February 21, 2012, it has been decided that the impairment should be 75% of the nominal values of the Greek bonds, and thus the Group has recorded an additional provision for impairment for the remaining 25% in the current period. The Group also exchanged a large portion of the bonds with bonds that has longer maturity dates.

<sup>(\*\*)</sup> Changes in amortised cost include accrued interest on securities.

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**11. Investment securities (Cont'd)**

As at 30 June 2012, the carrying and the nominal values of the securities issued by the Turkish Government kept in the Central Bank, 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 amounting to TL 8,667 and TL 7,300, respectively (31 December 2011: TL 8,235 and TL 7,300). The carrying value of investment securities backing obligations under repurchase transactions amounts to TL 44,209 (31 December 2011: TL 571,162).

As at 30 June 2012, carrying values and nominal values of held to maturity securities kept at De Nederlandsche Bank (Dutch Central Bank) as reserve requirement against the Group's foreign operations in the Netherlands amounted to TL 42,344 and TL 44,209 (31 December 2011: TL 75,587 and TL 78,729); respectively.

**12. Loans and receivables**

	30 June 2012						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	2,998,770	829,826	156,176	3,984,772	6.75-40.00	3.22-11.50	4.00-11.00
Consumer loans	601,884	-	103,400	705,284	5.16-30.60	-	3.50-9.90
Credit cards	92,585	26	-	92,611	28.08	-	-
Factoring receivables	116,449	-	-	116,449	9.38-40.64	-	-
<b>Total performing loans</b>	<b>3,809,688</b>	<b>829,852</b>	<b>259,576</b>	<b>4,899,116</b>			
Non-performing loans				120,627			
Allowance for:							
Individually impaired loans				(54,966)			
Collectively impaired loans				(40,899)			
				<b>4,923,878</b>			
	31 December 2011						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	2,504,056	853,683	151,498	3,509,237	6.25-36.00	2.14-13.50	3.90-10.50
Consumer loans	611,685	-	192,508	804,193	5.28-30.60	-	3.60-12.00
Credit cards	80,248	31	-	80,279	25.44	-	-
Factoring receivables	119,036	93	-	119,129	8.70-38.90	-	-
<b>Total performing loans</b>	<b>3,315,025</b>	<b>853,807</b>	<b>344,006</b>	<b>4,512,838</b>			
Non-performing loans				109,654			
Allowance for:							
Individually impaired loans				(54,233)			
Collectively impaired loans				(36,618)			
<b>Loans and receivables, net</b>				<b>4,531,641</b>			

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**12. Loans and receivables (Cont'd)**

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

Movements in the reserve for possible loan losses:

	30 June 2012	30 June 2011
Reserve at beginning of the period/year	90,851	77,056
Provision for possible loan losses	8,382	6,297
Recoveries	(3,368)	(4,786)
<b>Provision, net of recoveries</b>	<b>95,865</b>	<b>78,567</b>
Loans written off during the period/year	-	-
<b>Reserve at end of the period/year</b>	<b>95,865</b>	<b>78,567</b>

**13. Funds borrowed**

As at 30 June 2012 and 31 December 2011, fund borrowed are detailed as follows:

	30 June 2012				
	Amount			Effective Interest Rate (%)	
	TL	FC	Total	TL	FC
Short-term	85,071	141,293	226,364	6.75-8.75	1.11-4.54
Medium/long term	1,101	67,834	68,935	6.25-8.25	1.06-8.69
<b>Total</b>	<b>86,172</b>	<b>209,127</b>	<b>295,299</b>		
	31 December 2011				
	Amount			Effective Interest Rate (%)	
	TL	FC	Total	TL	FC
Short-term	90,049	301,442	391,491	5.75-8.75	1.68-4.57
Medium/long term	1,215	83,654	84,869	6.25-8.00	1.68-4.60
<b>Total</b>	<b>91,264</b>	<b>385,096</b>	<b>476,360</b>		

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**14. Equity**

**Share capital**

	30 June 2012	31 December 2011
<b>Number of common shares</b>	60,000,000	60,000,000

As of 30 June 2012 and 31 December 2011, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	30 June 2012		31 December 2011	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,823	69.98	419,823	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,282	2.70	16,282	2.70
Historical amount	<b>600,000</b>	<b>100.00</b>	<b>600,000</b>	<b>100.00</b>
Restatement effect per IAS 29	2,619		2,619	
<b>Total</b>	<b>602,619</b>		<b>602,619</b>	

**Fair value reserve – available for sale financial assets**

Fair value differences of available-for-sale assets are detailed as follows:

	30 June 2012	30 June 2011
<b>Balance at the beginning of the year</b>	<b>(2,690)</b>	<b>(2,382)</b>
Net losses transferred to profit or loss on amortization	210	49
Related deferred taxes	(42)	(10)
<b>Balance at the end of the year</b>	<b>(2,522)</b>	<b>(2,343)</b>

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 previous losses of TL 12,931 net off deferred tax that have been recognized directly in equity are amortized through the profit or loss over the remaining life of the transferred securities using the effective interest method. As at 30 June 2012, remaining unrealized losses on classified securities amounting to TL 2,522 net off taxes (30 June 2011: TL 2,343 net off taxes).

**Other reserves**

Other reserves mainly consist of legal reserves and other profit reserves kept within the Group. The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the Bank's paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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**15. 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 A.Ş. which owns 69.98% (31 December 2011: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these condensed consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

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

**Outstanding balances**

	30 June 2012	31 December 2011
Cash loans	8,477	9,604
Non-cash loans	30,263	21,198
Deposits taken	50,730	35,544

**Transactions**

	30 June 2012	30 June 2011
Interest income	3,412	4,092
Interest expense	712	668
Other operating income	288	997
Other operating expense	920	660

**Directors' Remuneration**

The key management and the members of the Board of Directors received remuneration and benefits amounting to TL 6,226 for the six-month period ended 30 June 2012 (30 June 2011: TL 5,620).

**16. Commitment and contingencies**

In the normal course of business activities, the Bank and its subsidiaries have various commitments and contingent liabilities as follows:

	30 June 2012	31 December 2011
Letters of guarantee	1,117,500	1,012,768
Letters of credit	245,029	242,367
Acceptance credits	11,369	18,331
Other guarantees	157,283	146,755
<b>Total non-cash loans</b>	<b>1,531,181</b>	<b>1,420,221</b>
Credit card limit commitments	212,650	215,054
Other commitments	417,321	342,519
<b>Total</b>	<b>2,161,152</b>	<b>1,977,794</b>

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**16. Commitment and contingencies (Cont'd)**

**Litigations**

**a) 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 will be any probable loss.

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

**17. Capital management – regulatory capital**

The Banking Regulation and Supervision Agency ("BRSA"), the regulatory body of the banking industry sets and monitors capital requirements for the banks in Turkey. In accordance with the BRSA guidelines the Group must, in general, maintain a total capital ratio in excess of 8%; however, if operations include activities in offshore regions, as is the case with Anadolubank, the BRSA imposes 12%.

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

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interest after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, revaluation fund on immovables, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement as at 30 June 2012 and 31 December 2011 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

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

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**17. Capital management – regulatory capital (Cont’d)**

The Bank’s and its subsidiaries’ regulatory capital position on a consolidated basis at 30 June 2012 and 31 December 2011 was as follows:

	30 June 2012	31 December 2011
Tier 1 capital	1,002,871	909,059
Tier 2 capital	38,377	33,928
Total regulatory capital	1,041,248	942,987
Risk-weighted assets	5,205,284	4,688,708
Value at market risk	185,850	124,063
Operational risk	701,983	641,525
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	17.09%	17.29%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	16.46%	16.67%

**18. Subsequent events**

Capital adequacy calculations of banks is adapted to Basel II, as effective from 1 July 2012, in accordance with “The Regulation on Measurement and Assessment of Capital Adequacy of Banks” published in the Official Gazette No. 28337 dated 28 June 2012.

**19. Earnings per share**

In accordance with IAS 33 “Earnings per Share”, companies whose shares are not traded on the stock exchange are not obliged to disclose earnings per share. Therefore, earnings per share have not been calculated in the accompanying condensed consolidated financial statements.