

**ANADOLUBANK ANONİM ŐİRKETİ
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL
STATEMENTS
AS AT 31 DECEMBER 2011**

Independent Auditors' Report

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

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Report on the Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

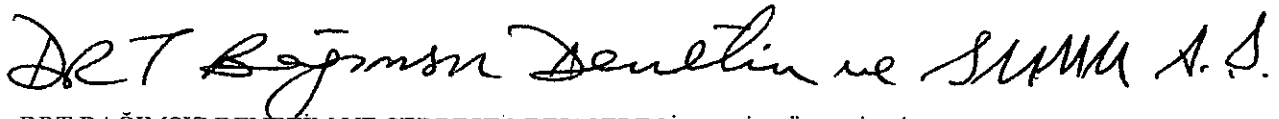
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

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



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

İstanbul, Turkey

10 April 2012

Notes to the consolidated financial statements

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ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

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

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

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED
31 DECEMBER 2011

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

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

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE
YEAR ENDED 31 DECEMBER 2011

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

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

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Attributable to equity holders of the Bank							
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Non-controlling interest	Total
Balances at 1 January 2010		412,119	10,511	(4,234)	16,502	253,068	1,611	687,966
Total comprehensive income for the year		-	-	-	-	137,229	240	137,469
Net profit of the year		-	-	-	-	137,229	240	137,469
Other comprehensive income		-	(3,030)	-	-	-	-	(3,030)
Currency translation adjustments		-	(3,030)	-	-	-	2	(3,028)
Net losses on available for sale financial assets transferred to profit or loss, net of tax		-	-	1,852	-	-	-	1,852
Total other comprehensive income		-	(3,030)	1,852	-	(1,178)	2	(1,176)
Total comprehensive income for the year		-	(3,030)	1,852	-	137,229	242	136,293
Transactions with owners, recorded directly in equity								
Share capital increase		190,500	-	-	(925)	(189,575)	-	-
Transfers to other reserves		-	-	-	6,032	(6,032)	-	-
Balances at 31 December 2010		602,619	7,481	(2,382)	21,609	194,690	1,853	824,017
Attributable to equity holders of the Bank								
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Non-controlling interest	Total
Balances at 1 January 2011		602,619	7,481	(2,382)	21,609	194,690	1,853	824,017
Total comprehensive income for the year		-	-	-	-	102,279	80	102,359
Net profit of the year		-	-	-	-	102,279	80	102,359
Other comprehensive income		-	-	-	-	-	-	-
Currency translation adjustments		-	20,319	-	-	-	13	20,332
Net losses on available for sale financial assets transferred to profit or loss, net of tax		-	-	(308)	-	-	-	(308)
Total other comprehensive income		-	20,319	(308)	-	(308)	-	(308)
Total comprehensive income for the year		-	20,319	(308)	-	102,279	93	122,383
Transactions with owners, recorded directly in equity								
Share capital increase		-	-	-	-	-	-	-
Gains on sale of assets		-	-	-	-	(60)	-	(60)
Transfers to other reserves		-	-	-	7,907	(7,907)	-	-
Balances at 31 December 2011		602,619	27,800	(2,690)	29,576	289,002	1,946	948,253

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

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

1. Overview of the Bank

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

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% 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. Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of measurement

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

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

2. Basis of preparation (Cont'd)

(c) Functional currency and presentation currency

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

(d) Accounting in hyperinflationary countries

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

(e) Use of estimates and judgments

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

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

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

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

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010**

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

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

Amendments to IAS 1
*Presentation of Financial
Statements (as part of Improvements
to IFRSs issued in 2010)*

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

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

None.

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

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

Amendments to IFRS 3 Business Combinations

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

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

**ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010**

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

2. Basis of preparation (Cont’d)

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

New and Revised IFRSs applied with no material effect on the consolidated financial statements (Cont’d)

*IAS 24 Related Party Disclosures
(as revised in 2009)*

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

*Amendments to IAS 32
Classification of Rights Issues*

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

*Amendments to IFRIC 14
Prepayments of a Minimum Funding
Requirement*

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

*IFRIC 19 Extinguishing Financial
Liabilities with Equity Instruments*

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

Improvements to IFRSs issued in 2010

Except for the amendments to IAS 1 described earlier in section (a), the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

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

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

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

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

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

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

Key requirements of IFRS 9 are described as follows:

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

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

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)

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

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

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

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

Key requirements of these five Standards are described below.

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

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

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

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

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2. Basis of preparation (Cont'd)

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

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

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

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

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

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

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

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

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

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

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

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

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

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3. Consolidation

3.1 Basis of consolidation

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

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

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

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

Non-controlling interests

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

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

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

Loss of control

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

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4. Significant accounting policies

(a) Foreign currency

Foreign currency transactions

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

Foreign operations

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

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

(b) Interest

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

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

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

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4. Significant accounting policies (Cont’d)

(b) Interest (Cont’d)

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

(c) Fees and commission

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

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

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

(d) Net trading losses

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

(e) Dividends

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

(f) Lease payments made

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

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

(g) Income taxes

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

1. Current tax

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

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4. Significant accounting policies (Cont’d)

(g) Income taxes (Cont’d)

2. Deferred tax

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

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

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

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

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

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

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

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

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

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

This category has the following two sub-categories:

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

Held for trading

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

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

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4. Significant accounting policies (Cont'd)

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

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

Measurement

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

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

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

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

(i) Available for sale investments

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

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

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

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

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

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

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

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4. Significant accounting policies (Cont’d)

(j) Loans and advances to customers

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

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

(k) Impairment losses on loans and advances to customers

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

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

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

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

- (a) Significant financial difficulty of the issuer or obligor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) The Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- (d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) The disappearance of an active market for that financial asset because of financial difficulties; or
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
 - ii. national or local economic conditions that correlate with defaults on the assets in the group.

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4. Significant accounting policies (Cont'd)

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

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

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

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

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

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

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

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

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

(l) Sale and repurchase agreements

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

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4. Significant accounting policies (Cont’d)

(l) Sale and repurchase agreements (Cont’d)

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

(m) Securities borrowing and lending

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

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

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

(n) Financial liabilities and equity

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

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

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

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4. Significant accounting policies (Cont'd)

(o) Derecognition

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

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

(p) Fair value of financial instruments

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

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

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

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4. Significant accounting policies (Cont'd)

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

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

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

(q) Property and equipment

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

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

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

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

(r) Intangible assets

Intangible assets mainly comprise computer software.

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

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

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4. Significant accounting policies (Cont'd)

(s) Items held in trust

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

(t) Reserve for employee severance indemnity

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

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

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

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

(u) Provisions

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

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

(v) Financial guarantee contracts

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

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

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4. Significant accounting policies (Cont’d)

(w) Earnings per share

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

(x) Segment reporting

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

5. Operating segments

The Group has four reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group’s management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group’s reportable segments:

Investment banking

Includes the Group’s trading and corporate finance activities.

Corporate and commercial banking

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

Retail banking

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

Treasury

Undertakes the Group’s funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

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5. Operating segments (Cont'd)

Information about operating segments

31 December 2011	Retail Banking			Corporate and Commercial Banking			Investment Banking			Consolidated		
Net interests, fees, and commissions income	102,948			208,767			12,643			1,854		366,663
Other operating income and expenses, net	(66,624)			(135,106)			(8,182)			(1,200)		(237,290)
Profit before taxes	36,324			73,661			4,461			654		129,373
<hr/>												
31 December 2011	Retail Banking			Corporate and Commercial Banking			Investment Banking			Consolidated		
Segment assets	1,200,516			3,236,641			83,773			256,311		6,682,397
Total assets	1,200,516			3,236,641			83,773			256,311		6,682,397
Segment liabilities	1,119,024			2,670,762			45,588			76,813		5,734,144
Equity and non-controlling interests	-			-			-			948,253		948,253
Total liabilities and equity	1,119,024			2,670,762			45,588			1,025,066		6,682,397
<hr/>												
Other Segment Assets:												
Capital expenditure												10,605
Depreciation and amortization expenses												6,641
Other non-cash income/expense												55,760

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5. Operating segments (Cont'd)

Information about operating segments (Cont'd)

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

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

Other Segment Assets:

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

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6. Cash and cash equivalents

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

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

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

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

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

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

Debt instrument is given as collateral under repurchase agreements:

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

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

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

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

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8. Derivative financial assets / liabilities held for trading purpose

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

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

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

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

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

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9. **Investment securities**

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

	31 December 2011		31 December 2010	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments:				
Turkish government bonds	8,235	13.37	220,353	11.72-14.35
Eurobonds issued by the Turkish Government	534,469	6.5-7.69	439,097	6.50-7.69
Foreign currency denominated corporate bonds	109,996	4.18-9.43	90,106	1.01-7.60
Total held to maturity securities	652,700		749,556	

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

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

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

(*)Anadolubank N.V., subsidiary of the Group, disposed securities amounting to 28,750,000 EUR from the held-to-maturity portfolio in order to increase capital adequacy ratio due to the changes in the local regulations in 2010. The Group will be able to continue its investment securities to classify as “held-to-maturity”, since this disposal is a mandatory action due to the change in the local regulation, which is an exception in IAS 39, mentioning that “if an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated”.

(**) Due to the economic situation in Greece worsened and based on the international discussions on this issue, it has been decided to provide permanent provision for impairment of the 50% of the notional values of the Greek bonds in the Anadolubank N.V. portfolio.

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

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

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

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

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10. Loans and receivables

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

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

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

Movements in the reserve for possible loan losses:

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

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11. Factoring receivables

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

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

12. Property and equipment

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

	1 January 2011	Additions	Disposals	31 December 2011
<i>Cost:</i>				
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
<i>Accumulated Depreciation:</i>				
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
<hr/>				
	1 January 2010	Additions	Disposals	31 December 2010
<i>Cost:</i>				
Buildings	4,742	-	(943)	3,799
Motor vehicles	6,654	4,326	(2,364)	8,616
Furniture, office equipment and leasehold improvements	61,801	4,380	(2,206)	63,975
	73,197	8,706	(5,513)	76,390
<i>Accumulated Depreciation:</i>				
Buildings	1,156	76	(224)	1,008
Motor vehicles	4,387	804	(2,148)	3,043
Furniture, office equipment and leasehold improvements	49,090	4,155	(986)	52,259
	54,633	5,035	(3,358)	56,310
Net Book Value	18,564			20,080

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13. Intangible assets

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

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

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

14. Other assets

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

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

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

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15. Deposits

Deposits from banks

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

Deposits from customers

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

Other money market deposits

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

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

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16. Funds borrowed

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

(*) Borrowings are presented considering their original maturities.

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

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

17. Other liabilities and provisions

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

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

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

The movement of employee severance indemnity is as follows:

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

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17. Other liabilities and provisions (Cont'd)

The movement of unused vacation provision is as follows:

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

18. Income taxes payable

Major components of income tax expense:

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

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

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

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18. Income taxes payable (Cont'd)

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

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

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

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

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

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19. Equity

Share capital

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

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

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

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

Other reserves

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

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

Non-controlling interests

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

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19. Equity (Cont’d)

Fair value reserve of available-for-sale financial assets

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

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

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

20. Related parties

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

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20. Related parties (Cont'd)

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

Outstanding balances

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

Transactions

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

Directors' Remuneration

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

21. Interest income / expenses

	1 January-31 December 2011	1 January-31 December 2010
Interest on loans and receivables	531,083	395,326
Interest on marketable securities	41,044	85,488
<i>Financial assets at FVTPL</i>	<i>14,905</i>	<i>18,681</i>
<i>Held to maturity</i>	<i>26,139</i>	<i>66,807</i>
Interest on deposits with banks and other financial institutions	2,593	3,493
Interest on other money market placements	3,651	4
Other interest income	2,122	2,168
Total interest income	580,493	486,479
	2011	2010
Interest on deposits	244,207	154,651
Interest on other money market deposits	18,217	25,127
Interest on funds borrowed	24,775	14,887
Other interest expense	137	94
Total interest expenses	287,336	194,759

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22. Fees and commissions income / expenses

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

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

23. Other operating income / expenses

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

Other operating expenses

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

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24. Salaries and employee benefits

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

The average number of employees during the year is:

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

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25. Other expenses

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

26. Commitments and contingencies

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

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

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26. Commitment and contingencies (Cont'd)

Litigations

(a) The Bank

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

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

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27. Financial risk management

(a) Introduction and overview

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

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

Risk management framework

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

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

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

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

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

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

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27. Financial risk management (Cont'd)

(b) Credit risk

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

Exposure to credit risk

	Loans and advances to customers		Other assets	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Impaired	108,383	90,678	1,271	727
Allowance for impairment	89,652	76,329	1,199	727
Carrying amount	18,731	14,349	72	-
Past due but not impaired	84,844	60,265	-	-
Carrying amount	84,844	60,265		
Neither past due nor impaired	4,428,066	3,578,748	-	-
Loans with renegotiated terms	-	25	-	-
Carrying amount	4,428,066	3,578,773	-	-
Total carrying amount	4,531,641	3,653,387	72	-

Impaired loans and receivables

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

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27. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Write-off policy

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

Collateral policy

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

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

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

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27. **Financial risk management (Cont'd)**

(b) **Credit risk (Cont'd)**

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

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

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

Sectoral and geographical concentration of impaired loans

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

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

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

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27. Financial risk management (Cont'd)

(b) Credit risk (Cont'd)

Sectoral break down of cash and non-cash loans

	31 December 2011				31 December 2010			
	Cash	Cash (%)	Non-cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	254,337	5.64	29,221	2.06	178,411	4.90	28,893	2.51
Farming and stockbreeding	233,992	5.19	25,187	1.78	162,249	4.46	25,974	2.25
Forestry	17,287	0.38	4,034	0.28	14,001	0.38	2,919	0.26
Fishing	3,058	0.07	-	-	2,161	0.06	-	-
Industry	1,321,167	29.28	520,017	36.62	1,079,324	29.66	444,741	38.58
Mining and quarrying	32,866	0.73	7,941	0.56	27,115	0.75	13,021	1.13
Manufacturing	1,283,764	28.45	492,396	34.67	1,045,219	28.72	413,982	35.91
Electricity, gas, water	4,537	0.10	19,680	1.39	6,990	0.19	17,738	1.54
Construction	356,719	7.90	329,415	23.19	243,903	6.70	269,516	23.38
Services	1,685,758	37.35	525,679	37.01	1,240,863	34.10	395,915	34.34
Wholesales and retail trade	656,800	14.55	270,671	19.06	435,390	11.96	165,693	14.37
Hotel and restaurant services	27,590	0.61	8,382	0.59	18,653	0.51	5,521	0.48
Transportation and communication	107,918	2.39	33,270	2.34	75,482	2.07	30,709	2.66
Financial institution	701,696	15.55	111,748	7.87	534,563	14.69	115,769	10.04
Real estate and rent services	2,607	0.06	1,738	0.12	5,421	0.15	1,124	0.09
Professional services	124,972	2.77	74,924	5.28	104,705	2.88	43,530	3.78
Educational services	2,599	0.06	592	0.04	3,085	0.08	645	0.06
Health and social services	61,576	1.36	24,354	1.71	63,564	1.76	32,924	2.86
Consumer loans	738,619	16.37	-	-	643,975	17.70	-	-
Credit card	80,279	1.78	-	-	54,331	1.49	-	-
Others	75,959	1.68	15,889	1.12	198,231	5.45	13,813	1.19
Total	4,512,838	100.00	1,420,221	100.00	3,639,038	100.00	1,152,878	100.00

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

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27. **Financial risk management (Cont'd)**

(c) **Liquidity risk (Cont'd)**

The daily liquidity position is monitored by the Treasury Department prepared daily reports cover the liquidity position of both the Bank and its subsidiaries. All liquidity policies and procedures are subject to review and approval of ALCO.

Exposure to liquidity risk

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

Residual contractual maturities of monetary liabilities

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

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

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

Non-cash loans

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

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

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

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

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

Exposure to interest rate risk – non-trading portfolios

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

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

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

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

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

	Euro	US Dollar	Japanese Yen	TL
	%	%	%	%
31 December 2011				
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.75	0.47	-	-
Loans and advances to customers	3.73	4.22	5.53	16.51
Investment securities	-	7.32	-	13.37
Deposits from banks	4.04	3.11	-	11.22
Deposits from customers	3.78	5.17	-	11.40
Obligations under repurchase agreements	-	1.97	-	10.55
Funds borrowed	4.31	2.37	-	7.41
31 December 2010				
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.64	0.26	-	-
Loans and advances to customers	3.24	4.22	4.80	12.39
Investment securities	-	7.26	-	14.25
Deposits from banks	2.54	1.21	-	8.67
Deposits from customers	2.96	2.91	-	8.93
Obligations under repurchase agreements	-	1.24	-	7.15
Funds borrowed	3.26	2.28	-	7.56

Interest rate sensitivity of the trading and non-trading portfolios

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

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

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

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

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

Currency risk

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

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

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

As at 31 December 2011	US Dollar	Euro	Japanese Yen	Others	Total
Assets:					
Cash and balances with the Central Bank	345,725	8,959	133	584	355,401
Deposits with banks and other financial institutions	198,148	158,105	817	3,430	360,500
Receivables from reverse repo transactions	-	-	-	-	-
Financial assets at fair value through profit or loss	96,385	6,785	-	-	103,170
Investment securities	546,885	97,580	-	-	644,465
Loans and receivables	574,069	495,001	111,477	17,266	1,197,813
Other assets	44	5,814	-	-	5,858
Total assets	1,761,256	772,244	112,427	21,280	2,667,207
Liabilities:					
Deposits from other banks	32,193	60,785	-	-	92,978
Deposits from customers	922,343	941,642	249	4,447	1,868,681
Other money market deposits	527,567	25,506	-	-	553,073
Funds borrowed	194,498	155,076	-	35,522	385,096
Other liabilities and provisions	10,176	2,997	-	-	13,173
Total liabilities	1,686,777	1,186,006	249	39,969	2,913,001
Position on the consolidated statement of financial position	74,479	(413,762)	112,178	(18,689)	(245,794)
Off-balance sheet position:					
Net notional amount of derivatives	(66,581)	406,853	(107,511)	36,996	269,757
Net position	7,898	(6,909)	4,667	18,307	23,963
As at 31 December 2010					
Total assets	1,246,593	602,311	133,017	21,801	2,003,722
Total liabilities	1,412,684	891,951	114	5,174	2,309,923
Position on the consolidated statement of financial position	(166,091)	(289,641)	132,903	16,627	(306,201)
Off-balance sheet position:					
Net notional amount of derivatives	95,951	323,129	(132,673)	(9,932)	276,475
Net position	(70,140)	33,488	230	6,695	(29,727)

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

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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 2011 and 2010 would have increased/(decreased) equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

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

Fair value information

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

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

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

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

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

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27. Financial risk management (Cont'd)

(d) Market risk (Cont'd)

Classification of fair value measurement

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

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

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

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

Classification requires using observable market data if possible.

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

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

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27. Financial risk management (Cont’d)

(e) Operational risk

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

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

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

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

(f) Capital management – regulatory capital

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

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

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

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

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27. Financial risk management (Cont’d)

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

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

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

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

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

28. Subsequent events

None.