ANADOLUBANK

2010 ANNUAL REVIEW

WE FOCUS ON OUR BUSINESS
FOR A SUSTAINABLE GROWTH

CONTENTS

A young, dynamic and reputable player in the Turkish banking sector...

ANADOLUBANK IN BRIEF
CUSTOMER-ORIENTED BANKING AND SUSTAINED GROWTH

Anadolubank, acquired from the Turkish Privatization Administration in 1997, has successfully established itself among the young, dynamic and reputable brands in the Turkish banking sector thanks to its effective and aggressive growth strategies. Within a short period of time, the Bank increased the number of its branches from three to 86 and undertook a restructuring in line with contemporary global banking standards and completed the necessary technological changes.

Anadolubank offers additional growth potential as it pursues a focused, profitable and sustainable corporate growth strategy. With 1,834 employees at 86 branches, Anadolubank provides a comprehensive range of customized services in commercial, retail and individual banking in addition to its standard banking services. The Bank closely monitors sector developments, while adopting an innovative and dynamic business approach, and serves as a model of customer-oriented modern banking.

Anadolubank is committed to providing short and mid-term working capital and commercial finance loans to SMEs, the foundation of the real economy. To this end, the Bank radically overhauled its organizational and operational structure in commercial banking services in previous years.

Anadolubank differentiates itself by providing innovative and creative solutions with a high quality and reliable customer service orientation across all its business lines. In pursuit of this goal, the Bank structured the product and service development function formed as a separate business unit, in order to foster a culture of innovation among Anadolubank employees.

Complementing its successful marketing strategy, state-of-the-art technology infrastructure and expert staff, Anadolubank has established a strong correspondent network consisting of 900 foreign banks. Thanks to this close knit and highly efficient network, the Bank is able to serve international markets that have high business potential and provide fast and effective foreign trade related services to its customers. As a result, the Bank's foreign trade volume grows more rapidly each year.

Anadolubank's corporate identity is represented by the qualities of trustworthiness, transparency and high-quality service, which have helped position the Company in the banking sector as a customer-oriented, innovative organization. Striving to further strengthen its reputation in the domestic market, the Bank has adopted a competitive pricing strategy as well as modern risk management practices. With its forward-looking vision, the most valuable workforce in the sector, a highly skilled and experienced management team and the strong capital support of its shareholders, Anadolubank continues to move forward with its focused, profitable and sustainable growth strategy.

Anadolubank strives to be a solid and reliable banking institution with its forward-looking vision, highly skilled personnel, experienced senior management and robust capital structure.

HABAŞ GROUP
INDUSTRIAL LEADER AND STRONG INSTITUTION

Hamdi Başaran (1913-1987) laid the foundations of what is today HABAŞ Group when he established the Hamdi Başaran Topkapı Oxygen Plant in 1956. One of Turkey's leading conglomerates, the Group currently operates in a range of sectors that include industrial and medical gases, iron and steel, LPG, natural gas, heavy machinery manufacturing and energy. Guided by the dynamism and entrepreneurial vision of its founder, HABAŞ takes an innovative approach to its business operations and continues to make prudent strategic investments.

For many years, HABAŞ has ranked among the top industrial firms in Turkey in terms of sales and exports, according to the country's Top 500 Industrial Enterprises list published by the Istanbul Chamber of Industry. HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. (HABAŞ Industrial and Medical Gases), a leading company in the Group, was ranked the 10th and 8th largest industrial company in Turkey by sales turnover and export volume, respectively, in 2009.

In line with rising demand for industrial and medical gases in Turkey, HABAŞ has improved and expanded its production, storage and transport facilities, as well as its sales points and product portfolio. Thanks to its nationwide facilities, extensive dealer network, technical support and maintenance teams, customer-oriented dynamic structure and continuous service approach, HABAŞ has become Turkey's leading company in the industrial and medical gases sector. Following liberalization of the natural gas sector, HABAŞ acquired the licenses for liquefied natural gas (LNG) and compressed natural gas (CNG) products, further strengthening its pioneering position in the market.

HABAŞ also undertook large-scale investments in electricity generation. After upgrading the capacity of the energy production plants, which were originally installed exclusively to meet the needs of Group companies, HABAŞ is now among Turkey's leading power generation companies with an installed capacity of 300 MWs.

After entering the iron and steel industry in 1987, HABAŞ is currently Turkey's leading producer in this sector, with a production capacity of 3 million tons of liquid steel. Exporting the majority of its production to five continents, HABAŞ has an annual export volume of US$ 1.5 billion and a total foreign trade volume of US$ 2.5 billion. The port facilities owned by the Group are equipped with high loading and offloading capacities and mainly serve import and export transactions.

HABAŞ also operates in industrial construction, building turnkey processing plants, air separation facilities, steel plants, rolling mills, power generation plants and gas filling and storage depots for a variety of industrial sectors. Additionally, the Group provides engineering services.

As of year-end 2010, the total sales turnover of HABAŞ approached US$ 2.5 billion. The Group's credit ratings were assessed by Fitch Ratings and currently stand at A+ National Rating, B+ for Long-term Foreign Currency and Long-term Local Currency Ratings with a stable outlook.

MESSAGE FROM THE CHAIRMAN

WITH ITS EFFICIENT AND SUSTAINABLE OPERATING PERFORMANCE, ANADOLUBANK IS THE FLAGSHIP OF THE HABAŞ GROUP

In 2010, players in both the financial and non-financial sectors began to recover from the effects of the crisis and to implement growth and investment plans, all within the limits of prudent optimism. Due to its revamped financial infrastructure following the country's 2001 economic crisis, Turkey managed to minimize the impact of the global crisis after adopting a highly effective fiscal and monetary policy course. In 2009, during the depths of the worldwide crisis, the country's economy contracted by 4.7%. In 2010, Turkey's economy entered a phase of quick recovery and grew 8.9%, becoming the fastest growing country in the OECD.

In an environment, where debt-related risks in the Eurozone plague developed economies such as Ireland, Greece and even Spain, Turkey has reached a reputable position in international financial circles.

In parallel with the sustainable course of the country's economy, the Turkish banking sector successfully emerged from the crisis. During a time when bankruptcy became commonplace among banks in developed economies, the highest level that total non-performing loans reached in the Turkish banking sector was 5.3%. In line with the economic recovery in 2010, the NPL rate fell to 3.7%.

The international financial community has affirmed Turkey's vibrant economic growth in 2010, which was a result of the long-term macroeconomic stability program the country pursued since the onset of the crisis. For example, international credit rating agencies Fitch and Moody's upgraded Turkey's sovereign rating during the year; consequently, the country is now ever so close to entering the ranks of investment grade countries.

Lingering issues such as the current deficit and unemployment bring with them certain social and economic risks for Turkey. Nonetheless, we believe in the potential of the country to overcome these challenges and reach its growth and investment targets, due to a restructured economy laid on solid foundations, and a favorable demographic structure.

Clear indicators of Anadolubank's successful performance in 2010 and the market's degree of trust in the stability of the Bank are the favorable assessments from international credit rating agencies. Fitch Ratings upgraded Anadolubank's long-term foreign currency and local currency rating from BB-to BB with a stable outlook. In addition, our Bank was among the 16 institutions for which Moody's Investor Services upgraded the outlook of foreign currency ratings. Moody's assessed Anadolubank's long-term foreign currency rating as Ba3 with positive outlook, local currency rating as Ba1 NP with stable outlook and financial strength rating as D+.

The most significant factors behind the sustainability of Turkey's economic growth are the robust capital adequacy of the country's banking sector and its stable, liquid structure. Single-digit annual inflation and similarly low interest rates were achieved as a result of the stabilization program implemented after the 2001 banking crisis. These positive developments allowed the banking sector to focus on its main activities, namely, corporate and consumer lending, and make headway in terms of deposit and profitability growth. In addition, the reforms served to support the non-financial sector in the face of fluctuations in the economy.

Anadolubank, a young, dynamic and reputable member of the Turkish banking sector, had a year full of proud achievements. I am very pleased to inform you that we have maintained our position among those banks with exceptional financial and operational performance indicators.

In 2010, a year of recovery for the global economy, our consolidated assets increased 14.2% to TL 5,217 million, up from TL 4,569 million in the previous year. Thanks to our prudent and forward-looking approach to banking, we achieved a capital adequacy ratio of 18.59% during the year. As a result of our effective risk management practices and conservative lending policies, our NPL ratio was 2.45%, well below the sector average. In tandem with the growing asset size and robust capital structure, the Bank's year-end net consolidated profit amounted to TL 137 million.

I would like to express my gratitude to our business partners, our personnel, our customers and all our stakeholders for making 2010 a strong year for Anadolubank. I sincerely hope that the success story of Anadolubank, which began with three branches 13 years ago and continues today with a country-wide network of 86, will move forward into the future with even greater initiatives thanks to your support and contributions.

Mehmet Başaran
Chairman of the Board of Directors

MESSAGE FROM THE GENERAL MANAGER

ANADOLUBANK, A MODEL OF RESULTS-ORIENTED BANKING...

In 2010, Anadolubank continued to contribute significantly to the economy of our country, which showed a strong growth performance throughout the year. In a low interest rate environment when the banking and financial services sector in Turkey was retested in terms of their structural soundness, Anadolubank adopted an effective risk management strategy, and maintained its market position among medium-sized banks.

Signs of an exit from the global economic crisis, which began in 2008, were displayed by both the financial and non-financial sectors in 2010. The vibrant performance of developing countries, including Turkey, proved to be the engine of the global recovery.

Although the Turkish economy contracted by 4.7% in 2009, during the depths of the worldwide financial crisis, it bounced back strongly in 2010 to post growth of 8.9%, the highest economic growth rate among OECD countries. This very positive indicator occured mainly due to the healthy capital structure of the Turkish banking sector, much like our own Bank.

Aiming to become the leading medium-sized commercial bank, Anadolubank took significant steps toward this strategic objective. The Bank's management and expert teams closely monitor developments in global and local markets, while our network of 86 branches, serve customers with a results-oriented approach; these are the key factors behind Anadolubank's successful track record to date.

Indisputable signs of Anadolubank's successful performance in 2010, and the market's level of trust in the stability of the Bank, are the positive assessments we received from international credit rating agencies. Fitch Ratings upgraded Anadolubank's long-term foreign currency and local currency rating from BB-to BB1 with a stable outlook. In addition, our Bank was among the 16 institutions for which Moody's Investor Services upgraded the outlook of foreign currency ratings. Moody's assessed Anadolubank's long-term foreign currency rating as Ba3 with positive outlook, local currency rating as Ba1 NP with stable outlook and financial strength rating as D+.

Our strong financial indicators for 2010 once again demonstrate Anadolubank's highly effective growth strategy. As of year-end 2010, our consolidated assets increased by 14.2% to TL 5,217 million, up from TL 4,569 million in the previous year; meanwhile, the Bank's asset profitability was 2.78%. Deposits increased by 6% during the year, and reached TL 3.2 billion; the loan portfolio grew by 19.2% to TL 3.7 billion, up from TL 3.0 billion in the prior year. Additionally, the ratio of non-performing loans (NPL) to total loans stood at 2.45% in 2010, while the sector average was 3.7%.

In 2010, shareholders' equity reached TL 825 million; additionally, the Bank achieved a capital adequacy ratio of 18.59%. The ratio of cash and equivalent assets to total liabilities, a key measure of liquidity, was 12.96%. For the year, we generated net interest income of TL 292 million, while net commission income increased by 2% to TL 66 million with a cost-income ratio of 50.02%. As a result, our net consolidated profit was TL 137 million in 2010. If we take a closer look at the loan portfolio, housing loans increased by 23%, car loans rose by 19% and total consumer loans were up 30% over the previous year. Despite the rapid growth, Anadolubank was able to keep its consumer's credit balance below the sector average in line with its prudent risk management strategy.

The rapid growth of our loan portfolio coupled with an NPL ratio of 2.45%, the lowest in the sector, is a source of great pride for us. The Bank's capital adequacy ratio of 18.59%, higher than the sector average, is well above the legal requirement. We plan to increase shareholders' equity to TL 1 billion in 2011.

These indicators clearly demonstrate Anadolubank's strong performance and also show the appropriateness of the strategic course the Bank is taking by focusing on lending.

Anadolubank continues to provide support to the non-financial sector and SMEs as part of its strategic plan; in addition, the Bank made significant advancements in investment banking and capital markets. In 2010, Anadolubank launched WEBBORSAM, which allows customers access to TurkDEX and currency transactions on a single platform. Incorporating the latest technology, WEBBORSAM is user-friendly, allowing customers to access the service via the Internet, in addition to current market applications. In 2010, monthly average transaction volume on the ISE reached TL 761 million and the Bank had a market share of 0.72%.

Anadolubank also made progress in the insurance sector during the year. In 2010, the Bank approached the production level of a medium-sized insurance company due to its success in bancassurance. With its knowledgeable and experienced staff, the Bank's insurance department achieved record growth of 31% in 2010 over the prior year, well outpacing the 9.5% rate of growth for the sector. The launch of new insurance products and services, together with implementation of a new technology infrastructure in 2011, will contribute significantly towards Anadolubank's objective of becoming a financial "supermarket" for its customers.

Anadolubank ranks among the top banks that provide a range of services in agricultural banking. In 2010, the Bank carried its services to the next level. The agriculture banking segment was restructured within retail banking, to effectively meet the working capital and funding needs of farmers. The number of specialized agriculture banking branches, first launched in the third quarter of the previous year, increased to 17 in 2010. The Bank's strong support to agriculture, one of the pillars of the non-financial sector, will continue into the future.

Anadolubank made significant advancements in 2010 thanks to its highly skilled personnel who are the best in the sector, a management team that is experienced and exemplary, and the robust capital support of its shareholders. I would like to express my gratitude to our business partners and shareholders for their unwavering support, to our personnel for their commitment to their work, which enhances Anadolubank's reputation day by day, and to all our stakeholders. I sincerely hope that our achievements will continue unabated and at an increasing pace in the next year.

Gökhan Günay
Member of the Board of Directors and General Manager

SENIOR MANAGEMENT

İsmet Demir
Assistant General Manager
Human Resources

Cengiz Doğru
Member of the Board and
Member of the Audit Committee
Internal Systems

Taner Ayhan
Assistant General Manager
Credit Cards and
Electronic Banking

Hüseyin Çelik
Assistant General Manager
Financial Affairs

Recep Atakan
Assistant General Manager
Treasury and Retail Banking

Gökhan Günay
Member of the Board
and General Manager

Sibel Akın
Assistant General Manager
Commercial Banking

Cengiz Göğebakan
Assistant General Manager
Loans

Mahmut Şener
Assistant General Manager
Operations

Merih Yurtkuran
Assistant General Manager
International Banking

Tunç Bergsan
Assistant General Manager
Information Technologies

FINANCIAL HIGHLIGHTS (CONSOLIDATED)

FINANCIAL HIGHLIGHTS (TL Thousand)	2010	2009
For the Year		
Net Interest Income	291,720	301,903
Non-interest Income	141,321	85,143
Total Income	433,041	387,046
Non-interest Expense	252,767	170,558
Provision for Loan Losses	7,752	34,243
Taxation Charge	35,053	36,550
Profit from Continuing Operations	137,469	145,695
Net Income for the Year Attributable to:	**137,469**	**145,695**
At Year-End		
Assets	5,217,198	4,568,744
Loans	3,653,387	3,065,944
Securities	845,119	885,014
Total Earning Assets	4,993,054	4,395,100
Customer Deposits	3,109,050	2,928,675
Short-term Borrowings	457,339	407,206
Total Shareholders' Equity	825,870	689,577
Free Capital	783,254	653,327
Financial Ratios (%)		
Return on Average Equity (ROE)	18.14	23.67
Return on Average Assets (ROA)	2.81	3.47
Net Interest Margin (NIM)	5.96	7.19
Efficiency Ratio	50.02	42.46
Capital Adequacy Ratio (BIS)	18.59	18.8
Total Equity to Total Liabilities	**18.81**	**17.78**

ANADOLUBANK RATINGS

FITCH RATINGS: DECEMBER 2010

Foreign Currency	
Long-term	BB
Outlook	Stable
Local Currency	
Long-term	BB
Outlook	Stable
National	
Long-term	AA-(tur)
Individual Rating	**C/D**
Support Rating	**4**

MOODY'S: OCTOBER 2010

Foreign Currency Deposit	
Long-term	Ba3/NP
Outlook	Positive
Local Currency	
Long-term	Ba1/NP
Outlook	Stable
Financial Strength Rating	**D+**

2010 ACTIVITIES
CUSTOMER-FOCUSED WITH A WIDE GEOGRAPHIC FOOTPRINT

Anadolubank offers commercial, retail and consumer as well as basic banking services throughout the most industrialized and commercial intensive regions in the country. As of year-end 2010, Anadolubank provided superior banking services in 86 branches in all corners of Turkey. Anadolubank strides confidently into the future with its sustainable growth strategy and business initiatives in new geographic areas to achieve maximum compliance with the current low interest environment in Turkey.

Anadolubank branches are organized to meet the demands of a wide range of customer segments. Each branch has retail marketing, commercial marketing and SME banking sections that are based on the specialized needs of these segments. Each section is headed by an assistant manager who reports directly to the respective branch manager; sections also conduct their operations in close collaboration with the Bank's Operations Department. The Head Office is organized with an identical structure with Marketing and Support Service departments under the supervision of Assistant General Managers. Permanent and ad-hoc committees are formed according to the requirements of the Bank with the active participation of different branches and departments. Communication between branches and the Head Office departments occurs via work flow systems supported by these committees.

The Head Office departments, excluding the Risk Management Department, Legal Compliance Department, Internal Control Center and the Board of Auditors all of which report directly to the Board of Directors, are as follows:

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

COMMERCIAL BANKING

MAIN AREA OF COMMERCIAL RELATIONS, COMMERCIAL BANKING

Anadolubank's main strategic business area is commercial banking. The Bank serves all its commercial customers and SMEs in particular, by providing creative solutions, which generate a dynamic competitive advantage. Anadolubank's mission in commercial banking is to create high added value, operate with a strong customer-orientation and provide clients with high-quality service by correctly perceiving their needs.

The key differentiator for Anadolubank in commercial banking is its proven business strategy. A prudent approach to banking and the capacity to establish long-term business relationships together form the foundation of the Bank's commercial banking culture. Anadolubank's highly qualified personnel and advanced technology infrastructure provide the basis for effective and creative solutions to meet ever-changing customer needs.

Thanks to its activities that serve a broad customer base, the Bank has the capacity for asset creation while maintaining a high efficiency ratio in the commercial segment. The Bank's customer concentration ratio in this business line is significantly lower than the sector average, which indicates opportunity for future growth.

In 2010, the Commercial Banking Department completed a reengineering process and restructured its activities under four segments:

- SME Banking
- Commercial Banking
- Agriculture Banking
- Cash Management

SME-1 Banking

Since 2005, with the inception of the SME-1 Banking segment, Anadolubank has included small businesses along with medium-size enterprises in its loan portfolio. The main objective of Anadolubank in the SME Banking segment is to identify the product needs of customers with annual turnover of TL 2.5-8 million and to increase marketing activities geared toward this group. In this regard, owing to differentiation in the delivery channels, the Bank gained 2,500 new customers in 2010; the ratio of this segment to total loans increased to 22%.

The SME-1 Banking segment, which is significant regarding efforts to enhance overall efficiency, is also supported by new product designs. In 2009 and 2010, the Republic of Turkey Ministry of Industry and Trade, Small and Medium Enterprises Development Organization (KOSGEB) and the Credit Guarantee Fund (KGF) guaranteed loans with high demand figures as well as enriched and deepened customer relations in this segment.

In the forthcoming period, Anadolubank aims to focus on this segment by increasing the share of SME-1 Banking assets in total assets to 30%.

SME-2 and Commercial Banking

At Anadolubank, SME-2 and Commercial Banking is responsible for traditional commercial banking activities.

The SME-2 and Commercial Banking segment, which aims to raise the medium and long-term value of the Bank, is composed of:

- The SME-2 banking unit, which serves customers with an annual revenue of TL 8-25 million,
- The Large Commercial and Corporate Banking unit, serving customers with annual revenue above TL 25 million.

Commercial Banking provides services with a strong customer-oriented approach and in close cooperation with its solution partners. As a result, Anadolubank has increased the number of its Commercial Banking customers each year; in 2010, more than 1,000 customers were added to the Commercial Banking portfolio. The segment's share of total assets rose by 25%, outperforming the sector as a whole.

Agriculture Banking

Agriculture Banking, launched as a new business line within Commercial Banking in 2009, aims to provide farmers with working capital to meet their financial needs. To this end, Anadolubank provides agricultural banking services in a total of 17 branches, 14 in the Aegean Region and three in the Çukurova Region.

In line with its mission, Anadolubank targets the agricultural sector, which it views as strategically important. The Bank plans to strengthen its foothold in the sector by contributing to its development and improvement. Agriculture Banking increasingly plays an intermediary role in financing the production of fresh and dried fruit and vegetables, including olives, grapes and figs, as well as cotton, cultivated in the Aegean Region, contributing to the country's overall economic development.

Agriculture Banking has an annual finance budget of TL 100 million. Production and input costs of all products are taken into consideration in the loan allocation process; within this framework, producers are allocated seasonal loans with terms up to one year.

With the Tarım Kart service introduced in 2009, farmers are provided with a lending mechanism that meets all their needs without having to visit a branch.

COMMERCIAL BANKING

Agriculture Banking operates with a team of highly specialized and well-qualified employees and reached 5,500 customers as of year-end 2010. Anadolubank targets serving 10,000 Agriculture Banking customers in 2011.

Cash Management

The Cash Management Department intermediates the cash flow movements of its clients. In this regard, the Department aims to increase Anadolubank's total value-added by generating IT-based solutions for its customers and by cooperating with both public and private institutions.

In addition to providing its traditional cash management services, Anadolubank worked to generate new customers from its client database and to develop a cash flow network. In 2011, after a reorganization to improve efficiency via reduced costs of new customer acquisitions, the Cash Management Department aims to acquire more customers and deepen relationships with existing customers through the development of new products.

The Cash Management Department has accelerated the customer acquisition process by following the "My Customer's Customer is My Customer" principle. A statistical model created on this precept allows Anadolubank to acquire new customers from the universe of companies that do business with the Bank's current customers. As an initial step, 8,500 companies of various sizes have been identified and referred to the most appropriate branches.

Cash Management has also developed a CRM platform to provide faster and superior services to current customers and to pave the way to gain new customers. As of 2011, the respective business activities of Bank customers will become trackable via NACE codes in reference to the EU classification system. The Department also plans to implement the technical requirements to directly reach the partners and the executives of the corporate customers.

Cash Management is developing monitoring systems to deepen relationships with existing customers. Work has already begun on developing the infrastructure that identifies product activity and ownership of corporate customers. With this valuable information, the Bank aims to increase its share of corporate customers in 2011. Wage and salary payment, another key area of operation of the Cash Management Department, saw a 63% increase in the total amount of salaries paid and a 31% rise in the number of personnel served in 2010. In tax, customs duty and social security collections, the Bank realized an increase of 35% in the number of transactions completed and a 35% rise in total transaction amount collected.

In 2011, the Department plans to focus on activities to provide customers with products regarding their cash flow and increase its market share. The Bank will concentrate on needs analyses and incentive campaigns to help guide customers to the most appropriate banking, deposit or loan offering. We will also continue to support our branches in identifying prospective customers. As a result of these initiatives, Anadolubank expects to increase its cash management business volume 2011, outpacing the inflation rate, over the prior year.

RETAIL BANKING
OUTPERFORMING THE SECTOR

In 2010, Anadolubank outperformed the retail banking sector average in all its banking products and services, including insurance.

The Retail Banking Division provides financial consulting and banking services to individuals and small businesses.

The Division is responsible for the following:

- developing new retail products and services,
- marketing and sales management of time deposits,
- investment funds,
- consumer loans,
- social security salary payments, and
- small enterprise banking products.

Anadolubank's Personal Banking segment serves the financial needs of individuals across a range of socioeconomic levels as well as the owners, partners, executives and employees of companies in the Bank's corporate and commercial portfolio. In addition to its investment and loan products, Anadolubank provides its customers with a wide variety of services that include credit cards, debit cards and automatic and regular payment options.

Small Business Banking targets professionals and companies in the services and manufacturing sectors with loans of up to TL 125,000. This segment is one of the fastest growing business lines within Anadolubank.

Retail Marketing and Deposits Department

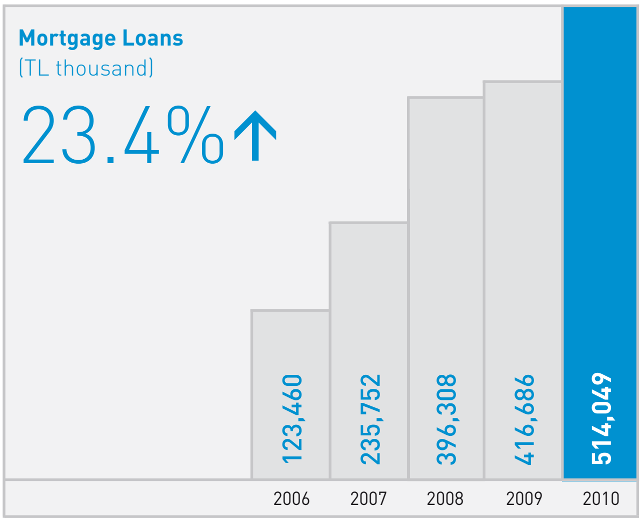
In 2010, the Bank's consumer loan portfolio consisted of mortgage loans (79.82%), consumer loans (16.40%) and car loans (3.77%). Anadolubank's total consumer loan exposure was 29.03%. Over the previous year, the Bank recorded growth of 23.36%, 18.80% and 73.79% in mortgage loans, car loans and other loans, respectively in 2010.

Anadolubank is the first bank in Turkey to offer mortgage loans with an interest rate of less than 1% per month, as well as Japanese yen-denominated mortgage loans. A leader in mortgage lending, Anadolubank plans to continue developing new and innovative home loan products in line with prevailing economic conditions. For example, Anadolubank entered into agreements with leading construction firms in 2010 to offer mortgage loans to their customers with attractive payment plans.

During 2010, the performance of Anadolubank investment funds among same type and class within the sector was as follows: Type A variable fund ranked 24th with a 14.42% return; Type B bills and bonds fund ranked 3rd with a 9.58% return; and Type B liquid fund ranked 18th with a 3.27% return.

Volume Growth	Growth (TL thousand)	Growth (%)
Total Deposits	175,311	7.35
TL Time Deposits	81,112	15.05
FC Time Deposits	(76,614)	(7.52)
Consumer Loans	146,054	29.33
Mortgage Loans	97,363.00	23.36

Market Share (TL thousand)	Market	Anadolubank	Market Share (%)
Mortgage Loans	57,255,517	514,049	0.90
Car Loans	5,348,838	24,309	0.45
Other Consumer Loans	62,331,158	105,617	0.17
Investment Funds	30,025,006	252,071	0.84
TL Deposits	319,964,855	1,618,079	0.51
FC Deposits	116,825,626	941,017	0.81



RETAIL BANKING

Anadolubank A.Ş. Type A Variable Fund was converted into a Bonds and Bills Fund as of February 2, 2010, pursuant to CMB No. B.02.1.SPK.0.15-924 dated December 10, 2009.

In 2010, TL deposits for the overall sector increased by 24%, while Anadolubank's total, TL deposits grew 18.44% over the prior year. The sector's foreign currency deposits rose 2.51% in 2010, while the Bank saw a 7.52% decline. To provide diversification and cost efficiency in funding assets, the Bank uses alternative resources.

One of Anadolubank's key strategies is to be geographically close to customers in order to serve them directly. In line with this strategy, the Bank has increased the number of its branches from three in 1997 to 86 in 2010. Although alternative banking channels have proliferated along with advances in technology, the one-to-one relationships Anadolubank employees establish with clients are of utmost importance, given that most Bank transactions take place at the branch level. Information collected by the Bank personnel about and from clients as the result of these relationships is an important feeding source for new product development efforts.

In addition to branches, Anadolubank enables customers to conduct bank transactions via the Internet and ATM channels. The Bank's Call Center, which can be reached at 444 555 0, also provides information services.

Small Enterprises

In addition to traditional SME Banking, Anadolubank's Small Enterprises segment has become a solution partner for companies by offering special products to customers in a constant process of renewal. Small Enterprises extends loans and other products for instant to short, medium and long term needs.

Small Enterprises serves:

- Micro enterprises with turnover of TL 0-1 million,
- Companies with turnover of TL 0-2.5 million, and
- Select export, trade, and contracting companies with turnover of TL 4 million.

The Bank offers the following package products that provide sector and/or customer specific marketing and sales solutions:

Home to Capital Loan

This package offers loan options with up to five year maturity for SMEs that want to expand their offices or exploit business opportunities.

Lucky Introductory Package

This package offers a loan maturity of up to 18 months with a grace period in the first six months.

Short-term Support Package

This package offers loans with flexible payment plans to meet instant short-term needs.

Lucky POS Package

This package for retailers offers special advantages including free insurance services and facilitates the use of ready money for the retail sector.

Lucky Production Package

This package offers services that include personnel salary payment, insurance, ready money, leasing demands and most importantly commercial installment loans with flexible payment plans to companies that operate in Turkey's organized industrial zones.

Anadolubank has provided Small Enterprise services for over four years now with sector-specific products and specialized packages to professional firms, while collaborating with chambers of commerce and SME service centers such as KOSGEB. The Bank has also supported loan interest support services.

In 2010, Anadolubank signed an agreement with the Gördes Chamber of Commerce and Industry to extend loans and provide support to the non-financial sector. This agreement, signed with the Bank's Akhisar Branch, extends loans with five year maturity and a three month grace period to support the commercial companies and SMEs that figure prominently in the Turkish economy in relation to both their contributions to GDP and their share of industrial production.

With the new Home to Capital Loan product that launched in 2010, Anadolubank now extends loans with attractive interest and commission advantages to SMEs seeking to fulfill their financial needs and expand their businesses, with three-month grace periods and up to five-year maturity, in amounts up to 85% of the real estate's appraisal value.

The number of current active customers at Anadolubank reached to nearly 10,000 increasing the ratio of active customers to the total number of customers to 40%.
The total loan exposure is TL 243,766 million. The loan exposure targeted for end of year 2011 is TL 350,000 million, with a targeted active customer to the total number of customer's ratio 50%. The Bank closely monitors domestic, regional and global economies, in addition to new sectors of relevance to SMEs. Anadolubank carries out these and other activities toward its objective of becoming Turkey's SME Bank.

CREDITS
SUPPORTING THE ECONOMY ACROSS ALL SECTORS

The Credits Division is responsible for evaluating customer loan applications in accordance with the credit policy principles of the Bank and extending loans to customers who are sufficiently creditworthy. The Division is also responsible for determining credit limits and terms as well as monitoring the collection of loans extended.

The Credits Division consists of the following six departments:

- Corporate Credit Allocation
- Commercial and Business Credit Allocation-I
- Commercial and Business Credit Allocation-II
- Retail Credit Allocation
- Financial Analysis and Market Investigation
- Credit Control and Risk Monitoring

As of the last quarter of 2010, loan allocation criteria at Anadolubank were aligned according to annual sales turnover, as follows:

The Corporate Credit Allocation Department evaluates and rules on credit applications of businesses with turnover exceeding TL 16 million (over TL 25 million for retail consumables companies),

The Commercial and Business Credit Allocation I and II Department evaluates and rules on credit applications of businesses with turnover between TL 2.5 million and TL 16 million (up to TL 25 million for retail consumables companies),

The Retail Credit Allocation Department evaluates and rules on credit applications up to TL 1 million for businesses with turnover up to TL 2.5 million (up to TL 4 million for retail consumables companies), as well as agricultural loan applications,

The Financial Analysis and Market Investigation Department supports the relevant departments in the allocation process.

The Credit Control and Risk Monitoring Department ensures that approved credits are disbursed in accordance with the approval conditions and monitors timely repayment of these credits. In addition, the Department shares information on negative circumstances with allocation departments and branches, if necessary, to make sure that the necessary precautionary measures are taken.

Anadolubank extends credit to companies without discriminating between sectors in terms of loan allocation; the Bank focuses on whether the applicant company is managed with a rational strategy, has a strong financial structure, and has the ability to endure an economic crisis. The Bank requires that small and medium size enterprises post material collateral, but other factors such as the company's background, financial and corporate structure, experience of the partners and executives, as well as the current position in their respective sectors, are also important in the credit review process.

In credit allocation, monitoring the impact of cyclical activity in the financial markets and the overall economy on various sectors is of great importance. Anadolubank increases the share of sectors showing improvements in its total loan portfolio and decreases the share of deteriorating sectors in order to minimize risk.

In 2010, Anadolubank managed to increase the per branch business volume transacted at its Agriculture Banking branches. As a result, Agriculture Banking loan volume shot up 183%, to TL 58.4 million.

Anadolubank retains a competitive advantage thanks to its flexibility in quick decision-making process and prompt implementation of the decisions. The Bank aims to market its credit products and services to all companies that generate added value and that are inclined to establish sound relationships. In its credit allocation practices, the Bank considers the strength of loan assumption and the repayment capacity of the borrower rather than relying solely on collateral. Thanks to effective credit allocation practices, 2010 was a year of solid credit growth: SME credits rose 90% over the previous year while Commercial increased 15%. In addition, the Bank saw 25% growth in non-cash loans in 2010, compared to the prior year.

TREASURY
SMART MONEY MANAGEMENT HAND IN HAND WITH PRUDENT RISK MANAGEMENT

The Treasury Division manages the Bank's assets and liabilities by taking into account the analysis results of potential risks and market opportunities within the framework of the rules established by the Board of Directors and the Assets & Liabilities Committee. The Division is also responsible for liquidity management and the monitoring risk that might arise from the Bank's routine operations.

Treasury and securities activities are under the responsibility of the TL Bonds and Securities Desk and the Treasury FC Desk; the Treasury Marketing Desk executes treasury transactions of the Bank's branch customers, and manages and monitors all Paritem transactions.

The Treasury Division's operations are composed of three main categories: Turkish lira and foreign exchange liquidity, fixed-income instruments and derivative products management. In line with Anadolubank's trading principles, the Division takes only calculated risks and oversees a diversified portfolio.

The Treasury Division regularly benchmarks its products with those of both domestic and international financial institutions in order to develop new alternatives and opportunities for its customers. At the same time, Anadolubank provides all manner of information to its customers, which allows them to make the best investment decisions. Regularly analyzing customer needs, the Bank aims to offer a range of alternative solutions. The monthly bulletins that the Treasury Division publishes, provide customers and other departments of the Bank with the opportunity to closely monitor developments in financial markets.

Anadolubank aims to provide the most effective market access to its clients via government securities, Eurobonds, derivative products, investment funds and special investment opportunities.

Three successfully managed investment funds have made Anadolubank one of the most important players in the investment fund market. Type B bonds and bills, Type B liquid, and Type A variable funds, designed for investors with different risk profiles, were all standouts in the sector with their high returns.

Anadolubank's bonds and bills fund, impacted by changes in risk levels and requiring sensitive management, was among the highest-return funds in the sector. As an indicator of the market's confidence in future revenues of its funds, the Bank's investment funds were chosen as components in a fund of funds that was established in 2008.

In addition to its activities in the domestic markets, the Treasury Division has established close relationships with international players, especially in the London, New York and Frankfurt markets. Thanks to its pioneering role in new product development, Anadolubank has become the first in the sector to launch select financial products that it has adapted from abroad. The Division closely monitors the derivatives and structured products markets that have grown very rapidly over the last few years. Financial products adopted from abroad are redesigned based on domestic market conditions and customer needs.

The Treasury Division effectively used financial products in the aftermath of the economic crisis to carefully manage Anadolubank's liquidity position and total market risk; the result of these efforts significantly contributed to the Bank's profitability. Despite the liquidity bottleneck in the markets, the Division successfully fulfilled the liquidity requirements set by the Bank's senior management and made full use of advantages that resulted through its effective risk management.

Paritem

Anadolubank launched Paritem in 2004 as a pioneering product in the Turkish banking sector. Paritem became popular in a short period of time, and helped to expand Anadolubank's client portfolio.

By using this online-based product, customers can perform transactions in the 24 most heavily-traded currency pairs in the world, in addition to spot transactions in gold, 24 hours a day, five days a week from anywhere around the globe with Internet access. Customers can conduct transactions within the Paritem section of the Bank's website at www.anadolubank.com.tr or at www.paritem.com.tr.

As the number of Paritem customers and transaction volume steadily climb, the Bank continues to develop the service. The latest innovations enable customers to purchase positions in different currency pairs and create various order functions to help manage the increasing transaction volume in the markets.

By adding US$/TL transactions to Paritem in January 2008, and launching the Paritem Mini product for investors who want to trade in small amounts in March 2009, Anadolubank has solidified its leading position in this area. In 2010, Paritem's interface was renewed and presented to users with the "Guaranteed Winnings in the First Week" campaign, which was positively received.

In the years ahead, Anadolubank aims to develop new products to mediate the trading of different investment tools via the Paritem platform.

INTERNATIONAL BANKING
WE PROVIDE ACCESS ANYWHERE YOU MAY NEED

The International Banking Division is responsible for Anadolubank's trade finance activities and relationships with international correspondent banks.

As a result of these close and efficient relationships established with international correspondent banks, Anadolubank is able to reach any part of the world that offer high business potential, delivering fast and effective service to foreign trade customers. Owing to a strong correspondent-banking network consisting of more than 900 institutions and as a result of the competence of its employees, the quality of the service provided to foreign trade customers is continuously increasing.

In 2010, Anadolubank achieved a foreign trade volume of US$ 2 billion.

The relationships established with correspondent banks are the main source of the dynamic and effective efforts of the International Banking Division. The division strives to improve these connections based on mutual benefit and always approaches the decision process with a wide, flexible and solution-oriented perspective.

The Bank can access loans from important institutions that provide international export credit, such as US Exim, CCC, Hermes, SACE and ERG, to meet the medium and long-term foreign trade finance needs of its customers through these loans.

As a result of recent assessments, Moody's Investor Service determined Anadolubank's long-term foreign currency rating as "Ba3 NP with positive outlook" local currency rating as "Ba1 NP with stable outlook" and financial strength rating as "D+".

In a further result of recent assessments, Fitch Ratings determined Anadolubank's long term foreign and local currency rating as "BB with stable outlook" and individual rating as "C/D".

CREDIT CARDS AND ELECTRONIC BANKING
THE EASE OF BUSINESS AT YOUR FINGERTIPS

The Credit Cards and Electronic Banking Division consists of four departments:

- Credit Cards and Member Merchant Marketing
- Electronic Banking
- Credit Cards Allocation and Risk Monitoring
- Insurance

The Credit Cards and Member Merchant Marketing Department is responsible for:

- Managing sales and marketing activities of the branches for credit cards, POS terminals and POS-related products,
- Developing marketing strategies and new products,
- Organizing campaigns to increase customer satisfaction and encourage card use.

Credit cards and POS play a critical role in Anadolubank's service offerings for a large number of customers and impact their preferences for other banking products and instruments. The Credit Cards and Member Merchant Marketing Department defines customer targets through segmentation, and supervises the external calls team; the Department is also responsible for telemarketing sales strategies and techniques. The Department offers customer-oriented, ongoing, high-quality and secure services for Anadolubank.

In line with its brand partnership Worldcard strategy, Anadolubank assigned "World" features to all its credit cards in 2008. This move allowed credit card users the opportunity to benefit from Worldcard campaigns at more than 200,000 merchant locations and also served to expand card usage.

In parallel with the growth in this segment, the Bank introduced Tarım Kart to agriculture banking customers in 2009. Anadolubank Tarım Kart is a card payment system designed to address issues farmers regularly face in managing their cash flow and crop financing needs. Tarım Kart enables farmers to avoid the risk in transporting large amounts of cash and allows farmers to withdraw cash and to trade countrywide.

In the upcoming period, the Bank's primary objective in the credit card market is to increase annual turnover and profitability through the introduction of new products and the use of innovative marketing practices. To this end, Anadolubank has taken the necessary steps to develop campaign management and related campaign modules.

Anadolubank has developed a profitable growth strategy for its POS product portfolio. The Bank's POS-related products are seen as hook-products, which serve to support Commercial, SME and Small Enterprise banking activities and branch customers; these products play a vital role in the sales and profit performance for these segments by generating value-added customer satisfaction and also attracting new business.

While credit card turnover in the banking sector as a whole increased 20% in 2010, Anadolubank saw a 41% rise for the year over 2009. POS turnover for the sector ticked up 19% in 2010 while Anadolubank achieved a 100% increase over the previous year, thanks to its proactive POS growth strategy.

In 2011, under the Worldcard brand partnership strategy pursued with Yapı Kredi Bankası, Anadolubank plans to assign "World" features to its POS terminals, which will allow member merchants to benefit from an array of advantageous services including installments, bonuses, deferred payments and discounts. During 2011, the Bank will also implement new work flow and credit card application scoring methods, aimed to reduce workload at the branch level.

The Electronic Banking Department:

- Operates the Bank's credit card, POS terminal, ATM and debit card products,
- Manages the Customer Services Section, one of the Bank's alternative delivery channels, and
- Administers Internet banking.

The Electronic Banking Department's main priority is to provide customer-oriented, uninterrupted, high-quality and secure service.

High-quality, secure and flawless service is at the core of the Bank's credit card and electronic banking activities. One of Anadolubank's key objectives is to continually improve the performance of the credit cards and electronic banking segment within the framework of these principles. The Bank plans to achieve this goal through product implementations, differentiated by customer needs and financial dynamics, and with its highly qualified marketing staff.

Anadolubank has 89 ATMs located at its branches. The Bank assigned card printing to a specialized firm, for reasons of operating efficiency. In addition, the Bank has renewed and upgraded its systems applications for credit cards and POS fraud monitoring.

In 2010, Anadolubank also renewed its Internet Banking and Call Center system infrastructure in line with technological developments. As a result, the Call Center can now conduct financial transactions while Internet Banking put SMS OTP (One-Time Password) into use for increased customer account security.

Credit Card Allocation and Risk Monitoring Department

The Credit Card Allocation and Risk Monitoring Department consists of two sections; Allocation and Monitoring. The Allocation Section determines credit card and POS terminal allocations in compliance with the Bank's lending policies and strategies, and evaluates the branch level requirements in terms of the Bank's policies. The Risk Monitoring Section takes the necessary measures to ensure robust repayment rates and manages monitoring and collection services for outstanding credit card debts.

Insurance Department

Anadolubank, in response to sector and customer needs, has provided insurance services with an extensive product portfolio and employing contemporary risk management practices within the Credit Card and Electronic Banking Department since 2009.

Anadolubank cooperates with Aviva Sigorta, Güneş Sigorta and Groupama Sigorta for elementary insurance (property), and with Anadolu Hayat Emeklilik and Groupama Emeklilik for life insurance and private pension schemes.

In 2011, the Bank will implement the Anadolubank Insurance Platform (ASP) to enable faster and more efficient evaluation of offers. This infrastructure will allow Anadolubank to provide the fastest and highest-quality service and to recommend the most appropriate products for its customers. The Bank's targets for 2011 include the provision of insurance products alongside banking products, the development of new products in line with customer needs, a focus on insurance sales by the branch teams who are specially trained in insurance issues, and the introduction of insurance products to customers via the Communication Center.

In 2010, Anadolubank approached the level of production of a medium-sized insurance company thanks to its success in bancassurance.

The Insurance Department achieved record growth of 31% in 2010, over the previous year, due to its know-how and well-experienced staff; in contrast, the sector as a whole averaged just 9.5% growth in 2010. The Bank developed differentiated products based on the risk analyses of customers across a variety of segments and managed customer risk through collateral products.

Anadolubank's insurance products serve to effectively differentiate its offerings from its competitors. In 2010, Anadolubank launched the Income Security Plan (GGP), a first in the sector. This plan enables a lump sum or installment payment to relatives in case the insured is deceased or becomes disabled; rent, education, health and bill related expenses are also covered under GGP. In addition, Anadolubank provides personal accident insurance to POS owners with monthly turnover of over TL 5,000. This unique offer, attracting significant customer interest and serving as a key competitive differentiator, will continue through 2011.

Expecting rapid growth in bancassurance in the coming period, Anadolubank plans to become a significant player in this sector by further enhancing its high-quality services. To this end, Anadolubank continues work on technical and organizational structures to allow for faster, more affordable and better quality solutions for all the insurance related needs of its customers.

INVESTMENT BANKING
STATE WHAT YOU WOULD LIKE

For depositors and companies that prefer to finance their growth via capital markets, Anadolubank's Investment Banking Division provides a range of services, which include:

- Equity trading brokerage in the primary and secondary market,
- Micro and macro research and reporting,
- Corporate finance,
- Derivative products (TurkDEX Derivatives Exchange), and
- Brokerage of stock/TurkDEX transactions via the WEBBORSAM platform.

Anadolubank's investment banking services include high quality and fast information transfer, full legal and regulatory compliance, adherence to an ethical code of conduct, and customer-oriented service. The Bank's main differentiator in investment banking is its rapid and reliable boutique service approach. The Investment Banking Division's research reports and customized products help make the Bank's service quality a standout in the market and positions Anadolubank ahead of its competitors.

The Bank markets its equity trading brokerage services through Anadolu Investment; agencies are located in 27 of the Bank's branches and are staffed by investment specialists. Other departments at Anadolubank engage in cross marketing efforts to support these activities. Anadolubank has established an extensive investment banking marketing network that spans the entire country, allowing the Bank to provide more effective services to its clients.

The Bank's average monthly trading volume on the ISE through Anadolu Investment was TL 761 million in 2010, resulting in a market share of 0.72%. Some 2,918 of the Bank's 9,871 ISE customers trade actively. In 2010, Anadolubank ranked 39th among brokerage houses transacting on the ISE.

Anadolubank also provides services for trading three of the Bank's investment funds and for brokerage of Turkish Derivatives Exchange (TurkDEX) transactions.

In 2010, Anadolubank's monthly average TurkDEX trading volume was TL 443 million, resulting in a market share of 0.68%. Anadolubank ranks 32nd among brokerage houses trading on the TurkDEX. Some 376 off the Bank's 1,427 TurkDEX customers are active traders.

Anadolubank's customer portfolio is composed primarily of medium-size businesses. The Bank plans to maintain this portfolio composition, pursue a balanced and sustainable growth strategy and raise its market share to 1% for ISE transactions and 0.85% for TurkDEX transactions in the period ahead.

Breaking new ground, Anadolubank launched the WEBBORSAM service on August 11, 2010. This service enables stock, TurkDEX and currency transactions on a single platform. With state-of-the-art technology, WEBBORSAM has a user-friendly web-based interface and general market applications, allowing customer access via the Internet. Users can access WEBBORSAM at www.webborsam.com and anadolubank.com.tr.

Thanks to its flexible development platform, Anadolubank can modify or update WEBBORSAM in line with evolving customer needs. The WEBBORSAM trial account allows prospects without an active bank account to use the platform.

With WEBBORSAM, Anadolubank aims to increase the number of customers who conduct stock or TurkDEX transactions using the necessary market information via the platform without a customer representative.

Anadolubank's goals in investment banking for 2011 and beyond are to:

- Increase the number of customers and market share by providing more effective and higher quality service,
- Ensure that investment banking products are cross-marketed with all products marketed by other Anadolubank departments,
- Focus on TurkDEX products appropriate for the Bank's clients and develop new projects to advance TurkDEX trading,
- Engage in brokerage for new ISE products, and increase the Bank's ISE market share,
- Continue to work with a wide range of customers to increase average commission income, our ultimate target, and improve our market share,
- Strengthen the technology infrastructure with the support of the Information Technologies Division, and
- Increase the number of customers conducting web-based transactions by active promotion of the WEBBORSAM financial platform.

INFORMATION TECHNOLOGIES

EACH TECHNOLOGY INNOVATION RESULTS IN A NEW CUSTOMER SERVICE AND MORE EFFICIENT OPERATIONS.

Anadolubank's Information Technologies Division provides software, hardware and communication services in line with both the technical requirements of the Bank and its subsidiaries, Anadolu Yatırım and Anadolubank N.V., and customers' expectations. The Division not only maintains the required level of competency in IT, but also researches, recommends, installs, maintains, secures, develops and overhauls systems and applications on 24/7 a basis to provide continuity, speed and ease of use for Anadolubank.

In line with the Bank's business objectives and corporate strategies, the Information Technologies Division quickly meets technology-related demands thanks to work completed on the development and improvement of its organizational structure. For this reason, common IT risks in the similar organizations are reduced to minimum levels at Anadolubank.

Since its founding, Anadolubank has placed great importance on its information technology infrastructure. The Bank has one of the most advanced IT departments, which closely monitors sector innovations and implements new technology-based solutions without delay.

The Information Technologies Division consists of seven main functional departments:

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

Anadolubank conducted its operations in 2010 by providing functional and innovative technologies to its customers and employees with the ultimate dual aim of customer satisfaction and high quality service.

In 2010, Anadolubank implemented the Target Based Efficiency program, which enables sharing targets among the portfolios, branches and segments and tracks the Bank's marketing strategy goals. In parallel with and as required by this innovative application, the Bank also made changes to its customer segment classifications. Target Based Efficiency calls for the monitoring of customer product and portfolio performances and requires different approaches for both Commercial Banking and Retail Banking. Consequently, separate implementation sets have been created for these two segments.

The integration of the Corporate Loan Registry Office, which will play a key role in reducing the credit review process, became effective in December 2010. Also, a new version of the "Memzuç" application, which plays a crucial role in customer tracking, was implemented to enable a range of reporting options for use by all the Bank's branches.

The "Potansiyelim" (Potential Customer Tracking) application is designed to help the Bank reach the right target customer, a keystone of effective marketing. This application improves marketing productivity and customer acquisition rates per contact.

Anadolubank has integrated the Western Union international money transfer service as a new offering at branches. Two new credit products, in addition to KOSGEB loans, target new customer acquisition. The Bank has achieved a paperless process structure with its electronic tracking of the Safe Deposit Box services provided by branches.

Placing and removing vehicle liens and follow-ups can now be done electronically via the "E-Lien" application, which shortens the vehicle loan process significantly, through a joint initiative of the General Directorate of Security Affairs and Anadolubank. During the year, the Division worked to integrate wage and salary payment and premium collections, for both retirement funds for civil servants and social security for artisans and the self-employed.

INFORMATION TECHNOLOGIES

With the implementation of the new blockage infrastructure, one of the main foundations of the banking infrastructure, the Bank facilitated some transactions that pose difficulty for customers, and minimized operational support needs.

In 2010, the Bank implemented system modifications for money transfers made to Anadolubank N.V. through Equens in accordance with SEPA regulations. Anadolubank was singled out as the institution that completed the implementation most rapidly while encountering no difficulties.

The cornerstones of our branchless banking services, the Internet Branch and the Call Center, have adopted a modern image, with added functionality, renewed interfaces, and improved back-office support; these alternative distribution channels which deliver basic banking services are scalable, open to development, flexible and user friendly.

Anadolubank renewed the infrastructure of Paritem, its leveraged forex trading platform, in line with the needs of this highly volatile market in 2010. Paritem, uniquely developed completely in-house, can provide both the Bank's Treasury and customers with global market quotations very quickly thanks to this feature. Taking into account regulations planned by CMB for the upcoming period, the Bank created a white label infrastructure to enable customers of other institutions to use Paritem, and in effect formed a channel structure.

WEBBORSAM, developed in cooperation with Anadolu Yatırım, is among the first applications in the market where stock and TurkDEX contracts can be purchased and sold over the Internet simultaneously. WEBBORSAM users can access their investment portfolio securely from any location via the Internet, without installing any special applications; in addition, customers can perform stock, TurkDEX and fund transactions concurrently. Due to integration between Internet Banking, WEBBORSAM and Paritem, Anadolubank can support a wide range of customers with a minimum operating load. The Bank targets high profitability by reaching a broader group of customers through the integrated investment platform, cross selling potential, lower operating cost and high technical capacity.

Within the scope of infrastructure work, Anadolubank completely upgraded the basic banking operations system, as well as its storage and backup hardware and network devices, with new technologies. This work increased the Bank's performance and storage capacity needed for upcoming projects and reduced systems maintenance costs.

Anadolubank built the credit cards network infrastructure to switch to ODM automatically when necessary by making complete backups for the POS network together with the credit card system platform so that they can 24/7 work nonstop. After installation of a fraud detection application, the Bank's security level has increased now that the infrastructure is in place to track suspicious credit card transactions.

In 2010, Anadolubank implemented several mission critical infrastructure projects. These include the installation of Geographic Internet Backup, which enables the automation of top level servers to work in ODM, and the Internet to be activated automatically through ODM, in the event of power outages. The Bank also installed an overhead radio link line to be activated in case the Bank's main line fails, meeting both business continuity and COBIT requirements.

Information Technologies supports and maintains of the Bank's the current applications in use. In 2010, the Division implemented approximately 4,000 modifications and projects of varying scales.

OPERATIONS
EFFECTIVE CENTRAL CONTROL, FAST LOCAL SERVICE

The Operations Division consists of two main functional departments: Central Operations and Branch Operations.

The Operations Division assesses customers' problems with a solution-oriented approach and with sufficient scale to allow effective management. All transactions forwarded to the Division are recorded electronically and monitored online over Portalım; in addition, documents/messages regarding all inbound and outbound transactions are also checked to ensure flawless functioning of Bank operations.

The Central Operations Department is responsible for imports, exports, loans, letters of guarantee/foreign guarantees and invisible items. The Department performs these transactions using a two stage approval process, depending on the nature of the business.

Central Operations (MEROPS) was established in 2000 to centralize foreign trade, foreign exchange, credit, clearing, central cashier operations and issuance of check books to customers throughout the Bank. Currently, its clearing, central cashier operations and check book issuance responsibilities have been transferred to the Branch Operations Department.

In the process of its centralizing operations, the Bank made extensive technological investments to increase service quality. All documents and correspondence at the branches are processed and archived electronically on Portalım, a common platform that hosts many business processes and database applications. A work flow process has been adopted with the objectives of finalizing certain types of transactions at specified times and concluding all transactions by 18:00. Consequently, the Bank targets fast, high-quality service and internal/external customer satisfaction.

Thanks to the experienced and specially trained staff at MEROPS, the Operations Center is able to resolve even the most complicated customer problems and execute transactions in time. As a result, the operational workload at the branch level is reduced, allowing the staff there to devote more time to customers, to better understand them and their needs and provide them with effective solutions. Additionally, compliance of the Bank's services with laws and regulations as well as the Bank's internal rules has become effectively auditable.

Operations Division developments that took place in 2010 include:

- The record and the control of collateral for loans, including General Credit Agreements, mortgages and liens, have been centralized for all the branches,
- Preliminary controls for consumer loan allocation were centralized as were preliminary controls for corporate loan allocation previously conducted by the Credit Control and Risk Monitoring Department,
- Western Union quick money transfer transactions were centralized,
- As part of the "e-Rehin" (e-Seizure) project, car liens and pre-liens can now be conducted by branches electronically, and
- On-the-job training continued, support was given to content preparation for new training programs and trainers participated in training programs.

The Branch Operations Department consists of Branch Operations, Central Clearing and Central Cashier sections. The Bank's central cashier and check/promissory note transactions are executed centrally at the Head Office via the Branch Operations Department.

The Department is responsible for:

- The record, archiving and clearance of Turkish lira checks from customers received by the branches for collections or as collateral through the Central Bank of Turkey (CBT) Clearing Service; the physical delivery and clearance of FC checks through correspondent banks,
- Formal notification to customers and legal notifications to the prosecutor's office regarding bounced checks that have been presented either to the CBT Clearing Service or the branches and documented as bounced checks,
- Via the Central Cashier Section, establishing healthy cash flow between the Istanbul branches and the Head Office,
- Via the Branch Operations Section, evaluating checkbook applications from customers, printing checkbooks, reporting checks and promissory notes to the Central Bank and regulating branch operation processes,
- Monitoring and reporting discrepancies in operational transactions, providing all kinds of operational support and service to resolve problems reported by the branches,
- Preparation of regulatory procedures, circulars and announcements regarding branch operation processes,
- Responding to account investigation demands from authorized governmental entities and courts.

OPERATIONS

In 2010, as part of the centralization of branch operations initiative:

- The collection of Anadolubank checks was centralized,
- The legal notification of bounced checks to the Central Bank and to the public prosecutor's Office was also centralized,
- As part of the "e-Rehin" (e-Seizure) project, migration of account investigation and seizure demands of tax offices to the electronic platform was initiated,
- Group centers were established at the Izmir Branch and the Batı Ataşehir/Istanbul Branch to transfer cash to and from branches in and around Izmir, Manisa and Aydın, and branches on the Asian side of Istanbul, respectively,
- Cash transfers were outsourced in some regions to reduce cost,
- Monitoring and collection of safety deposits were automated, and
- Systematic monitoring of cash limits was enabled.

The goals of the Operations Division for 2011 include:

- Centralization of Eximbank loan transactions,
- Central provision of all services except for transactions required to be offered by Anadolubank branches such as cashier transactions,
- Providing on-the-job training at least once per week within the Operations Division and diversifying these sessions,
- Centralization of outgoing electronic fund transfers/ money orders, tax and SSK collections and record of new customer information in the Bank's information systems,
- Centralization of seizure notifications, and
- Contributing to the preparation of the "Assist" System with new recommendations.

FINANCIAL AFFAIRS

PROVISION OF SECURE FINANCIAL DATA TO SUPPORT BUSINESS AND STRATEGIC DECISIONS

The Financial Affairs Division consists of the Budget and Financial Control, Financial Operations, and Organization and Business Development departments.

The main duty of the Budget and Financial Control Department is to support senior management with the decision-making process and developing Bank strategies via financial reports. All reports generated within the Bank, particularly reports prepared for the Board of Directors and the Assets & Liabilities Committee, are collected and analyzed by this Department.

The Department is responsible for:

- Monitoring and analyzing balance sheet and income statement information on a daily basis,
- Conducting a highly detailed analysis of the Bank's interest and non-interest income and expenses as well as reporting the results and making projections for the future,
- Preparing the Bank and branch budgets and reporting the actual in comparison to budgeted amounts,
- Generating efficiency reports, monitoring customer and branch contributions to the Bank via these reports, and assisting in the decision-making processes of the marketing teams in line with the information in the reports, and
- Preparing and sending out reports on daily, weekly, monthly, quarterly and annually bases to the Banking Regulation and Supervision Agency (BRSA), Central Bank of Turkey (CBT), Capital Markets Board (CMB), Turkish Statistical Agency (TurkStat) and Banks Association of Turkey.

In 2010, the Department plans to work on the continual and systematic evaluation of branch performance, to improve the accounting infrastructure, the foundation of the MIS infrastructure, and to computerize processes that are currently performed manually.

The primary duty of the Financial Operations Department is to carry out the Bank's accounting and operations of Treasury Division transactions.

The Department is responsible for:

- Recording and monitoring treasury bills and government bond transactions as well as placement and borrowing transactions with banks,
- Establishing operational and tax infrastructure for all financial instruments offered by the Bank,
- Accounting of and payment for all product and service purchases of the Bank, and
- Fulfilling all tax obligations of the Bank.

During the year, the Department developed the accounting infrastructure for derivative instruments; this project is scheduled for completion in 2011.

The main duty of the Organization and Business Development Department is to ensure effective operation of all business flow processes within the Bank.

More specifically, the Department:

- Ensures fast, efficient and accountable operation of all processes including loan origination, purchasing, central operations and regulation compliance,
- Establishes the necessary platforms to facilitate easy sharing of all information that constitutes the Bank's corporate identity,
- Distributes the banking passwords securely, and
- Undertakes feasibility studies for projects of interest.

For 2011 and beyond, the Department aims to undertake permanent staff reviews, process improvement studies, workload analyses and cost calculations to improve operating efficiency at the branches and all Head Office departments.

HUMAN RESOURCES

THE MOST IMPORTANT COMPONENT IN BUSINESS IS WELL-QUALIFIED AND KNOWLEDGEABLE INDIVIDUALS

The Human Resources Division consists of six departments: Human Resources, Training, Legal Supervision and Control, Communication and Administrative Affairs, Security, and Purchasing.

Anadolubank generates creative solutions to meet the changing needs of customers with its highly qualified personnel who accomplish this goal by providing service with a customer-oriented approach. One of Anadolubank's most important objectives is to form a work force consisting of dynamic, hardworking, creative, multi-faceted and visionary employees who are well equipped with professional know-how.

Since human resources is its most important asset, the Bank strictly adheres to established recruiting processes that use interview and selection techniques based on proven, scientific methodology. Senior management also participates in the recruitment process of new employees.

Anadolubank fills vacant positions in the organization with its own staff members, continuing its tradition of developing talent from within. The Bank advises all employees to be prepared for promotion when the appropriate time comes and to work with this motivation in mind.

As of year-end 2010, Anadolubank had 1,834 employees, of whom 596 are employed at the Head Office with 1,238 working at the branches.

Anadolubank supports its employees at every step of their careers. The Bank has identified the most significant objectives in terms of career planning as enriching professional know-how, enhancing motivation and expanding the vision of its employees. The high service quality the Bank provides its customers depends most of all on the quality of its human resources staff. Therefore, the Bank's training program has great strategic importance in the human resources policy. Anadolubank offers internal and external training to its employees, providing them the opportunity to gain expertise and improve their know-how and skills.

With the strongly held belief that training is critical for both personal and corporate development, Anadolubank actively encourages widespread participation in its training programs. Training needs are planned annually and the participants as well as the training duration are determined on the basis of these plans. Training programs cover a variety of subjects that improve the technical and personal capacity of its employees.

In 2010, 6,065 participants received a total of 78,317 hours of training; each employee received an average of 12.912 hours of training during the year.

EMPLOYEE STATISTICS	2010	2009
Number of Employees		
Head Office	596	581
Branches	1,238	1,270
Total	1,834	1,851
Average Number of Employees per Branch	21.3	21.5
Male	937	947
Female	897	904
Educational Background of Employees		
Doctoral and Masters Degree Holders	87	84
University Graduates	1,346	1,360
High School Graduates	394	400
Elementary School Graduates	7	7

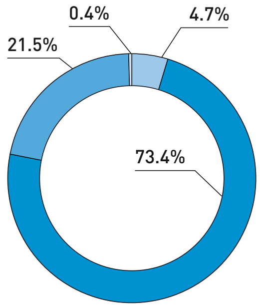
TRAINING STATISTICS

	Number of Training Sessions		Number of Participants		Training Hours in Total	
	2010	2009	2010	2009	2010	2009
In House	345	285	5,736	5,800	74,705	62,171
External	154	180	330	424	3.612	5.701
Total	**499**	**465**	**6,065**	**6,224**	**78,317**	**67,872**

Legal Proceedings Monitoring Department
The Legal Proceedings Monitoring Department operates under the Assistant General Manager responsible for Human Resources. The main responsibility of the Department is to initiate legal proceedings for non-performing commercial, corporate, retail and SME loans decided to be claimed via legal means by relevant Head Office divisions. The Department ensures both the necessary coordination and cooperation between the Legal Council, the branches and the Head Office departments until the legal process is culminated, and that collections are effectively carried out.

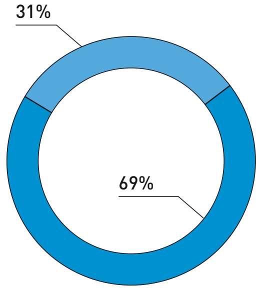
To this end, Legal Proceedings Investigation Teams were formed in 2010. Consisting of branch personnel, these teams held planning, research and evaluation meetings on a regular basis with the Legal Council to ensure efficient results in the judicial process. These efforts and collections made as a result of legal means aim to minimize the Bank's receivables subject to liquidation.

Educational Background of Employees



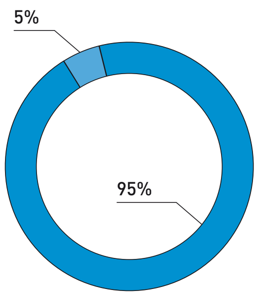
- Doctoral and Masters Degree Holders
- University Graduates
- High School Graduates
- Elementary School Graduates

Number of Trainings



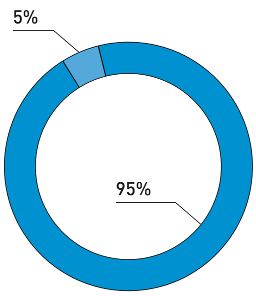
- In House
- External

Number of Participants



- In House
- External

Training Hours in Total



- In House
- External

SUBSIDIARIES

ADDED-VALUE AND PROFESSION THAT GENERATED THROUGH COOPERATION

ANADOLUBANK NEDERLAND N.V.

Anadolubank Nederland N.V. operates primarily in retail banking, but also provides funding to the SME and foreign trade segments mainly in the Netherlands, as well as in the Eurozone and in Turkey. Having acquired its banking license from the Central Bank of the Netherlands on August 2, 2007, Anadolubank N.V. was incorporated as a fully-owned subsidiary of Anadolubank with € 15 million registered capital and began operations in early 2008. The Bank increased its capital in September 2008 to € 30 million, all of which is paid-in.

With a robust capital structure, an experienced management team and support from the parent bank, Anadolubank N.V. built an extensive customer base, of over 16,000 customers, with rapidly increasing assets in a short period of time. At year-end 2010, the Bank's assets reached € 332.4 million, up from € 306.8 in the prior year. Net profit in 2010 increased 154%, to € 7.1 million up from € 2.8 million a year earlier. This strong performance is largely due to the Bank's highly prudent approach to loan allocation; since its inception, Anadolubank N.V. has managed to avoid having any nonperforming loans in its lending portfolio, and maintains an NPL ratio of 0%. The Bank's 17% capital adequacy ratio is in line with Basel II requirements and its conservative liquidity management strategy.

ANADOLU FACTORING (ANADOLU FAKTORİNG HİZMETLERİ A.Ş.)

Anadolu Factoring, founded on March 20, 2007, was the first company to become operational in the nascent Turkish factoring sector with the permission of the Banking Regulation and Supervision Agency (BRSA) as of May 17, 2007. The Company has since completed nearly four years of successful operations.

Currently providing factoring services for business segments with high volume of commercial activity in regions across Turkey, Anadolu Factoring's 400 customers, as of year-end 2010, are thanks to the competitive, flexible and reliable finance options the Company offers.

At the end of year 2010, Anadolu Factoring recorded turnover of TL 524,926,219, up 37% compared to the prior year. For the same reporting period, the Company's net factoring receivables increased by 4.24%, to TL 149,748,334.

The Company achieved Return on Assets (ROA) of 7.5%, and Return on Equity (ROE) of 43% for 2010.

Anadolu Factoring is 99.9% owned by Anadolubank. With net profit of TL 11,808,645.78 for 2010, the Company will have shareholders' equity estimated at TL 40,587,009.47.

ANADOLU SECURITIES (ANADOLU YATIRIM MENKUL KIYMETLER A.Ş.)

Anadolu Securities, founded in 1998, is 82% owned by Anadolubank. All Anadolubank branches serve as Anadolu Securities agencies.

Anadolu Securities provides services in
- securities trading,
- repo and reverse repo,
- public offering,
- portfolio management and investment consultation.

As of end-of-year 2010, Anadolu Securities reported capital of TL 5,400,000, total assets of TL 10,617,763 and net profit of TL 1,331,720.

In 2010, Anadolu Securities' average monthly trading volume of on the ISE was TL 761 million, resulting in a market share of 0.72%.

Anadolu Securities ranked 39th among brokerage houses trading on the ISE in 2010

In 2011, Anadolu Yatırım aims to increase its number of customers along with its trading volume in order to capture a 1% market share on the ISE.

ANADOLUBANK INTERNATIONAL BANKING UNIT LTD.

Founded on April 17, 2003, Anadolu Offshore Ltd. changed its name to Anadolubank International Banking Unit as required by the TRNC International Banking Units Law. The Bank, with total assets of US$ 6,947 thousand, provides long-term working capital loans to medium-size enterprises. The Bank is 99.4% owned by Anadolubank and reported net profit of US$ 358 thousand in 2010.

CORPORATE GOVERNANCE

RESPECTING INDIVIDUALS, CHOICE SERVICES, FREEDOM IN THE WORK ENVIRONMENT

BOARD OF DIRECTORS AND AUDITORS

Members of the Board of Directors, the Audit Committee and other committees attended all meetings during the year except for excused absences.

Board of Directors

Mehmet Başaran, Chairman and Managing Director
Pulat Akçin, Vice Chairman
Fikriye Filiz Haseski, Member of the Board
Erol Altıntuğ, Member of the Board
Engin Türker, Member of the Board
Yusuf Gezgör, Member of the Board
Gökhan Günay, Member of the Board and General Manager

Audit Committee

Cemal Düzyol, Board and Audit Committee Member
Cengiz Doğru, Board and Audit Committee Member-Responsible for Internal Systems

Mehmet Başaran
Chairman and Managing Director
Mehmet Başaran graduated from the Istanbul Academy of Economics and Commercial Sciences. He began his professional career at HABAŞ Sınai ve Tıbbi Gazlar A.Ş. in 1972. Currently, Mr. Başaran serves as the Chairman of the Board and Managing Director of the HABAŞ Group companies, Başaran Holding and Anadolubank.

Pulat Akçin
Vice Chairman
Pulat Akçin graduated from Istanbul University Faculty of Economics and earned his MBA at the University of Technology. He began his professional career at International Industry and Commerce Bank and worked as a senior manager in a number of domestic and international banks. After serving as the General Manager of Tekstilbank, Mr. Akçin joined Anadolubank in 2002 where he currently serves as the Vice Chairman of the Board of Directors.

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

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

Yusuf Gezgör
Member of the Board
Yusuf Gezgör graduated from Istanbul University, Faculty of Economics. He began his professional career at Osmanlı Bank and after 23 years of service there, he worked at TEB as Assistant General Manager of Commercial Banking and Loans. Mr. Gezgör joined Anadolubank in 2001 where he currently serves as a member of the Board responsible for Loans and Marketing.

Engin Türker
Member of the Board
Engin Türker graduated from Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Business Administration. He worked in various positions at Mertaş A.Ş. and HABAŞ A.Ş.; he has served as the General Manager of HABAŞ Industrial Facilities since 1984. Mr. Türker has been a member of the Board of Anadolubank since 1997.

Cemal Düzyol
Board and Audit Committee Member
Cemal Düzyol graduated from Ege University Faculty of Economics and Commercial Sciences. He began his professional career at Garanti Bank, and afterwards he worked at other banks in various positions, including Chairman of the Internal Audit Board, Group Manager, Assistant General Manager and member of the Board. After serving at Tekstilbank as the Assistant General Manager, Mr. Düzyol joined Anadolubank in 2007, where he is currently a member of the Board of Directors.

CORPORATE GOVERNANCE

Cengiz Doğru
Board and Audit Committee Member-Responsible for Internal Systems
Cengiz Doğru graduated from Hacettepe University, Department of Public Finance and received his MBA from Boğaziçi University. He began his professional career on the Board of Certified Bank Auditors, Undersecretariat of Treasury in 1988. There, Mr. Doğru served as Auditor, Chief Auditor and Vice Chairman of the Board. In 1999, he assumed the position of Assistant General Manager at Kent Bank. Mr. Doğru joined Anadolubank in 2002 as Assistant General Manager and he currently serves as a member of the Board of Directors of the Bank.

Auditors

Auditors serve for one year.

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

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

SENIOR MANAGEMENT

Gökhan Günay
Member of the Board and General Manager
Gökhan Günay graduated from Marmara University, Faculty of Business Administration and received his MBA from Tennessee State University. Mr. Günay began his professional career at Türkiye Sınai Kalkınma Bankası and later served as the Head of the Securities Department at Pamukbank. At Sümerbank and Bayındırbank, Mr. Günay worked as Assistant General Manager of Treasury before joining Anadolubank in 2002 where he currently serves as General Manager.

Recep Atakan
Assistant General Manager, Treasury and Retail Banking
Recep Atakan graduated from Istanbul Technical University, Department of Management Science and Engineering. He began his banking career at Yapı Kredi Bank and worked there and at Sümerbank in various positions from Director to Department Head. Mr. Atakan served as Assistant General Manager at Bayındırbank between 2001 and 2003; from 2003 to 2007, he was General Manager of Anadolu Securities. Since 2007, Mr. Atakan has served as Assistant General Manager of Retail Banking and is also currently the Assistant General Manager of Treasury.

Sibel Akın
Assistant General Manager, Commercial Banking
Sibel Akın is a graduate of Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Business Administration. She began her professional career at Türk Dış Ticaret Bank in 1991. After working in various branches as Branch Manager, Ms. Akın joined Anadolubank in 2002 where she currently serves as the Assistant General Manager of Commercial Banking.

Merih Yurtkuran
Assistant General Manager, International Banking
Merih Yurtkuran graduated from Yıldız Technical University, Department of Chemical Engineering, and received her Master's degree in Chemical Engineering from the University of Michigan. Ms. Yurtkuran began her banking career in 1978 at Garanti Bank, after holding various positions in the chemical sector. She worked for a number of public and private sector banks in senior management posts before joining Anadolubank as a consultant in 1999. Ms. Yurtkuran has served as Assistant General Manager of International Banking since 2000.

Taner Ayhan
Assistant General Manager, Credit Cards and Electronic Banking
Taner Ayhan graduated from Middle East Technical University, Department of Computer Engineering and received his MBA from Bilgi University. Between 1989 and 1993, he worked as a consultant at the London and Istanbul offices of Andersen Consulting (Accenture). From 1993 to 2000, Mr. Ayhan held the positions of Director of Alternative Distribution Channels and Retail Banking at Pamukbank and Chairman of the Board of Directors of the Interbank Card Administration. He was subsequently appointed Assistant General Manager Responsible for Alternative Distribution Channels and Consumer Finance in 2000 at Fortis. He worked as Country Manager at Citibank between 2007 and 2008. Mr. Ayhan joined Anadolubank in 2009 where he currently serves as the Assistant General Manager of Credit Cards and Electronic Banking.

Tunç Bergsan
Assistant General Manager, Information Technologies
Tunç Bergsan graduated from Istanbul Technical University, Department of Electronics and Communication Engineering. He began his professional career in 1989 at Netbank as a Software Engineer. From 1993, Bergsan worked in various positions at Baysis and YAZ Information Systems (formerly Mardata Information Systems) where he was involved in projects primarily related to banking software development, including Internet banking software, credit cards and ATM integration, database, system and network administration and bank information technologies outsourcing. Following his employment at YAZ Information Systems as General Manager between 2001 and 2007, Mr. Bergsan joined Anadolubank where he currently serves as the Assistant General Manager of Information Technologies.

Mahmut Şener
Assistant General Manager, Operations
Mahmut Şener graduated from Gazi University, Faculty of Economics and Administrative Sciences, Department of Banking and Insurance. He began his professional career at Interbank and has worked at Körfezbank and Alternatifbank as a Manager. Mr. Şener held the position of as Assistant General Manager at Bayındırbank from 1998 to 2002; subsequently, he was appointed Department Head at Turkish Bank where he worked until 2007. Mr. Şener joined Anadolubank in 2007 and currently serves as Assistant General Manager of Operations.

Hüseyin Çelik
Assistant General Manager, Financial Affairs
Hüseyin Çelik graduated from Uludağ University, Faculty of Economic and Administrative Sciences, Department of Public Finance. He began his professional career at İktisat Bank. After serving as Assistant General Manager and as a member on Board of Directors at various banks and institutions, Mr. Çelik joined Anadolubank in 2008. He currently serves as Assistant General Manager of Financial Affairs.

İsmet Demir
Assistant General Manager, Human Resources
İsmet Demir graduated from Gazi University, Department of Banking and Insurance and received his MBA from Maltepe University. He began his professional career at Sümerbank and later served as an Inspector and Assistant Personnel Manager at Akbank. Mr. Demir joined Anadolubank in 1997 where he currently serves as Assistant General Manager of Human Resources.

Cengiz Göğebakan
Assistant General Manager, Loans
Cengiz Göğebakan graduated from Ankara University, Faculty of Political Science, Department of Economics. He began his career with the Pamukbank TAŞ Directorate of Inspection Board in 1987; he worked at the same bank from 1994 to 2002 as Head of Department (in the Loan Monitoring, Loans Financial Analysis and Inquiry, Lending, and Lending Policy departments). In 2004, Mr. Göğebakan joined T. Halk Bankası A.Ş. and served as Assistant General Manager for, respectively, Retail Loans, Risk Liquidation, and Lending Policy. He joined Anadolubank A.Ş. in June 2010 where he currently serves as Assistant General Manager for, Loans. In addition to his banking career, Mr. Göğebakan has held the positions of member of the Board of Directors at Birlik Hayat Sigorta A.Ş. between 2005 and 2010 and Chairman of the Board of Directors of Pamukbank/Halkbank Emekli Sandığı Vakfı (Retirement for Civil Servants Fund Foundation) from 2004 to 2010.

CORPORATE GOVERNANCE

RELATED PARTY TRANSACTIONS

The volume of transactions related to the risk group the Bank partakes, outstanding loan and deposit transactions as of period-end, and income and expenses from such transactions during the period are presented in the table below.

Related Party Transactions (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2010	2009	2010	2009	Change (%)
Loans	9,604	40,429	0.2	0.9	(77.8)
Off-balance Sheet Exposures	21,198	57,525	0.4	1.3	(69.3)
Deposits	35,544	37,916	0.7	0.8	(12.5)

RISK MANAGEMENT AND FINANCIAL ASSESSMENT
PROACTIVE RISK MANAGEMENT AND CALCULATED RISKS

RISK MANAGEMENT POLICIES

Internal Audit
Internal audit activities are performed by the Internal Audit Board, which in turn reports directly to the Board of Directors. As the Bank's internal audit unit, the Internal Audit Board ensures that the Bank's operations are carried out in full legal and regulatory compliance, and are aligned with the Bank's strategies, policies, principles and objectives. The Internal Audit Board also oversees the adequacy and effectiveness of the internal control and risk management systems and audits the operations of the Bank and its subsidiaries periodically and with a risk-based approach.

In 2010, the Internal Audit Board conducted 37,288 hours of on-site audits at the branches, Head Office and subsidiaries of the Bank. Aiming for a proactive audit structure at the Bank, the Internal Audit Board conducts its activities as a result of risk-based assessments.

Internal Control
Internal Control Unit activities are conducted by Internal Control Center (ICC), which reports directly to the Board of Directors.

The Internal Control Center conducts studies on the designing of control activities and necessary control points of business processes, and the monitoring of internal control activities. The objectives are to establish an efficient internal control system in the Bank's head office units, branches and subsidiaries, to perform the internal control activities, and to incorporate a strong internal control culture throughout the Bank.

The Bank conducts inspections that determine whether the internal control activities are carried out or not via Self-Evaluation Statements. This process is part of an internal control reporting system, for those activities performed by related personnel in prescribed periods and requested from personnel who work on the operations side within the Bank/subsidiaries; in addition, ICC personnel perform on site controls at branches, head office units and subsidiaries. This system ensures that secondary controls and notifications are performed efficiently, whether the internal control activities specified by the Self-Evaluation Statements are actually performed or not.

The ICC focuses on the inspection of high risk transactions as determined automatically by the ACL audit analysis software application. The objective is to install a risk-based control mechanism for internal control activities within the business processes of the Bank/Subsidiaries. The system allows for continuous monitoring via the controls performed in daily, weekly, monthly and quarterly periods for the mission critical operations carried out by branches, head office units and subsidiaries.

Each department of the Bank expresses its opinion on proposed changes in risk management practices and proposed plans for new product installations. The ICC works to develop procedures and flows for business processes, update the current internal rules in parallel with software application changes and makes announcements, as needed it throughout the organization.

Within the scope of ICC activities, the Internal Control Department ensures that relevant personnel are advised to eliminate control deficiencies and perform their control activities properly; in addition, the Department reports the identified control deficiencies to the Audit Committee and relevant senior management. ICC activity reports regarding its activities are prepared on a quarterly and yearly basis; these reports are presented to the Audit Committee.

An ongoing training program for ICC personnel assists in professional knowledge, skills and talent development. In addition, the Bank regularly makes changes to personnel job descriptions and posts so they can perform their duties objectively without influence from the executive units.

RISK MANAGEMENT AND FINANCIAL ASSESSMENT

Legal Compliance

The Legal Compliance Department ensures that all banking activities and transactions performed at the Head Office and branches of Anadolubank are in compliance with national and international banking laws, rules and practices, as well as with the ethical norms required of the banking profession. In effect, the Department is responsible for ensuring the Bank's reputation.

The Legal Compliance Department reports to the Audit Committee and performs its compliance functions under the following headings:

- Monitoring regulations related to the Banking Law and banking practices, and informing Bank personnel about these regulations,
- Preventing money laundering and terrorism financing; creating systems and taking necessary measures to comply with national and international regulations related to the prevention of money laundering and terrorism financing; assuming responsibility for the reviewing, assessing and reporting suspicious transactions to MASAK by the department manager assigned as the MASAK compliance officer,
- Ensuring and monitoring legal compliance; ensuring the compliance of new products and transactions and planned activities with laws and regulations; preparing the annual compliance plan.

The Department also coordinates and monitors efforts by the Bank's subsidiaries to comply with national and international laws, rules and regulations they are subject to in their places of operation.

Risk Management

The Risk Management Department reports directly to the Board of Directors. The Department defines, classifies, measures, monitors, analyzes and reports to relevant parties on the Bank's risk within the framework of legal requirements and risk management principles approved by the Bank's Board of Directors.

Information Regarding Risk Management Policies by Type of Risk

In its risk management work, the Bank uses best international practices, Basel II principles and the regulations of the Banking Regulation and Supervision Agency (BRSA) as points of reference.

Market Risk

The Bank's Board of Directors ensures that the Risk Management Department and the senior management have implemented the necessary steps for measuring, controlling and managing the market risk the Bank is exposed to.

The extent of the exposure of the Bank's capital to market risk is calculated according to the standard method determined by the BRSA. Since 2007, Value at Risk (VAR) forecasts has been produced and reported to the Bank's senior management and related units on a daily basis.

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

The Board of Directors sets market risk limits; the Board also periodically updates these limits in light of market conditions and the Bank's strategies. Total transaction and stop-loss limits are set on a product basis with regard to the Bank's daily transactions. The Board of Directors allocates transaction limits for the Bank's forward transactions and other related contract positions; all trading activity is performed within these limits. The limits are monitored and reported on a daily basis.

Interest Rate Risk

Interest rate risk is managed by the Bank's Assets & Liabilities Committee. Safeguarding Anadolubank against the impacts of interest rates fluctuations is a key priority of the Bank's management.

The Bank's interest rate risk is determined by calculating the sensitivity of assets, liabilities and off-balance sheet items to interest rates. The Bank's management monitors the prevailing market interest rates on a daily basis and has the ability to adjust the Bank's deposit/loan interest rates as needed. Interest income simulations are performed based on the forecasts of the macroeconomic indicators in the Bank's budget. The negative impact of market interest rate fluctuations on the financial positions and cash flow are minimized by actions taken.

The Bank's Assets & Liabilities Committee establishes the short, medium and long-term pricing strategies, manages the maturity mismatch and adopts the principle of a positive balance sheet margin as its pricing policy. Decisions taken by the Assets & Liabilities Committee are implemented by the related units of the Bank.

Liquidity Risk
Anadolubank has always strived to be among the most liquid banks in the sector. In order to attain a high level of liquidity, the Board of Directors regularly sets and monitors the standard for liquidity ratios. The Bank's current liquidity position, the products through which liquidity is provided, its funding sources and asset structure, as well as market conditions, are monitored in light of these limits. Cash flow analyses are performed based on maturity and currency structures, maturity mismatches are monitored and concentrations in funding sources are analyzed.

Credit Risk
One of the most important characteristics of Anadolubank is its adherence to prudent lending policies. The ultimate authority for allocating credit limits rests with the Board of Directors of Anadolubank. This authority was delegated to the Head Office as documented by written rules and is regularly monitored and reported by the audit, internal control and risk management units.

Various rating systems are used in assessing the Anadolubank customers. A separate system developed internally by the Bank is used for rating loan collaterals. As a result of the Bank's credit policy, credit risk is monitored alongside customer and collateral ratings.

In line with its prudent lending policies, Anadolubank has set the maximum credit limit for a single customer at a level lower than that required by law, thereby minimizing the concentration of loans.

The Risk Management Department continues to undertake efforts for the creation of an infrastructure that contains data used in credit risk measurement and Basel II compliance.

Exchange Rate Risk
Exchange rate risk represents potential loss banks may incur as a result of foreign exchange rate fluctuations. When calculating the potential loss of capital due to exchange rate risk, all of the Bank's foreign currency assets, liabilities and forward positions are taken into consideration; the foreign exchange risk is then reported with the standard method by calculating the value at risk. The position limit set by the Board of Directors and the position details are reported daily. As part of the Bank's risk management strategy, all foreign currency borrowings are hedged against foreign exchange rate risk via derivative products.

Operational Risk
Operational risk exists in all activities and is defined as potential loss due to human error, systemic error or inadequate controls or practices. In addition to such errors and negligence, operational risk also includes the possibility of loss from internal and external fraud as well as natural disasters. Operational risk management activities are performed under the coordination of the Bank's Risk Management Department, Internal Audit Board and Internal Control Center.

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

All policies, procedures, business flows and processes used at Anadolubank are analyzed and assessed with a risk-oriented approach. The Internal Audit Board and the Internal Control Center audit the compliance of the Bank's transactions with laws and regulations, monitor personnel errors or abuses, assess branch performances and undertake efforts to increase efficiency.

ASSESSMENT OF FINANCIAL POSITION

BALANCE SHEET ANALYSIS

Loans

Loans to medium and small-sized companies to meet their working capital needs constitute the pillar of the Bank's business strategy. This important product is complemented by consumer loans (primarily housing and car loans), and credit cards. Anadolubank's low non-performing loan ratio is evidence of the success of the Bank's lending policy, which avoids interest rate risk and targets maximum diversification in the loan portfolio.

In 2010, the share of loans in Anadolubank's total assets stood at 70%.

Cash Loans By Industry (%)

	2010	2009
Agriculture	**4.88**	**4.23**
Farming and stockbreeding	4.44	3.68
Forestry	0.38	0.50
Fishing	0.06	0.06
Industry	**29.54**	**33.37**
Mining and quarrying	0.74	1.17
Manufacturing	28.61	31.83
Electricity, gas, water	0.19	0.36
Construction	**6.68**	**8.68**
Services	**33.97**	**33.01**
Wholesales and retail trade	11.92	9.82
Hotel and restaurant services	0.51	0.20
Transportation and communication	2.07	1.83
Financial institution	14.63	16.26
Real estate and rent services	0.15	0.08
Professional services	2.87	2.04
Educational services	0.08	0.15
Health and social services	1.74	2.64
Others	**5.81**	**2.96**
Total	**100**	**100**

Non-Cash Loans By Industry (%)

	2010	2009
Agriculture	**2.51**	**1.91**
Farming and stockbreeding	2.25	1.70
Forestry	0.26	0.21
Fishing	0.00	-
Industry	**38.58**	**41.37**
Mining and quarrying	1.13	1.04
Manufacturing	35.91	32.31
Electricity, gas, water	1.54	8.02
Construction	**23.38**	**22.49**
Services	**34.34**	**32.13**
Wholesales and retail trade	14.37	15.74
Hotel and restaurant services	0.48	0.30
Transportation and communication	2.66	2.76
Financial institution	10.04	7.60
Real estate and rent services	0.09	0.01
Professional services	3.78	3.34
Educational services	0.06	0.05
Health and social services	2.86	2.33
Consumer loans	-	-
Credit card	-	-
Others	**1.19**	**2.10**
Total	**100**	**100**

Loan Balances (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2010	2009	2010	2009	Change (%)
Corporate loans	**2,940,732**	**2,512,970**	**80.8**	**69.1**	**17.0**
TL Loans	2,056,191	1,653,998	56.5	45.5	24.3
FX Loans	884,541	858,972	24.3	23.6	3.0
Retail Loans	**643,975**	**497,921**	**17.7**	**13.7**	**29.3**
TL Loans	546,174	361,063	15.0	9.9	51.3
FX Loans	97,801	136,858	2.7	3.8	(28.5)
Credit Card Receivables	**54,331**	**39,732**	**1.5**	**1.1**	**36.7**
Total	**3,639,038**	**3,050,623**	**100.0**	**100.0**	**19.3**

ASSESSMENT OF FINANCIAL POSITION

Non-performing Loans

Anadolubank places great importance on the control mechanisms it has established for monitoring lending activities. Loan evaluation, approval and monitoring activities, which are concentrated at the Head Office level, are analyzed by four separate departments under the leadership of a member of the Board of Directors.

As a result of its conservative and effective risk management practices, the Bank's non-performing loan ratio is below the sector average.

Non-Performing Loans	Year ended on 2010	Year ended on 2009
Balance at the beginning of the year	70,277	42,370
Additions	23,312	44,992
Reductions	16,533	17,085
Payments	16,533	11,779
Written off	-	5,306
Balance at the End of the Year	**77,056**	**70,277**
Provision for Non-performing Loans	**(77,056)**	**(70,277)**
Net Non-performing Loans	**-**	**-**
NPL/Total Loans	**2.43%**	**2.73%**

Liquidity

Liquidity is generally used for financing assets and taking advantage of investment opportunities in the markets. Liquidity can take on further significance, particularly when it is used as a safe harbor in Turkey's fast-paced economic environment and during periods of uncertainty. Unused lines of credit at other banks, repo agreements, very short-term loans and investments in financial institutions are also liquid resources. In general, the short-term nature of the loan book enhances liquidity. The Bank's broad liquidity base relies on customer deposits as well as the well established and diversified funding sources stated below.

Liquid Assets (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2010	2009	2010	2009	Change (%)
Cash on hand	23,075	22,076	0.4	0.5	4.5
Central Bank deposits	225,599	148,793	4.3	3.3	51.6
Receivables from reverse repurchase agreement	15,430	-	0.3	-	-
Placement with banks	201,090	240,948	3.9	5.3	(16.5)
Legal reserves	104,017	80,241	2.0	1.8	29.6
Total	**569,211**	**492,058**	**10.9**	**10.8**	**15.7**

Securities

Anadolubank's activities in this area are limited to Turkish treasury bills and government bonds. Investments in government bonds are generally financed by very short-term repo agreements and deposits; therefore, they may vary from one reporting period to the next depending on risk, source of funding and maturity terms.

Breakdown of Securities (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2010	2009	2010	2009	Change (%)
Held-for-trading	**95,563**	**170,721**	**1.8**	**3.7**	**(44.0)**
Treasury Bills in TL	-	5,025	-	0.1	(100.0)
Government Bonds in TL	3,162	133,807	0.1	2.9	(97.6)
Eurobonds Issued by the Turkish Government	91,681	31,016	1.8	0.7	195.6
Equity Securities	720	873	-	-	(17.5)
Investment Securities	**749,556**	**714,293**	**14.4**	**15.6**	**4.9**
Turkish Government Bonds	220,353	313,304	4.2	6.9	(29.7)
Eurobonds Issued by the Turkish Government	439,097	356,642	8.4	7.8	23.1
Corporate Bonds	90,106	44,347	1.7	1.0	-
Total	**845,119**	**885,014**	**16.2**	**19.4**	**(4.5)**

Deposits

As a result of efforts to establish a reliable and diversified funding base, Anadolubank's retail banking services, and deposits in particular, grew compared to previous year.

The table below presents a summary of the Bank's deposits growth.

Composition of Deposits (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2010	2009	2010	2009	Change (%)
TL Deposits	**1,608,318**	**1,373,736**	**30.8**	**30.1**	**17.1**
Demand Deposits	220,562	158,819	4.2	3.5	38.9
Time Deposits	1,387,756	1,214,917	26.6	26.6	14.2
FX Deposits	**1,500,732**	**1,554,939**	**28.8**	**34.0**	**(3.5)**
Demand Deposits	423,758	409,751	8.1	9.0	3.4
Time	1,076,974	1,145,188	20.6	25.1	(6.0)
Total	**3,109,050**	**2,928,675**	**59.6**	**64.1**	**6.2**

ASSESSMENT OF FINANCIAL POSITION

Shareholders' Equity

The shareholders' equity rose to TL 825 million at year-end 2010, up from TL 689 million a year earlier. In the same reporting period, the share of shareholders' equity in total liabilities increased to 5.7%, while the Bank's unconsolidated capital adequacy ratio was 18.84%.

Anadolubank does not traditionally pay dividends to its shareholders; thus, profit for the year 2010 will be added to the Bank's capital.

Capital Adequacy (TL thousands)	Consolidated Year ended on December 31,		Bank Only Percent to Total Assets	
	2010	2009	2010	2009
Capital Base	816,156	681,971	643,114	522,582
Risk Weighted Assets	3,667,049	3,054,197	2,694,007	2,404,404
VaR	166,013	143,538	108,413	88,200
Operational Risk	556,125	430,650	414,400	338,288
Capital Adequacy Ratio	18.59%	18.80%	19.99%	18.46%

Shareholders' Equity Growth (TL thousands)	Year ended on December 31,		Percent to Total Assets		
	2010	2009	2010	2009	Change (%)
Total Shareholders' Equity	825,870	689,577	15.8	15.1	4.6

Guarantees and Acceptances

The guarantees and sureties composed of letters of credit, letters of guarantee related to miscellaneous tenders, other bills of exchange and bank acceptances that are prepared by banks for their customers' orders are used extensively in business contracts. These instruments gained significance in banks' efforts to increase their non-interest income to compensate for the decline in their interest income due to falling interest rates.

Non-Cash Loans (TL thousands)	2010	2009	Change (%)
Letters of Guarantee	902,998	648,177	39.3
Letters of Credit	146,589	158,056	(7.3)
Other Guarantees and Acceptances	103,291	62,962	64.1
Total	**1,152,878**	**869,195**	**32.6**

Income Statement Analysis

Interests

As in the previous year, banks in Turkey faced continuously shrinking interest margins due to falling interest rates in 2010. Banks responded to this situation in different ways, such as increasing their non-interest income, implementing better cost controls and shifting their lending preferences toward consumer loans and small businesses. As a result of these market conditions, Anadolubank's net interest income decreased by 8% compared to the prior year.

Interest Income (TL thousands)	2010	2009	Change (%)
Interest on Loans	395,326	421,100	(6.1)
Interest on Securities	85,488	98,795	(13.5)
Other Interest Income	5,665	8,678	(34.7)
Total Interest Income	**486,479**	**528,573**	**(8.0)**
Interest on Customer Deposits	154,651	177,321	(12.8)
Interest on Borrowing from Banks	40,108	49,349	(18.7)
Total Interest Expense	**194,759**	**226,670**	**(14.1)**
Net Interest Income	**291,720**	**301,903**	**(3.4)**
NIM (Net Interest Margin)	**5.96**	**7.19**	

ASSESSMENT OF FINANCIAL POSITION

Non-Interest Income and Expense

Anadolubank's efforts to manage its non-interest income were concentrated in three main areas in 2010:

- Instituting strict cost controls,
- Generating commissions from off-balance sheet items such as letters of guarantee and letters of credit, and
- Enhancing existing non-risk products and new product development.

Anadolubank introduced a new product in Turkey, Paritem® that enables the Bank's customers to execute real-time foreign exchange trades online via an advanced Internet-based trading platform.

Non-Interest Income (TL thousands)	2010	2009	Change (%)
Net Fees and Commissions	66,183	65,056	1.7
Trading & FX Income/Loss	(6,038)	(106)	5,596.2
Other Income	8,848	9,371	(5.6)
Total Non-interest Income	**68,993**	**74,321**	**(7.2)**
Personnel Expenses	119,615	103,053	16.1
Other Non-interest Expenses	60,824	56,683	7.3
Total Non-interest Expense	**180,439**	**159,736**	**13.0**
Net Non-interest Income	**(111,446)**	**(85,415)**	**30.5**

Net Income (TL thousands)	2010	2009	Change (%)
Net Interest Income	291,720	301,903	(3.4)
Net Non-interest Income	(111,446)	(85,415)	(30.5)
Gross Income	**180,274**	**216,488**	**(16.7)**
Provision for Loan Losses	(7,752)	(34,243)	(77.4)
Income before Taxation and Monetary Position Loss	**172,522**	**182,245**	**(5.3)**
Tax Charge	(35,053)	(36,550)	(4.1)
Profit from Continuing Operations	**137,469**	**145,695**	**(5.6)**
ROA (Return on Assets)	**2.81**	**3.47**	
ROE (Return on Equity)	**18.14**	**23.67**	
Operational Efficiency	**50.02**	**42.46**	

ANADOLUBANK ANONİM ŞİRKETİ AND IT'S SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010

DRT Bağımsız Denetim ve
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Independent Auditors' Report

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

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 positions as at December 31, 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 December 31, 2010 and of their financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group as of and for the year ended 31 December 2009 were audited by another auditor. The previous independent auditor stated that nothing had come to their attention that causes them to believe that the consolidated year ended financial statements did not give a true and fair view of the financial position and the results of its operations in their review report and expressed unqualified opinion in their audit report dated 5 March 2010 for the consolidated financial statements as of 31 December 2009.

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

DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

Istanbul, Turkey
5 March 2011

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER, 2010 AND 2009
(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE STATED.)

	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and balances with the Central Bank	6	352,691	251,110
Deposits with banks and other financial institutions	6	201,090	240,948
Receivables from reverse repo transaction	6	15,430	-
Financial assets at fair value through profit or loss	7	95,563	170,721
Derivative financial assets held for trading purpose	8	29,354	32,325
Investment securities	9	749,556	714,293
Loans and receivables	10	3,653,387	3,065,944
Property and equipment	12	20,080	18,564
Intangible assets	13	1,422	1,676
Deferred tax assets	18	11,571	10,012
Other assets	14	87,054	63,151
Total assets		5,217,198	4,568,744
LIABILITIES			
Deposits from banks	15	77,484	80,418
Deposits from customers	15	3,109,050	2,928,675
Interbank money market borrowings	15	-	15,063
Obligations under repurchase agreements	15	529,931	323,108
Funds borrowed	16	379,855	326,788
Derivative financial liabilities held for trading purpose	8	84,743	62,850
Other liabilities and provisions	17	203,227	137,732
Income taxes payable	18	7,038	4,533
Total liabilities		4,391,328	3,879,167
EQUITY			
Share capital	19	602,619	412,119
Reserves		26,708	22,779
Retained earnings		194,690	253,068
Total equity attributable to equity holders of the Bank		824,017	687,966
Non-controlling interest	19	1,853	1,611
Total equity		825,870	689,577
Total liabilities and equity		5,217,198	4,568,744
Commitments and contingencies	26	1,586,529	1,272,082

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED
31 DECEMBER, 2010 AND 2009
(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE STATED.)

	Notes	1 January- 31 December 2010	1 January- 31 December 2009
Continuing operations:			
Interest income:			
Interest on loans and receivables	21	395,326	421,100
Interest on marketable securities	21	85,488	98,795
Interest on deposits with banks and other financial institutions	21	3,493	5,774
Interest on other money market placements	21	4	931
Other interest income	21	2,168	1,973
Total interest income		486,479	528,573
Interest expense:			
Interest on deposits	21	154,651	177,321
Interest on other money market deposits	21	25,127	28,966
Interest on funds borrowed	21	14,887	20,035
Other interest expense	21	94	348
Total interest expense		194,759	226,670
Net interest income		291,720	301,903
Fees and commissions income	22	74,834	76,898
Fees and commissions expense	22	8,651	11,842
Net fees and commissions income		66,183	65,056
Other operating income:			
Trading income due from marketable securities	23	40,125	10,716
Foreign exchange gains, net	23	26,165	-
Other income	23	8,848	9,371
Total other operating income		75,138	20,087
Other operating expense:			
Salaries and employee benefits	23-24	119,615	103,053
Trading losses, due from derivatives	23	72,328	2,106
Foreign exchange loss, net	23	-	8,716
Provision for possible loan losses, net of recoveries	23	7,752	34,243
Depreciation and amortization	23	6,310	6,847
Taxes other than on income	23	9,905	7,519
Other expenses	23-25	44,609	42,317
Total other operating expense		260,519	204,801
Income from operations		172,522	182,245
Income tax expense	18	35,053	36,550
Profit from continuing operations		137,469	145,695
Discontinued operation:			
Income from discontinued operation		-	-
Income tax expense		-	-
Profit from discontinued operation		-	-
Profit for the year		137,469	145,695

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE STATED.)

	Notes	1 January- 31 December 2010	1 January- 31 December 2009
Other comprehensive income:			
Foreign currency translation differences for foreign operations		(3,028)	543
Fair value reserve of available for sale financial assets transferred to profit or loss		2,315	2,140
Income tax on other comprehensive income		(463)	(428)
Other comprehensive income for the year, net of income taxes		(1,176)	2,255
Total comprehensive income for the year		136,293	147,950
Profit attributable to:			
Equity holders of the Bank		137,229	145,469
Non-controlling interest		240	226
Profit for the year		137,469	145,695
Total comprehensive income attributable to:			
Equity holders of the Bank		136,051	147,722
Non-controlling interest		242	228
Total comprehensive income for the year		136,293	147,950
Earnings per share from continuing operations (full TL)		0.002291	0.002428
Earnings per share from total comprehensive income (full TL)		0.002272	0.002466

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS 31 DECEMBER, 2010 AND 2009
(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE STATED.)

		Attributable to equity holders of the Bank							
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total
Balances at 1 January 2009		412,119	9,970	(5,946)	11,234	112,867	540,244	1,383	541,627
Total comprehensive income for the year									
Net profit of the year		-	-	-	-	145,469	145,469	226	145,695
Other comprehensive income									
Currency translation adjustments		-	541	-	-	-	541	2	543
Net losses on available for sale financial assets transferred to profit or loss, net off tax		-	-	1,712	-	-	1,712	-	1,712
Total other comprehensive income		-	541	1,712	-	-	2,253	2	2,255
Total comprehensive income for the year		-	541	1,712	-	145,469	147,722	228	147,950
Transactions with owners, recorded directly in equity									
Transfers to other reserves		-	-	-	5,268	(5,268)	-	-	-
Total contributions by owners		-	-	-	5,268	(5,268)	-	-	-
Total transactions with owners		-	-	-	5,268	(5,268)	-	-	-
Balances at 31 December 2009		412,119	10,511	(4,234)	16,502	253,068	687,966	1,611	689,577

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS 31 DECEMBER, 2010 AND 2009
(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE STATED.)

		Attributable to equity holders of the Bank							
	Notes	Share capital	Translation reserve	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total
Balances at 1 January 2010		412,119	10,511	(4,234)	16,502	253,068	687,966	1,611	689,577
Total comprehensive income for the year									
Net profit of the year		-	-	-	-	137,229	137,229	240	137,469
Other comprehensive income		-	-	-	-	-	-	-	-
Currency translation adjustments		-	(3,030)	-	-	-	(3,030)	2	(3,028)
Net losses on available for sale financial assets transferred to profit or loss, net off tax		-	-	1,852	-	-	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	136,051	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)	-	-	-
Total contributions by owners		-	-	-	-	-	-	-	-
Total transactions with owners		-	-	-	-	-	-	-	-
Balances at 31 December 2010		602,619	7,481	(2,382)	21,609	194,690	824,017	1,853	825,870

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS 31 DECEMBER, 2010 AND 2009
(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE STATED.)

	Notes	1 January – 31 December 2010	1 January – 31 December 2009
Cash flows from operating activities:			
Profit for the year		137,469	145,695
Adjustments for:			
Income tax expense		35,053	36,550
Provision for loan losses		23,312	44,992
Depreciation and amortization		6,310	6,847
Provision for retirement pay liability		1,604	1,143
Currency translation differences		(3,028)	543
Net interest income		(296,163)	(301,915)
Other various income / expense accruals		60,223	10,930
		(35,220)	(55,215)
Changes in operating assets and liabilities:			
Reserve deposits at the Central Bank		(23,776)	(7,414)
Financial assets at fair value through profit or loss		74,124	(133,992)
Loans and receivables		(618,616)	(779,130)
Derivative financial instruments		24,864	46,610
Other assets		(40,210)	(35,127)
Deposit with other banks and customers		126,164	666,855
Other liabilities and provisions		3,447	28,636
		(454,003)	(213,562)
Interest paid		(196,839)	(237,470)
Interest received		510,037	526,272
Income taxes paid		(34,571)	(48,697)
Cash (used in)/provided by operating activities		(210,596)	(28,672)
Cash flows from investing activities			
Acquisition of investment securities		(143,734)	(46,734)
Proceeds from sale of investment securities		119,966	91,674
Acquisition of property and equipment		(8,706)	(13,863)
Proceeds from sale of property and equipment		4,492	1,283
Cash provided by/(used in) investing activities		(27,982)	32,360
Cash flows from financing activities			
Change in funds borrowed		231,873	(152,092)
Cash (used in)/provided by financing activities		231,873	(152,092)
Effect of exchange rate fluctuations on cash held		13,392	(560)
Net decrease in cash and cash equivalents		(6,705)	(151,964)
Cash and cash equivalents at the beginning of the year	6	379,788	531,752
Cash and cash equivalents at the end of the year	6	386,475	379,788

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, 2010 AND 2009
(AMOUNTS ARE EXPRESSED IN THOUSAND OF TURKISH LIRA ["TL"] UNLESS OTHERWISE INDICATED.)

1. Overview of the Bank

Anadolubank Anonim Şirketi (the "Bank"), has commenced its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 86 (31 December 2009: 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 AŞ.

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

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

The Bank has 82% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret A.Ş. (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

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

2. Basis of preparation

(a) Statement of compliance

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

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group adopted all IFRSs, which were mandatory as at 31 December 2010.

The accompanying consolidated financial statements are authorized for issue by the directors on 22 April 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.

(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.

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(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

(f) Adoption of International Financial Reporting Standards (IFRS)

New standards, amendments and interpretations to existing standards applied from 1 January 2010

– IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" (Amendment) (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009). The main changes are:

- Partial acquisitions: Non-controlling interests are measured either as their proportionate interest in the net identifiable assets (which is the original IFRS 3 requirement) or at fair value.
- Step acquisitions: The requirement to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date between the sum of the fair value of any investment in the business held before the acquisition and the consideration transferred, and the net assets acquired.
- Acquisition-related costs: Acquisition-related costs are generally recognized as expenses (rather than included in goodwill).
- Contingent consideration: Contingent consideration must be recognized and measured at fair value at the acquisition date. Subsequent changes in fair value are recognized in accordance with other IFRSs, usually in the income statement (rather than by adjusting goodwill).
- Transactions with non-controlling interests: Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.

These amendments affect the financial statements in relation to business combinations effected on or after January 1, 2010.

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– IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment "Eligible Hedged Items") (effective for annual periods beginning on or after July 1, 2009). The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of:

(a) a one-sided risk in a hedged item, and

(b) inflation in a financial hedged item.

The Group has applied this amendment for the annual period beginning on January 1, 2010, and it did not have any impact on the financial statements.

– IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after July 1, 2009). The Interpretation clarifies that:

- a dividend payable should be recognized when the dividend is appropriately authorised and is no longer at the discretion of the entity,
- an entity should measure the dividend payable at the fair value of the net assets to be distributed,
- an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement.

The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions.

The Group has applied this Interpretation for the annual period beginning on January 1, 2010, and it did not have any impact on the financial statements.

– Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009): The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset.

The Group has applied this amendment for the annual period beginning on January 1, 2010, and it did not have any impact on the financial statements.

– IFRS 2 "Share-based Payment" (Amendment) (effective from January 1, 2010). The amendments clarify:

- the scope of IFRS 2: An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
- the interaction of IFRS 2 and other standards: The Board clarified that in IFRS 2 a "group" has the same meaning as in IAS 27 "Consolidated and Separate Financial Statements", that is, it includes only a parent and its subsidiaries.
- the accounting for some group and treasury share-based payment transactions: An entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognized by the consolidated group.

The Group has applied this amendment for the annual period beginning on January 1, 2010, and it did not have an impact on the financial statements.

– Improvements to IFRSs, May 2008 (Amendment to IFRS 5, Non-current assets held for sale and discontinued operations, effective for periods beginning on or after July 1, 2009). The amendment clarified that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale. The Group has applied this amendment for the annual period beginning on January 1, 2010, and it did not have an impact on the financial statements.

– Improvements to IFRSs, April 2009 (effective for annual periods beginning on or after July 1, 2009, except amendments to IAS 18 that were effective for 2009). The Group has applied these amendments for the annual period beginning on January 1, 2010, (except the amendment to IAS 18 that was effective in 2009) and they did not have a significant impact on the financial statements.

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New standards, amendments and interpretations to existing standards effective after 2010

– IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2013). IFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities, including some hybrid contracts. The new standard requires all financial assets to be:

(a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

(b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.

(c) subsequently measured at amortized cost or fair value.

The above standard also requires a financial liability to be classified as either at fair value through profit or loss or at amortized cost. For a financial liability designated as at fair value through profit or loss using the fair value option, the change in the liability's fair value attributable to changes in the liability's credit risk is recognized directly in other comprehensive income, unless it creates or increases an accounting mismatch and the amount that is recognized in other comprehensive income is not recycled when the liability is settled or extinguished.

The Group has not applied this Standard and is currently evaluating the impact of IFRS 9 on the financial statements and the timing of its adoption.

– IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction." (Amendment "Prepayments of a Minimum Funding Requirement" November 2009) (effective for annual periods beginning on or after January 1, 2011). The amendments remove an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group has not applied this amendment.

– IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010). The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. The Group has not applied this Interpretation.

– IAS 32 "Financial Instruments: Presentation" (Amendment) (effective for annual periods beginning on or after February 1, 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group has not applied this amendment.

– IAS 24 "Related parties" (Revised) (effective from January 1, 2011). The revised standard provides a partial exemption for government-related entities and a revised definition of a related party. The Group has not applied this amendment.

– Improvements to IFRSs, May 2010 (effective for the Group's annual period beginning on January 1, 2011). The Group has not applied these amendments.

– IFRS 7 "Financial Instruments: Disclosures" (Amendment) (effective for annual periods beginning on or after July 1, 2011). The amendment requires certain additional disclosures in relation to transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The Group has not applied this amendment.

– IAS 12 "Income Tax" (Amendment) (effective for annual periods beginning on or after January 1, 2012). The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. The Group has not applied this amendment.

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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.

Associates

Associates are entities over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Investments in associates are accounted for by applying the equity method of accounting.

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Under the equity method of accounting, the investment is initially recorded at cost. Goodwill arising on the acquisition of an associate is included in the carrying amount of the investment (net of any accumulated impairment loss). The carrying amount of the investment is increased or decreased by the proportionate share of the associate's post-acquisition profits or losses (recognized in the Group income statement) and movements in reserves (recognized in reserves). Dividends received from the associate during the year reduce the carrying value of the investment. Investments in associates for which significant influence is intended to be temporary because such investments are acquired and held exclusively with a view to their subsequent disposal within twelve months from their acquisition, are recorded as assets held for sale. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Where necessary, the associate's financial statements used in applying the equity method are adjusted to ensure consistency with the accounting policies adopted by the Group.

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:

- 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.

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(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.

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:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

Trading

The 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.

Trading securities may also include securities sold under sale and repurchase agreements.

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.

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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.

(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.

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.

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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.

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.

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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.

(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.

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(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.
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.

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(r) Intangible assets

Intangible assets mainly comprise computer software.

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

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

(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 2010 is TL 2,517 (full TL); at 31 December 2009 it was TL 2,365 (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 2010 and 2009 are as follows;

	31 December 2010	31 December 2009
Discount rate	4.66%	5.92%
Expected rate of salary/limit increase	5.10%	4.80%
Turnover rate to estimate the probability of retirement	21.74%	20.54%

(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).

(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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Information about operating segments

31 December 2010	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
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	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
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 interest	-	-	-	-	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	3,886	10,290	303	32	-	14,511
Depreciation and amortization expenses	1,315	3,013	1,882	65	35	6,310
Other non-cash income/expense	10,004	19,252	5,826	551	(10)	35,623

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31 December 2009	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Net interests, fees, and commissions income	61,539	231,915	53,971	16,688	2,858	366,971
Other operating income and expenses, net	(32,295)	(114,447)	(27,614)	(9,043)	(1,327)	(184,726)
Profit before taxes	29,244	117,468	26,357	7,645	1,531	182,245

31 December 2009	Retail Banking	Corporate and Commercial Banking	Treasury	Investment Banking	Others	Consolidated
Segment assets	556,329	2,402,999	1,549,468	17,553	42,395	4,568,744
Total assets	556,329	2,402,999	1,549,468	17,553	42,395	4,568,744
Segment liabilities	472,687	2,056,312	1,334,744	8,874	6,550	3,879,167
Equity and non-controlling interest	-	-	-	-	689,577	689,577
Total Liabilities and Equity	472,687	2,056,312	1,334,744	8,874	6,550	4,568,744
Other Segment Assets:						
Capital expenditure	1,059	3,682	2,321	48	84	7,194
Depreciation and amortization expenses	965	3,410	2,113	18	341	6,847
Other non-cash income/expense	11,129	40,060	26,191	209	41	77,630

6. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash on hand	23,075	22,076
Reserve deposits at the Central Bank	104,017	80,241
Balances with the Central Bank	225,599	148,793
Cash and balances with the Central Bank	352,691	251,110
Deposits with banks and other financial institutions	201,090	240,948
Receivables from reverse repurchase agreement	15,430	-
Total cash and cash equivalents in the consolidated statement of financial position	569,211	492,058
Reserve deposit at the Central Bank	(104,017)	(80,241)
Blocked deposits with banks and other financial institutions	(78,106)	(31,703)
Interest accruals on cash and cash equivalents	(343)	(326)
Cash and cash equivalents in the consolidated statement of cash flows	386,745	379,788

As at 31 December 2010, deposits with banks amounted to TL 78,106 (31 December 2009: TL 31,703) are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

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As at 31 December 2010 and 2009, interest range of deposits and placements are as follows:

	31 December 2010				31 December 2009			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Balances with the Central Bank	171,608	181,082	-	-	118,634	132,476	5.20	-
Deposits with banks and other financial institutions	988	200,102	-	0.19-1.50	385	240,563	6.50-7.82	0.15-2.00
Receivables from reverse repurchase agreements	-	15,430	-	0.45	-	-	-	-
Total	172,596	396,614			119,019	373,039		

7. Financial assets at fair value through profit or loss

Debt instruments:	31 December 2010		31 December 2009	
	Carrying value	Effective Interest Rate (%)	Carrying value	Effective Interest Rate (%)
Eurobonds issued by the Turkish Government	91,681	4.29-9.00	31,016	4.58-9.00
Government bonds in TL	3,162	2.05-10.84	133,807	5.68-19.18
Treasury bills in TL	-	-	5,025	7.03
Equity securities	720		873	
Total financial assets at fair value through profit or loss	95,563		170,721	

Debt instrument is given as collateral under repurchase agreements:

	31 December 2010	31 December 2009
Deposited at financial institutions for repurchase transactions	80,542	9,893

As at 31 December 2010, carrying values of underlying financial assets at fair value through profit or loss collateralized against repurchase agreements were amounted to TL 80,542 (31 December 2009: 9,893).

	31 December 2010	31 December 2009
Equity securities	-	-
Government bonds	-	33,061
Other	-	-
Total	-	33,061

As at 31 December 2009, 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 33,061 and TL 32,114 respectively.

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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 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
Derivatives financial instruments held for trading purpose:									
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

31 December 2009	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	265	-	133,765	123,683	9,110	324	648	-	-
Forward sale contract	-	60	131,279	121,301	8,975	335	668	-	-
Currency swap purchase	31,891	-	1,427,345	1,247,323	-	-	-	6,866	173,156
Currency swap sale	-	62,503	1,435,441	1,248,307	-	-	-	8,109	179,025
Credit default swap sale	28	-	6,023	6,023	-	-	-	-	-
Interest rate swap purchase	141	-	11,805	-	-	-	-	11,805	-
Interest rate swap sale	-	287	11,805	-	-	-	-	11,805	-
Put option purchase	-	-	159,030	151,558	7,472	-	-	-	-
Put option sale	-	-	158,984	151,504	7,480	-	-	-	-
Total	32,325	62,850	3,475,477	3,049,699	33,037	659	1,316	38,585	352,181

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9. Investment securities

As at 31 December 2010 and 2009, investment securities classified as held-to maturity comprised of the following:

	31 December 2010		31 December 2009	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments:				
Turkish government bonds	220,353	11.72-14.35	313,304	8.66-20.57
Eurobonds issued by the Turkish Government	439,097	6.50-7.69	356,642	7.40-7.46
Foreign currency denominated corporate bonds	90,106	1.01-7.60	44,347	7.60
Total held to maturity securities	749,556		714,293	

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 2010	31 December 2009
Deposited at financial institutions for repurchase transactions	471,622	353,353
Other collaterals	132,987	136,481
Total	604,609	489,834

As at 31 December 2010, carrying values of underlying financial assets classified as held-to-maturity investments collateralized against repurchase agreements were amounted to TL 471,622 (31 December 2009: TL 353,353).

As at 31 December 2010, 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 54,412 and TL 51,190 (31 December 2009: TL 95,703 and TL 90,190); respectively.

As at 31 December 2010, carrying values and nominal values of held to maturity securities kept at De Nederlansche Bank (Dutch Central Bank) as reserve requirement against the Group's foreign operations in the Netherlands are amounted to TL 78,575 and TL 86,025 (31 December 2009: TL 40,778 and TL 47,047); respectively.

10. Loans and receivables

	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			

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	31 December 2010						
	Amount				Effective Interest Rate (%)		
	TL	FC	FC Indexed	Total	TL	FC	FC Indexed
Corporate loans	1,510,346	688,586	170,386	2,369,318	14.60-25.10	2.14-8.75	3.50-16.00
Consumer loans	361,063	-	136,858	497,921	9.24-18.48	-	4.44-13.20
Credit cards	39,721	11	-	39,732	39.10-48.10	-	-
Factoring receivables	143,652	-	-	143,652	9.11-41.00	-	-
Total performing loans	2,054,782	688,597	307,244	3,050,623			
Non-performing loans				85,598			
Allowance for:							
Individually impaired loans				(50,804)			
Collectively impaired loans				(19,473)			
Loans and receivables, net				3,065,944			

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 2010	31 December 2009
Reserve at beginning of the year	70,277	42,370
Provision for possible loan losses	23,312	44,992
Recoveries	(16,533)	(11,779)
Provision, net of recoveries	77,056	33,213
Loans written off during the year	-	(5,306)
Reserve at end of the year	77,056	70,277

11. Factoring receivables

As at 31 December 2010 and 2009 short-term and long-term factoring receivables are as follows:

	31 December 2010	31 December 2009
Short-term	141,718	126,847
Long-term	8,030	16,805
Total	149,748	143,652

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12. Property and equipment

Movements of tangible assets as at and for the year ended 31 December 2010 and 2009 are as follows:

	1 January 2010	Additions	Disposals	31 December 2010
Cost:				
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
Accumulated Depreciation:				
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

	1 January 2009	Additions	Disposals	31 December 2009
Cost:				
Buildings	4,742	-	-	4,742
Motor vehicles	6,021	680	(47)	6,654
Furniture, office equipment and leasehold improvements	57,147	5,776	(1,122)	61,801
	67,910	6,456	(1,169)	73,197
Accumulated Depreciation:				
Buildings	1,064	92	-	1,156
Motor vehicles	3,599	788	-	4,387
Furniture, office equipment and leasehold improvements	45,073	5,118	(1,101)	49,090
	49,736	5,998	(1,101)	54,663
Net Book Value	18,174			18,564

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13. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2010 and 2009 are as follows:

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

	1 January 2009	Additions	Disposals	31 December 2009
Cost:				
Software	10,811	738	(78)	11,471
Other intangibles	1,356	-	-	1,356
	12,167	738	78	12,827
Accumulated Amortization :				
Software	9,069	706	(20)	9,755
Other intangibles	1,356	40	-	1,396
	10,425	746	(20)	11,151
Net Book Value	1,742			1,676

14. Other assets

	31 December 2010	31 December 2009
Transfer cheques	68,818	53,421
Assets held for resale	9,543	5,998
Prepaid expenses	4,020	999
Advances given	84	96
Other	4,589	2,637
Total	87,054	63,151

As at 31 December 2010, TL 9,543 (31 December 2009: TL 5,998) of the other assets is comprised of foreclosed real estates acquired by the Bank against its impaired receivables.

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15. Deposits

Deposits from banks

	31 December 2010				31 December 2009			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	6	7	-	-	21	17	-	-
Time	39,438	38,033	7.25-8.85	1.00-2.75	30,017	50,363	6.50-7.82	0.15-2.25
Total	39,444	38,040			30,038	50,380		

Deposits from customers

	31 December 2010				31 December 2009			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	42,263	336,596	-	-	27,603	348,271	-	-
Time	1,138,247	823,572	5.00-10.50	0.25-5.25	1,051,078	932,276	7.50-10.75	0.25-5.25
	1,180,510	1,160,168			1,078,681	1,280,547		
Commercial and other deposits:								
Demand	178,299	87,162	-	-	131,216	61,480	-	-
Time	249,509	253,402	5.00-9.50	0.25-4.00	163,839	212,912	7.50-10.75	0.25-5.25
	427,808	340,564			295,055	274,392		
Total	1,608,318	1,500,732			1,373,736	1,554,939		

Other money market deposits

	31 December 2010				31 December 2009			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	31,007	498,924	7.15	1.06-2.65	103,963	219,145	6.50-6.70	1.35-1.48
Interbank money market placements								
Due to banks	-	-	-	-	-	15,063	-	0.50
Total	31,007	498,924			103,963	234,208		

As at 31 December 2010, carrying values of underlying financial assets at fair value through profit or loss collateralized against repurchase agreements are amounted to 80,542 TL (31 December 2009: 9,893) and carrying values of underlying financial assets classified as held-to-maturity investments collateralized against repurchase agreements are amounted to TL 471,622 (31 December 2009: 353,353TL).

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16. Funds borrowed

	31 December 2010				31 December 2009			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term (*)	117,060	228,743	6.25-8.75	0.60-4.14	102,435	215,233	7.00-13.00	1.95-5.76
Medium/long term (*)	143	33,909	8.41	2.46-4.33	-	9,120	-	0.68-2.54
Total	117,203	262,652			102,435	224,353		

(*) Borrowings are presented considering their original maturities.

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

	31 December 2010	31 December 2009
2010	-	9,120
2011	33,488	-
2012	564	-
Total	34,052	9,120

17. Other liabilities and provisions

	31 December 2010	31 December 2009
Transfer orders	113,089	78,909
Collections from security cheques	28,019	16,247
Other various provisions	12,409	11,246
Payables due from credit cards	12,253	7,814
Taxes other than on income	9,511	9,456
Reserve for employee severance indemnity and liability for unused vacations	7,146	5,434
Factoring payables	1,784	1,218
Other	19,016	7,408
Total	203,227	137,732

As at 31 December 2010 and 2009, other various provisions are as follows:

	31 December 2010	31 December 2009
Provision for personnel bonuses	6,275	5,250
Provisions for law suits against the Group	2,447	1,906
Provisions for non-cash loans that are not indemnified or converted into cash	1,010	606
Provisions for credit card promotions	809	452
Provision for disabled employee working obligation	200	423
Other various provisions	1,668	2,609
Total	12,409	11,246

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18. Income taxes payable

Major components of income tax expense:

	31 December 2010	31 December 2009
Current income taxes:		
Current income tax charge	(38,178)	(51,412)
Deferred taxes:		
Relating to origination and reversal of temporary differences	3,125	14,862
Income tax expense	(35,053)	(36,550)

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

	31 December 2010	31 December 2009
Current income tax charge	38,178	51,412
Prepaid taxes	(31,140)	(46,879)
Income taxes payable	7,038	4,533

As at 31 December 2010 and 2009, deferred tax assets and liabilities are as follows:

	31 December 2010		31 December 2009	
	Deferred tax Assets/(Liabilities)		Deferred tax Assets/(Liabilities)	
Deferred taxes:	Asset	Liability	Asset	Liability
Valuation difference of derivative financial instruments	9,603	-	6,026	-
Differences in the measurement of the debt securities	-	(1,290)	1,267	-
Performance premium accrual	1,255	-	1,065	-
Reserve for employee severance indemnity and liability for unused vacation	1,386	-	1,050	-
Property and equipment and intangibles	79	-	-	(39)
Other	538	-	643	-
Total deferred tax assets/(liabilities)	12,861	(1,290)	10,051	(39)
Offsetting	(1,290)	1,290	(39)	39
Deferred tax assets/(liabilities)	11,571	-	10,012	-

	2010	2009
Deferred tax asset / (liability) at January 1	10,012	(3,665)
Deferred tax recognized in income statement	3,125	14,862
Deferred tax recognized in equity	(463)	(428)
Expense due to prior year paid current	(1.103)	(757)
Deferred tax asset / (liability) at December 31	11,571	10,012

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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 2010 and 2009 were as follows:

	31 December 2010	31 December 2009
Net profit from ordinary activities before income taxes and non-controlling interest	172,522	182,245
Taxes on income per statutory tax rate	34,504	36,449
Disallowable expenses	128	386
Effect of income not subject to tax	(8)	(29)
Other	429	(256)
Income tax expense	35,053	36,550

19. Equity

Share capital		
	31 December 2010	31 December 2009
Number of common shares, TL 0.01 (in full TL), par value Authorized, issued and outstanding 60,000 millions;	600,000	409,500

As at 31 December 2010 and 2009, the authorized nominal share capital of the Bank amounted to TL 600,000 and TL 409,500 thousands.

As at 31 December 2010 and 2009, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,823	69.98	286,559	69.98
Mehmet Rüştü Başaran	163,895	27.32	111,858	27.32
Other shareholders	16,282	2.70	11,083	2.70
Nominal value	600,000	100.00	409,500	100.00
Restatement effect per IAS 29	2,619		2,619	
Total	602,619		412,119	

Other reserves

Other reserves comprised of the legal reserves which is amounted to TL 21,609.

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. As at 31 December 2010, the Group's legal reserves were amounted to TL 21,609 (31 December 2009: TL 15,577).

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Non-controlling interest

As at 31 December 2010 net non-controlling interest amounts to TL 1,853 (31 December 2009: TL 1,611). Non-controlling interest is detailed as follows:

	31 December 2010	31 December 2009
Capital and other reserves	1,385	981
Retained earnings	224	404
Profit for the year	244	226
Total	1,853	1,611

Fair value reserve of available-for-sale financial assets

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

	31 December 2010	31 December 2009
Balance at the beginning of the year	(4,234)	(5,946)
Net losses transferred to profit or loss on amortization	2,315	2,140
Related deferred taxes	(463)	(428)
Balance at the end of the year	(2,382)	(4,234)

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 2010, such losses recognized under equity amounted to TL 2,382 (31 December 2009: TL 4,234).

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 2009: 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.

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

Outstanding balances

	31 December 2010	31 December 2009
Cash loans	9,604	40,429
Non-cash loans	21,198	57,525
Deposits taken	35,544	37,916

Transactions

	31 December 2010	31 December 2009
Interest income	5,536	5,398
Interest expense	582	683
Other operating income	1,129	1,838
Other operating expense	2,424	1,666
Profit/(Loss) from derivatives	-	23

Directors' Remuneration

As at and for the year ended 31 December 2010, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 8,904 (31 December 2009: TL 7,658).

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21. Interest income / expense

	12 month period ended December 31,	
	2010	2009
Interest on loans and receivables	395,326	421,100
Interest on marketable securities	85,488	98,795
Financial assets at FVTPL	*18,681*	*21,506*
Held to maturity	*66,807*	*77,289*
Interest on deposits with banks and other financial institutions	3,493	5,774
Interest on other money market placements	4	931
Other interest income	2,168	1,973
Total interest income	486,479	528,573

	12 month period ended December 31,	
	2010	2009
Interest on deposits	154,651	177,321
Interest on other money market deposits	25,127	28,966
Interest on funds borrowed	14,887	20,035
Other interest expense	94	348
Total interest expense	194,759	226,670

22. Fees and commissions income / expense

	12 month period ended December 31,	
	2010	2009
From non cash loans	12,319	11,172
Other	62,515	65,726
From cash loans	14,796	18,175
From individual loan application	9,169	9,181
From fund commissions	6,809	5,762
Other	31,741	32,608
Fees and commissions income	74,834	76,898

	12 month period ended December 31,	
	2010	2009
ATM commissions	2,168	1,414
Credit card commissions	3,451	2,474
Non cash loan commissions	50	983
Other	2,982	6,971
Fees and commissions expense	8,651	11,842

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23. Other operating income / expense

	12 month period ended December 31,	
	2010	2009
Trading income, due from marketable securities	40,125	10,716
Foreign exchange gains, net	26,165	-
Other income	8,848	9,371
Other operating income	75,138	20,087

Other operating expense

	12 month period ended December 31,	
	2010	2009
Salaries and employee benefits (Note:24)	119,615	103,053
Trading losses, due from derivatives	72,328	2,106
Foreign exchange loss, net	-	8,716
Provision for possible loan losses, net of recoveries	7,752	34,243
Depreciation amortization	6,310	6,847
Taxes other than on income	9,905	7,519
Other expenses (Note:25)	44,609	42,317
Other operating expense	260,519	204,801

24. Salaries and employee benefits

	12 month period ended December 31,	
Staff costs:	2010	2009
Wages and salaries	91,917	80,910
Cost of defined contribution plan (employer's share of social security premiums)	10,761	10,225
Other fringe benefits	15,333	10,775
Provision for employee termination benefits and liability for unused vacations	1,604	1,143
Total	119,615	103,053

The average number of employees during the year is:

	12 month period ended December 31,	
	2010	2009
The Bank	1,834	1,851
Subsidiaries	77	73
Total	1,911	1,924

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25. Other expenses

	12 month period ended December 31,	
	2010	2009
Operating lease charges	13,068	11,811
Communication expenses	5,669	4,791
Saving deposit insurance fund premium	2,586	2,447
Transportation expenses	1,473	2,933
Maintenance expenses	1,391	1,198
Other provisions	676	2,338
Hosting cost	1,756	1,577
Energy costs	3,891	1,922
Cleaning service expense	2,076	1,718
Advertising expenses	713	973
Office supplies	52	953
POS service expenses	673	951
Expertise expenses	1,409	852
Chartered accountants	135	718
BRSA participation fee	955	606
Credit card service expense	285	295
Raw credit card expenses	42	124
Other	7,759	6,110
Total	44,609	42,317

26. Commitment and contengencies

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:

	31December 2010	31 December 2009
Letters of guarantee	902,998	648,177
Letters of credit	146,589	158,056
Acceptance credits	7,414	1,511
Other guarantees	95,877	61,451
Total non-cash loans	1,152,878	869,195
Credit card limit commitments	143,784	107,340
Other commitments	289,858	295,547
Total	1,586,520	1,272,082

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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 client of the Bank by Citibank N.A. was paid to the related company by the Bank. Citibank N.A. demanded refundment of the money, however since the money was paid to the related company and could not be returned, a lawsuit was filed against the Bank. Court decision about the lawsuit that was filed by Citibank N.A. was cancelled. In addition, claim for indemnity at amount of US Dollar 11,500,000 was cancelled. However, later the court decision was taken to state the insurance companies, that made the related payment, as intervening parties. Court expert reported that the Bank has not responsibility in these claims. As at reporting date, the lawsuits continue as follows; with Citibank N.A. at amount of US Dollar 3,250,000 and with insurance companies at amount of US Dollar 11,500,000.

(ii) The decision about the temporarily abortion of the capital market operations of Anadolu Yatırım, related with the transfers from another intermediary institution to Anadolu Yatırım and between sub accounts of Anadolu Yatırım was published on the weekly bulletin with number 2003/11 and date 7 March 2007 of the Capital Markets Board on year 2003. The abortion of operations would be starting from 7 March 2003 and continue till the audit work that was conducted for two companies to determine the legal relations between the actual right owners and the transfers ends in accordance with the (g) and (h) articles of 1. clause of 46. paragraph of the Capital Markets Board. Following this, it was decided that Anadolu Yatırım, whose operations was aborted temporarily on 7 March 2003 in accordance with the declaration of the Capital Markets Board on date 13 March 2003 with number DEDA-/-10/180-2905 on the meeting of the Commission Ruling Agency on 13 March 2003, could start to operate in capital markets starting from 13 March 2003 since there is not an obstacle in the financial position of Anadolu Yatırım to operate in the capital markets. With reference to the related situation, a preliminary injunction lawsuit at amount of TL 2,889 was filed against the Bank, Anadolu Yatırım and a person by Investor Protection Fund by proxy of related intermediary institution with the demand of taking back the share certificates and all income returns, which belongs to the clients of the intermediary institution and sold off with lack of will while being under the possession of the related intermediary company and are sold off by lack of will and relevant to prevent to be given to third parties till to the end of the court. The Bank is a party on this court and the Bank management recorded the provision at a rate of 100 % for the uncollected amount in 2003 that is given as loan to the related intermediary institution. Provided that the court is closed on behalf of the Bank, the share certificates that are mentioned above and belong to the clients of the related intermediary institution will be taken into the portfolio of the Bank and will be recorded revenue at the amount of the share certificates. Above mentioned case is resulted against Anadolu Yatırım and the file is in Court of Appeals for reviewing appellate.

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

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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.

(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.

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Exposure to credit risk

	Loans and advances to customers		Other assets	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Individually impaired	90,678	84,922	727	676
Allowance for impairment	76,329	69,601	727	676
Carrying amount	14,349	15,321	-	-
Collectively impaired	-	-	-	-
Allowance for impairment	-	-	-	-
Carrying amount	-	-	-	-
Past due but not impaired	60,265	55,344	-	-
Carrying amount	60,265	55,344		-
Neither past due nor impaired	3,578,748	2,995,279	-	-
Loans with renegotiated terms	25	-	-	-
Carrying amount	3,578,773	2,995,279	-	-
Total carrying amount	3,653,387	3,065,944	-	-

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.

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.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

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31 December 2010	Cash loans		Other assets	
	Gross	Net	Gross	Net
Group 3 : Individually Impaired	7,015	2,988	-	-
Group 4 : Individually Impaired	4,800	2,543	-	-
Group 5 : Individually Impaired	78,863	8,818	727	-
Total	90,678	14,349	727	-

31 December 2009	Cash loans		Other assets	
	Gross	Net	Gross	Net
Group 3 : Individually Impaired	20,043	8,237	-	-
Group 4 : Individually Impaired	18,985	4,067	-	-
Group 5 : Individually Impaired	45,894	3,017	676	-
Total	84,922	15,321	676	-

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 2010 or 2009.

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

Cash loans	31 December 2010	31 December 2009
Secured loans:		
Secured by cash collateral	88,439	86,072
Secured by mortgages	874,159	661,012
Secured by government institutions or government securities	31,622	5,162
Guarantees issued by financial institutions	2,717	772
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,962,615	1,535,720
Unsecured loans	679,486	761,885
Total performing loans and receivables	3,639,038	3,050,623

Non-cash loans	31 December 2010	31 December 2009
Secured loans:		
Secured by mortgages	19,723	23,952
Guarantees issued by financial institutions	49,713	42,893
Secured by cash collateral	234	1,949
Secured by government institutions or government securities	222	414
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	882,601	584,928
Unsecured loans	200,385	215,059
Total non-cash loans	1,152,878	869,195

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

	31 December 2010	31 December 2009
Mortgages	15,328	15,170
Pledge on automobile	2,103	2,269
Corporate and personal guarantees	317	627
Total	17,748	18,066

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 2010	31 December 2009
Construction	6,773	7,799
Food	9,132	8,489
Textile	9,494	6,280
Service sector	6,396	6,191
Durable consumption	958	2,907
Metal and metal products	4,065	2,772
Consumer loans	10,962	8,922
Agriculture and stockbreeding	3,167	2,002
Others	40,458	40,236
Total non-performing loans and receivables	91,405	85,598

	31 December 2010	31 December 2009
Turkey	91,242	85,419
United States of America	163	179
Total non-performing loans and receivables	91,405	85,598

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Sectoral break down of cash and non-cash loans

	31 December 2010				31 December 2009			
	Cash	Cash(%)	Non-cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	178,411	4.88	28,893	2.51	129,744	4.23	16,585	1.91
Farming and stockbreeding	162,249	4.44	25,974	2.25	112,691	3.68	14,762	1.70
Forestry	14,001	0.38	2,919	0.26	15,334	0.50	1,823	0.21
Fishing	2,161	0.06	-	-	1,719	0.06	-	-
Industry	1,079,324	29.54	444,741	38.58	1,023,118	33.37	359,562	41.37
Mining and quarrying	27,115	0.74	13,021	1.13	35,995	1.17	9,035	1.04
Manufacturing	1,045,219	28.61	413,982	35.91	976,037	31.83	280,806	32.31
Electricity, gas, water	6,990	0.19	17,738	1.54	11,086	0.36	69,721	8.02
Construction	243,903	6.68	269,516	23.38	266,234	8.68	195,458	22.49
Services	1,240,863	33.97	395,915	34.34	1,011,987	33.01	279,305	32.13
Wholesales and retail trade	435,390	11.92	165,693	14.37	301,050	9.82	136,801	15.74
Hotel and restaurant services	18,653	0.51	5,521	0.48	6,150	0.20	2,620	0.30
Transportation and communication	75,482	2.07	30,709	2.66	56,085	1.83	23,978	2.76
Financial institution	534,563	14.63	115,769	10.04	498,524	16.26	66,066	7.60
Real estate and rent services	5,421	0.15	1,124	0.09	2,334	0.08	38	0.01
Professional services	104,705	2.87	43,530	3.78	62,474	2.04	29,049	3.34
Educational services	3,085	0.08	645	0.06	4,464	0.15	484	0.05
Health and social services	63,564	1.74	32,924	2.86	80,906	2.64	20,269	2.33
Consumer loans	643,975	17.63	-	-	504,303	16.45	-	-
Credit card	54,331	1.49	-	-	39,732	1.30	-	-
Others	212,580	5.81	13,813	1.19	90,826	2.96	18,285	2.10
Total	3,653,387	100.00	1,152,878	100.00	3,065,944	100.00	869,195	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.

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.

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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 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
Interbank money market borrowings	-	-	-	-	-	-	-	-
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	-
Other liabilities and provisions	203,227	203,227	19,555	174,161	9,511	-	-	-
Total	4,299,547	4,324,775	663,888	520,585	2,161,829	587,282	357,640	33,551

31 December 2009	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	80,418	80,543	31	60,376	7,105	13,031	-	-
Deposits from customers	2,928,675	2,951,545	568,571	1,698,278	468,523	72,637	143,533	3
Interbank money market borrowings	15,063	15,064	-	15,064	-	-	-	-
Obligations under repurchase agreements	323,108	325,777	-	190,916	27,116	107,745	-	-
Funds borrowed	326,788	329,601	-	101,732	71,659	156,210	-	-
Other liabilities and provisions	120,833	120,833	78,909	31,973	9,456	495	-	-
Total	3,794,885	3,823,363	647,511	2,098,339	583,859	350,118	143,533	3

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.

Financial guarantees

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

31 December 2009	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non-cash loans	-	758,283	11,207	44,140	27,420	28,145	869,195

(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.

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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 2010 and 2009 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 2010			31 December 2009		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rates risk	10,386	20,824	3,530	6,198	7,526	3,792
Common share risk	59	85	42	2	2	2
Currency risk	3,238	5,440	669	2,713	4,007	1,874
Option risk	1,497	3,302	88	-	-	-
Total value at risk (12.5 times)	189,750	370,638	54,113	111,413	144,188	70,850

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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 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	-	-	-	86,013	87,054
Total assets	2,032,506	246,088	730,801	951,693	736,882	486,155	5,184,125
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 and provisions	-	-	-	-	-	203,227	203,227
Income taxes payable	-	-	-	-	-	7,038	7,038
Total liabilities	2,057,258	1,069,658	505,340	112,574	-	561,755	4,306,585
Net	(24,752)	(823,570)	225,461	839,119	736,882	(75,600)	877,540

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31 December 2009	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	109,928	-	-	-	-	141,182	251,110
Deposits with banks and other financial institutions	215,408	-	-	-	-	25,540	240,948
Loans and receivables	1,428,185	166,220	596,998	619,726	240,271	14,544	3,065,944
Investment securities	21,329	9,642	102,706	223,973	356,643	-	714,293
Other assets	-	549	-	-	-	62,602	63,151
Total assets	1,774,850	176,411	699,704	843,699	596,914	243,868	4,335,446
Deposits from banks	60,353	7,078	12,949	-	-	38	80,418
Deposits from customers	1,698,733	792,354	173,038	554	-	263,996	2,928,675
Obligations under repurchase agreements	175,060	56,551	106,560	-	-	-	338,171
Funds borrowed	101,636	71,245	153,907	-	-	-	326,788
Other liabilities and provisions	1,088	1,519	-	-	-	135,125	137,732
Income taxes payable	-	-	-	-	-	4,533	4,533
Total liabilities	2,036,870	928,747	446,454	554	-	403,692	3,816,317
Net	(262,020)	(752,336)	253,250	843,145	596,914	(159,824)	519,129

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for 2010 and 2009:

31 December 2010	Euro %	US Dollar %	Japanese Yen %	TL %
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.64	0.26	-	-
Loans and advances to customers	3.24	4.22	-	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

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31 December 2009	Euro %	US Dollar %	Japanese Yen %	TL %
Cash and balances with Central Bank	-	-	-	5.20
Loans and advances to banks	0.34	0.19	-	-
Loans and advances to customers	3.55	3.88	5.05	14.11
Investment securities	-	7.52	-	14.67
Deposits from banks	-	0.15	2.00	7.03
Deposits from customers	3.06	2.63	1.69	9.52
Obligations under repurchase agreements	-	1.48	--	6.52
Funds borrowed	4.22	2.21	2.01	7.23

Interest rate sensivity 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 2010, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010. 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 2009.

31 December 2010	Profit or loss		Equity (*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
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)

31 December 2009	Profit or loss		Equity (*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets at fair value through profit or loss	(1,138)	1,187	(1,138)	1,187
Floating rate financial assets	11,274	(11,274)	11,274	(11,274)
Floating rate financial liabilities	(45)	45	(45)	45
Derivative financial instruments	9,117	(9,956)	9,117	(9,956)
Total, net	19,208	(19,998)	19,208	(19,998)

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

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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 2010, 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 2010	US Dollar	Euro	Japanese Yen	Others	Total
Assets:					
Cash and balances with the Central Bank	175,832	4,297	179	774	181,082
Deposits with banks and other					
financial institutions	127,977	69,679	201	2,245	200,102
Receivables from reverse repo transactions	15,430	-	-	-	15,430
Financial assets at fair value through profit or loss	80,718	10,963	-	-	91,681
Investment securities	458,394	70,809	-	-	529,203
Loans and receivables	388,051	442,912	132,637	18,782	982,382
Other assets	191	3,651	-	-	3,842
Total assets	1,246,593	602,311	133,017	21,801	2,003,722
Liabilities:					
Deposits from other banks	5,577	32,464	-	-	38,041
Deposits from customers	728,508	766,938	114	5,172	1,500,732
Other money market deposits	444,481	54,443	-	-	498,924
Funds borrowed	226,141	36,511	-	-	262,652
Other liabilities and provisions	7,977	1,596	-	2	9,575
Total liabilities	1,412,684	891,952	114	5,174	2,309,924
Position on the consolidated statement of financial position	(166,091)	(289,641)	132,903	16,627	(306,202)
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)

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As at 31 December 2009	US Dollar	Euro	Japanese Yen	Others	Total
Total assets	1,111,110	497,761	163,557	29,864	1,802,292
Total liabilities	1,239,000	816,829	345	16,227	2,072,401
Position on the consolidated statement of financial position	(127,890)	(319,068)	163,212	13,637	(270,109)
Off-balance sheet position:					
Net notional amount of derivatives	147,680	313,913	(165,653)	(11,223)	284,717
Net position	19,790	(5,155)	(2,441)	2,414	14,608

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

Exposure to currency risk sensitivity analysis

A 10 percent devaluation of the TL against the following currencies as at 31 December 2010 and 2009 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 2010		31 December 2009	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	(7,014)	(6,051)	1,979	2,862
EUR	3,349	11,563	(555)	6,577
Other currencies	693	693	(1,264)	(1,264)
Total, net	(2,972)	6,205	160	8,175

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

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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 813,111 and TL 3,666,255 (31 December 2009: TL 765,709 and TL 3,080,020), respectively, whereas the carrying amounts are TL 749,556 and TL 3,653,387 (31 December 2009: TL 714,293 and TL 3,065,944), respectively, in the accompanying consolidated statement of financial position as at 31 December 2010.

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.

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).

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Classification requires using observable market data if possible.

	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

	31 December 2009			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	169,848	-	-	169,848
Equity securities	873	-	-	873
Derivative financial assets held for trading purpose	-	32,325	-	32,325
Total financial assets	170,721	32,325	-	203,046
Financial liabilities at fair value through profit or loss:	-	-	-	-
Derivative financial liabilities held for trading purpose	-	62,850	-	62,850
Total financial liabilities	-	62,850	-	62,850

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(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 it's 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 2006, using gross profit of the last three years 2007, 2008 and 2009. The amount calculated as TL 44,490 (31 December 2009: TL 34,452) as at 31 December 2010 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 556,125 (31 December 2009: TL 430,650).

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(f) Capital management – regulatory capital

Banking Regulation and Supervision Agency ("BRSA"), the regulator body of the banking industry sets and monitors capital requirements for the banks in Turkey. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. 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 2010 and 2009 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

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

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 31 December 2010 and 2009 was as follows:

	31 December 2010	31 December 2009
Tier 1 capital	797,868	666,732
Tier 2 capital	18,288	15,239
Total regulatory capital	816,156	681,971
Risk-weighted assets	3,667,049	3,054,199
Value at market risk	166,013	143,538
Operational risk	556,125	430,650
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	18.59%	18.80%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	18.17%	18.59%

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28. Subsequent events

On January 24, 2011, "The Announcement About The Change in The Announcement About Required Reserve Ratios" was published in Official Gazette numbered 27825 (Repeated) 2011/2. The required reserve ratios of TL liabilities changed to vary from 5% to 12% depending on maturities of liabilities. In foreign currency liabilities the required reserve ratio of 11% has not been changed.

In accordance with the decision taken by Anadolubank Nederland N.V. Board of Directors, the Bank unanimously decided to join a capital increase of amounting to Euro 10,000,000 in cash and to give authorization to the general management to sign the documents by executing necessary operations.

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