



**Anadolubank Anonim Şirketi
And Its Subsidiaries**

**Condensed Consolidated Interim Financial Statements
For the six-month period ended
30 June 2013
With Independent Auditors' Report on Review of
Condensed Consolidated
Interim Financial Statements Thereon**

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi
26 August 2013

This report contains the "Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information" comprising 1 page and; the "Condensed consolidated interim financial statements and their explanatory notes" comprising 18 pages.

Anadolubank Anonim Şirketi and Its Subsidiaries

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Board of Directors of
Anadolubank Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Anadolubank Anonim Şirketi (the "Bank") and its subsidiaries (the "Group") as at 30 June 2013, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 and for the six month period ended 30 June 2012 were audited and reviewed by another auditor who expressed an unmodified opinion and conclusion on those statements on 18 April 2013 and 14 September 2012, respectively.

KPMG Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

Istanbul, Turkey
26 August 2013

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

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

		Reviewed	Audited
	<i>Note</i>	30 June	31 December
		2013	2012
ASSETS			
Cash and balances with the Central Bank		726,466	661,375
Deposits with banks and other financial institutions		395,025	272,087
Receivables from reverse repurchase transactions		120,061	80,014
Financial assets at fair value through profit or loss	9	388,700	153,480
Derivative financial assets held for trading purpose	10	51,114	18,229
Investment securities	11	976,720	875,878
<i>Available for sale investments</i>		790,779	700,680
<i>Investments held to maturity</i>	11	185,941	175,198
Loans and receivables	12	5,287,823	5,058,518
Property and equipment		26,293	24,094
Intangible assets		2,729	2,906
Deferred tax assets		4,254	3,865
Other assets		256,265	211,867
Total assets		8,235,450	7,362,313
LIABILITIES			
Deposits from banks		377,036	209,109
Deposits from customers		4,783,404	4,493,886
Obligations under repurchase agreements		994,091	592,810
Funds borrowed	13	414,770	368,846
Derivative financial liabilities held for trading purpose	10	39,142	6,625
Deferred tax liabilities		5,480	37,747
Other liabilities and provisions		349,996	374,898
Income taxes payable		14,620	7,743
Total liabilities		6,978,539	6,091,664
EQUITY			
Share capital	14	602,619	602,619
Reserves		103,054	205,923
Retained earnings		549,187	459,959
Total equity attributable to equity holders of the Bank		1,254,860	1,268,501
Non-controlling interests		2,051	2,148
Total equity		1,256,911	1,270,649
Total liabilities and equity		8,235,450	7,362,313

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2013

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

<i>Note</i>	Reviewed 1 January- 30 June 2013	Reviewed 1 January- 30 June 2012
Continuing operations:		
Interest income		
Interest on loans and receivables	304,925	344,274
Interest on marketable securities	24,822	57,411
Interest on deposits with banks and other financial institutions	340	769
Interest on other money market placements	2,441	6,400
Other interest income	2,463	1,642
Total interest income	334,991	410,496
Interest expense		
Interest on deposits	(113,389)	(157,581)
Interest on other money market deposits	(5,647)	(35,218)
Interest on funds borrowed	(6,258)	(7,777)
Other interest expense	(286)	(88)
Total interest expense	(125,580)	(200,664)
Net interest income	209,411	209,832
Fees and commissions income	34,130	36,728
Fees and commissions expense	(6,337)	(7,156)
Net fees and commissions income	27,793	29,572
Other operating income		
Trading income from derivatives	25,664	1,808
Trading income on marketable securities	46,716	9,108
Other income	5,864	6,313
Total other operating income	78,244	17,229
Other operating expenses		
Foreign exchange loss	(48,576)	(2,614)
Salaries and employee benefits	(92,437)	(77,813)
Provision for possible loan losses, net of recoveries	(9,910)	(5,677)
Depreciation and amortization	(4,073)	(3,497)
Taxes other than on income	(7,272)	(5,774)
Other expenses	(30,955)	(26,470)
Total other operating expenses	(193,223)	(121,845)
Income from operations	122,225	134,788
Income tax provision	(24,287)	(26,086)
Profit from continuing operations	97,938	108,702
Profit from discontinued operations	-	-
Profit for the period	97,938	108,702

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2013

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

Note	Reviewed 1 January- 30 June 2013	Reviewed 1 January- 30 June 2012
Profit for the period	97,938	108,702
Other comprehensive income:		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	12,841	(10,976)
Fair value reserve of available for sale financial assets transferred to profit or loss	(155,553)	210
Income tax on other comprehensive income	31,036	(42)
Other comprehensive income for the period, net of income taxes	(111,676)	(10,808)
Total comprehensive income for the period	(13,738)	97,894
Profit attributable to:		
Equity holders of the Bank	98,041	108,576
Non-controlling interests	(103)	126
Profit for the period	97,938	108,702
Total comprehensive income attributable to:		
Equity holders of the Bank	(13,641)	97,773
Non-controlling interests	(97)	121
Total comprehensive income for the period	(13,738)	97,894

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2013

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

	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total
Balances at 1 January 2012		602,619	27,800	(2,690)	29,576	289,002	946,307	1,946	948,253
Total comprehensive income for the period									
Net profit of the period		-	-	-	-	108,576	108,576	126	108,702
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:									
Currency translation adjustments		-	(10,971)	-	-	-	(10,971)	(5)	(10,976)
Net gains on available for sale financial assets transferred to profit or loss, net off tax	14	-	-	168	-	-	168	-	168
Total other comprehensive income		-	(10,971)	168	-	-	(10,803)	(5)	(10,808)
Total comprehensive income for the period		-	(10,971)	168	-	108,576	97,773	121	97,894
Gain on sale of assets		-	-	-	-	-	-	-	-
Transfers to other reserves		-	-	-	4,607	(4,607)	-	-	-
Total contributions by owners		-	-	-	4,607	(4,607)	-	-	-
Total transactions with owners		-	-	-	-	-	-	-	-
Balances at 30 June 2012		602,619	16,829	(2,522)	34,183	392,971	1,044,080	2,067	1,046,147
Balances at 1 January 2013		602,619	21,343	150,397	34,183	459,959	1,268,501	2,148	1,270,649
Total comprehensive income for the period									
Net profit of the period		-	-	-	-	98,041	98,041	(103)	97,938
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:									
Currency translation adjustments		-	12,835	-	-	-	12,835	6	12,841
Net gains on available for sale financial assets transferred to profit or loss, net off tax	14	-	-	(124,517)	-	-	(124,517)	-	(124,517)
Total other comprehensive income		-	12,835	(124,517)	-	-	(111,682)	6	(111,676)
Total comprehensive income for the period		-	12,835	(124,517)	-	98,041	(13,641)	(97)	(13,738)
Gain on sale of assets		-	-	-	-	-	-	-	-
Transfers to other reserves		-	-	-	8,813	(8,813)	-	-	-
Total contributions by owners		-	-	-	8,813	(8,813)	-	-	-
Total transactions with owners		-	-	-	-	-	-	-	-
Balances at 30 June 2013		602,619	34,178	25,880	42,996	549,187	1,254,860	2,051	1,256,911

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2013

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

	Reviewed	Reviewed
	1 January- 30 June 2013	1 January- 30 June 2012
Cash flows from operating activities:		
Profit for the period	97,938	108,702
Adjustments for:		
Income tax expense	24,287	26,086
Provision for loan losses	9,910	8,382
Depreciation and amortization	4,073	3,497
Provision for retirement pay liability	950	2,277
Currency translation differences	(12,841)	10,976
Other various income/expense accruals (net)	(10,864)	4,803
Net interest income/expense	(209,411)	(228,803)
	(95,958)	(64,080)
Changes in operating assets and liabilities:		
Reserve deposits at the Central Bank	(65,091)	(99,154)
Financial assets at fair value through profit or loss	(246,325)	(663,008)
Loans and receivables	(224,051)	(405,093)
Derivative financial instruments	368	(40,065)
Other assets	(89,904)	32,767
Deposit with other banks and customers	457,341	285,898
Other liabilities and provisions	326,323	27,013
	62,703	(925,722)
Interest paid	(127,361)	(206,935)
Interest received	310,878	393,111
Income taxes paid	(50,179)	(19,705)
Cash provided by/(used in) operating activities	196,041	(759,251)
Cash flows from investing activities		
Acquisition of investment securities	(863)	(53,039)
Proceeds from sale of investment securities	-	45,661
Acquisition of property and equipment	(6,428)	(2,028)
Proceeds from sale of property and equipment	868	7,007
Acquisitions of available-for-sale investment securities	(472,423)	-
Proceeds from sale of available-for-sale investment securities	284,377	-
Other	(322)	-
Cash used in investing activities	(194,791)	(2,399)
Cash flows from financing activities		
Change in funds borrowed (net)	46,010	709,777
Cash provided by financing activities	46,010	709,777
Effect of exchange rate fluctuations on cash held	70,447	8,542
Net increase/(decrease) in cash and cash equivalents	117,707	(43,331)
Cash and cash equivalents at the beginning of the period	568,670	518,053
Cash and cash equivalents at the end of the period	686,377	474,722

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2013
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

1. Overview of the Bank

Anadolubank Anonim Şirketi (the “Bank”), has commenced its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 109 (31 December 2012: 91) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 80260 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

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

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

The Bank has 82.01% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in 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 Anadolu Bank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

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

2. Statement of compliance

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code; the Bank’s subsidiaries located outside of Turkey maintain their books of account and prepare their statutory financial statements in USD and in EUR in accordance with the regulations of the countries in which they operate.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

The condensed consolidated interim financial statements are authorized for issue by the directors on 26 August 2013.

3. Basis of preparation

These condensed consolidated interim financial statements are presented in Turkish Lira (“TL”), which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The condensed consolidated interim 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 items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose and available-for-sale investment securities whose fair value can reliably be measured.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2013
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

4. Significant accounting policies

The condensed consolidated interim financial statements as of 30 June 2013 have been prepared in accordance with IAS 34 Interim Financial Reporting of IFRS and are in compliance with the accounting policies used to prepare the financial statements as of 31 December 2012. Therefore the condensed consolidated financial statements should be read in conjunction with the financial statements of the Group for the year ended 31 December 2012.

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2013.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011) (see (a))
- IFRS 11 Joint Arrangements (see (b))
- IFRS 13 Fair Value Measurement (see (c))
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (see (d))
- IAS 19 Employee Benefits (2011) (see (e))
- Annual Improvements to IFRS 2009–2011 Cycle (see (f)).

The nature and the effect of the changes are further explained below.

(a) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. As a consequence, the change had no significant impact on the consolidated investees of the Group.

(b) Joint arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. The change had no impact on the financial statements of the Group, since the Group has no joint arrangement.

(c) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group’s assets and liabilities.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2013
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

4. Significant accounting policies (Continued)

(d) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its condensed consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

(e) Defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit.

Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The adoption of the amendment to IAS 19 has no significant impact on the recognised assets, liabilities and comprehensive income of the Group.

(f) Segment information

The amendment to IAS 34 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group’s chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The adoption of the amendment to IAS 34 has no significant impact on the disclosure of segment assets and liabilities.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated interim financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 Financial instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2013
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

4. Significant accounting policies (Continued)

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability’s credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2013
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

5. Basis of consolidation

Methodology

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

For the purposes of the accompanying condensed consolidated interim financial statements, the subsidiaries are those companies over which the Bank has a controlling power on their operating and financial policies through having more than 50% of the ordinary shares held by the Bank.

The major principles of consolidation are as follows:

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

Subsidiaries

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

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			30 June 2013	31 December 2012
Anadolu Yatırım	Istanbul / Turkey	Brokerage	82.00	82.00
Anadolubank Nederland	Amsterdam / the Netherlands	Banking	100.00	100.00
Anadolu Faktoring	Istanbul / Turkey	Factoring	99.99	99.99
Anadolubank International	TRNC	Banking	99.40	99.40

6. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2013
(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

7. Financial risk management

The Group’s financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2012.

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

Currency risk sensitivity

A 10 percent devaluation of the TL against the following currencies as at 30 June 2013 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. The analysis is performed on the same basis for the year ended 31 December 2012. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	30 June 2013		30 June 2012	
	Profit or loss	Profit or loss	Profit or loss	Equity (*)
USD	(6,875)	(555)	(555)	15,392
EUR	(3,676)	(210)	(210)	650
Other currencies	955	(799)	(799)	1,537
Total, net	(9,596)	(1,564)	(1,564)	17,579

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

Interest rate sensitivity

Interest rate sensitivity of the condensed consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss on the consolidated net interest income as at and for the six-month period ended 30 June 2013. Floating rate non-trading financial assets and financial liabilities held as at 30 June 2013 are also considered in the calculations. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for the period ended 30 June 2012.

	Impact on profit or loss		Impact on equity (*)	
	2013	2012	2013	2012
100 bp increase	123,436	(21,405)	118,817	(21,405)
100 bp decrease	(107,436)	(23,972)	(100,555)	(23,972)

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

8. Operating segments

IFRS 8 – *Operating Segments* was not applied since the equity instruments of the Group are not traded in a public market.

9. Financial assets at fair value through profit or loss

As at 30 June 2013 and 31 December 2012, financial assets at fair value through profit or loss comprised the following:

	30 June 2013		31 December 2012	
	Carrying value	Effective interest rate (%)	Carrying value	Effective interest rate (%)
Government bonds in TL	338,574	5.94-13.68	131,011	6.16-13.68
Eurobonds issued by the Turkish Government	62	3.80-4.79	64	3.80-4.48
Equity securities	13,854	-	1,959	-
Other	36,210	15.98	20,446	15.98
Total financial assets at fair value through profit or loss	388,700		153,480	

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10. Derivative financial instruments

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

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity with their TL equivalents. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period/year-end and are neither indicative of the market risk nor credit risk.

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

30 June 2013									
	Fair value assets	Fair value liabilities	Notional amount	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<i>Derivatives held for trading purpose:</i>									
Forward purchase contract	2,370	-	616,502	540,199	45,825	26,363	4,115	-	-
Forward sale contract	-	13,434	602,400	526,343	45,646	26,313	4,098	-	-
Currency swap purchase	48,614	-	1,903,009	1,403,826	418,388	75,706	5,089	-	-
Currency swap sale	-	25,551	1,902,255	1,403,152	419,756	74,340	5,007	-	-
Credit default swap	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	-	-	-	-	-	-	-
Interest rate swap sale	-	-	-	-	-	-	-	-	-
Put option purchase	130	-	1,010,859	484,574	406,333	64,922	55,030	-	-
Put option sale	-	157	1,007,865	481,580	406,333	64,922	55,030	-	-
Total	51,114	39,142	7,042,890	4,839,674	1,742,281	332,566	128,369	-	-

31 December 2012									
	Fair value assets	Fair value liabilities	Notional amount	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<i>Derivatives held for trading purpose:</i>									
Forward purchase contract	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	-

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11. Investment securities

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

	30 June 2013	31 December 2012
Balances at beginning of period	175,198	652,700
Foreign currency differences on monetary assets	6,182	(28,087)
Purchases during the period	5,344	127,388
Disposals through sales and redemptions ⁽¹⁾	(4,481)	(64,574)
Allowance for impairment ⁽²⁾	-	(7,223)
Changes in amortised cost ⁽³⁾	7,535	(5,411)
Transfer to available for sale portfolio ⁽⁴⁾	(3,837)	(499,595)
Balances at end of period	185,941	175,198

⁽¹⁾ Anadolubank N.V., subsidiary of the Group, disposed securities amounting to EUR 28,750,000 from the held-to-maturity portfolio in order to increase its capital adequacy ratio due to the changes in the local regulations. 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”.

⁽²⁾ 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. As at 21 February 2012, the Group decided to provide provision for impairment of the 75% of these bonds and the addition provision for impairment of 25% had been accounted. The Group traded most of these bonds with the government bonds which their maturities are much more longer

⁽³⁾ Changes in amortised cost include accrual interest on securities.

⁽⁴⁾ 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 30 June 2013, the Bank reclassified securities amount to EUR 4,735,000 from held to maturity portfolio to available for sale securities portfolio in accordance with the exception in IAS 39.

As at 30 June 2013, the carrying and the nominal values of the securities issued by the Turkish Government kept in the Central Bank, Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi (Derivatives Exchange) for legal requirements and as a guarantee for stock exchange and money market operations are amounting to TL 9,418 and TL 7,300, respectively (31 December 2012: TL 9,003 and TL 7,300). The carrying value of investment securities backing obligations under repurchase transactions amounts to TL 70,579 (31 December 2012: TL 557,563).

As at 30 June 2013, carrying values and nominal values of held to maturity securities kept at De Nederlandsche Bank (Dutch Central Bank) as reserve requirement against the Group’s foreign operations in the Netherlands are amounted to TL 64,198 and TL 65,321 (31 December 2012: TL 56,582 and TL 56,882); respectively.

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12. Loans and receivables

	30 June 2013						
	Amount			Total	Effective interest rate (%)		
	TL	FC	FC indexed		TL	FC	FC indexed
Corporate loans	3,168,715	995,232	299,444	4,463,391	6.00-35.50	2.14-10.90	3.10-10.00
Consumer loans	499,852	-	58,312	558,164	3.60-30.60	-	4.60-11.88
Credit cards	130,452	35	-	130,487	28.08-59.40	-	-
Factoring receivables	135,781	-	-	135,781	6.30-33.00	-	-
Total performing loans	3,934,800	995,267	357,756	5,287,823			
Non-performing loans				134,131			
Allowance for:							
<i>Individually impaired loans</i>				(76,091)			
<i>Collectively impaired loans</i>				(58,040)			
				5,287,823			
	31 December 2012						
	Amount			Total	Effective interest rate (%)		
	TL	FC	FC indexed		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:							
<i>Individually impaired loans</i>				(124,366)			
<i>Collectively impaired loans</i>				(52,689)			
Loans and receivables, net				5,058,518			

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

Movements in the reserve for possible loan losses:

	30 June 2013	31 December 2012
Reserve at beginning of the period/year	177,055	90,851
Foreign currency differences on monetary assets	2,550	-
Provision for possible loan losses	19,558	93,481
Recoveries	(8,539)	(7,277)
Provision, net of recoveries		177,055
Loans written off during the period/year	(56,493)	-
Reserve at end of the period/year	134,131	177,055

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13. Funds borrowed

As at 30 June 2013 and 31 December 2012, fund borrowed are detailed as follows:

	30 June 2013				
	Amount			Effective interest rate (%)	
	TL	FC	Total	TL	FC
Short-term	93,790	258,338	352,128	5.00-5.50	1.19-4.01
Medium/long term	2,457	60,185	62,642	7.00-9.00	1.00-2.80
Total	96,247	318,523	414,770		

	31 December 2012				
	Amount			Effective interest rate (%)	
	TL	FC	Total	TL	FC
Short-term	77,111	252,099	329,210	5.75-8.75	1.72-3.98
Medium/long term	1,497	38,139	39,636	7.75-9.25	0.99-4.01
Total	78,608	290,238	368,846		

14. Equity

Share capital

	30 June 2013	31 December 2012
Number of common shares	60,000,000	60,000,000

As of 30 June 2013 and 31 December 2012, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	30 June 2013		31 December 2012	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,823	69.98	419,823	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,282	2.70	16,282	2.70
Historical amount	600,000	100.00	600,000	100.00
Restatement effect per IAS 29	2,619		2,619	
Total	602,619		602,619	

Fair value reserve – available for sale financial assets

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

	30 June 2013	30 June 2012
Balance at the beginning of the year	150,397	(2,690)
Net losses transferred to profit or loss on amortization	(155,553)	210
Related deferred taxes	31,036	(42)
Balance at the end of the year	25,880	(2,522)

Other reserves

Other reserves consist of the legal reserves which are amounted to TL 42,936 and gain on sales of assets which are amounted to TL 60 (31 December 2012: TL 34,123 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.

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15. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 69.98% (31 December 2012: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these condensed consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group’s Board of Directors and their families.

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

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

Outstanding balances

	30 June 2013	31 December 2012
Cash loans	21,204	9,951
Non-cash loans	126,746	103,497
Deposits taken	157,068	102,021

Transactions

	30 June 2013	31 December 2012
Interest income	318	3,412
Interest expense	2,223	712

Directors’ Remuneration

The key management and the members of the Board of Directors received remuneration and fees amounting to TL 8,266 for the six-month period ended 30 June 2013 (30 June 2012: TL 6,544).

16. Commitment and contingencies

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

	30 June 2013	31 December 2012
Letters of guarantee	1,261,773	1,180,978
Letters of credit	409,323	294,490
Acceptance credits	10,193	8,549
Other guarantees	161,259	164,582
Total non-cash loans	1,842,548	1,648,599
Credit card limit commitments	272,923	243,429
Other commitments	318,503	350,745
Total	2,433,974	2,242,773

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16. Commitment and contingencies (Continued)

Litigations

a) The Bank

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

USD 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 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 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 USD 3,250,000 with Citibank N.A. and USD 11,500,000 with the insurance companies, which are involved in the dispute as a result of the hearing on 20 December 2011.

17. Capital management – regulatory capital

The 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.

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.

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17. Capital management – regulatory capital (Continued)

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 subsidiaries’ regulatory capital position on a consolidated basis at 30 June 2013 and 31 December 2012 was as follows:

	30 June 2013	31 December 2012
Tier 1 capital	1,164,241	1,061,448
Tier 2 capital	69,686	120,368
Deductions from capital	(75)	(75)
Total regulatory capital	1,233,852	1,181,741
Risk-weighted assets	5,681,875	5,274,250
Value at market risk	816,238	607,788
Operational risk	731,175	701,988
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	17.07%	17.95%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	16.10%	16.12%

18. Subsequent events

None.

19. Earnings per share

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