ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Deloitte.

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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 Bağımsız Denetim ve SMMM A.Ş.

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

Istanbul, Turkey

18 April 2013

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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	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.

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: 77 80260 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.

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

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 1*[3]

[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.

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.

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.

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*.

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.

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

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.

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.

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.

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

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.

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.

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.

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.

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).

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.

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**

5. Operating segments (Cont'd)

Information about operating segments (Cont'd)

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**

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**		

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).

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**

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).

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.

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**

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.

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).

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**

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		31 December 2011	
	Deferred tax Assets/ (Liabilities)		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**	**-**

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**	

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.

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**

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**

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.

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.

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.

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**

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**

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.

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**

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**

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)**	**-**

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)**	**-**

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.

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.

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**
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	Others	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
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.

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.

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**

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.

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.