ANADOLUBANK

ANADOLUBANK IS ALWAYS
IN PEOPLE'S LIVES,
AT HOME OR BUSINESS

2006
Annual Review

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2006

ANADOLUBANK HAS ACHIEVED A LEADING POSITION IN THE BANKING INDUSTRY THANKS TO THE STRENGTH OF ITS SHAREHOLDERS, WELL-CHOSEN EXPERIENCED MANAGEMENT TEAM AND DEDICATED EMPLOYEES.

BASED ON THE FAVORABLE FINANCIAL AND OPERATIONAL RESULTS YEAR AFTER YEAR, OUR RATINGS FROM FITCH AND MOODY'S CONTINUED TO BE HIGH ATTESTING TO THE SUSTAINABILITY OF OUR PERFORMANCE.

ABOUT ANADOLUBANK

Anadolubank, owned by the HABAŞ Group, is a commercial bank with 63 branches covering all major regions in Turkey. Acquired from the Privatisation Administration in 1997, the Bank is comparatively young in the industry-the source of its dynamism. Anadolubank has completed its tenth year with its new shareholders and has proved that it was structured to overcome all kind of hardships even under extraordinary economic conditions. Anadolubank has reached a leading position in the sector, thanks to the strength of its shareholders, well-chosen experienced management team and most diligent employees. The Bank provides small to medium-size companies with short-term working capital and trade finance facilities.

Capital Structure

Information about Capital and Shareholding Structure, and Amendment of the Articles of Association

There have been no changes in the capital and shareholding structure of the Bank in this period. The names of natural person and legal entity shareholders, as well as the number of shares they hold, are stated in the table below.

The number of shares of the Chairman and the Board Members of the Bank are also stated in the following table. Members of the Audit Board, the General Manager and Assistant General Managers do not have any shares in the Bank.

In 2006, the Bank's paid-in capital was increased from YTL 66,000,000 to YTL 225,000,000, of which YTL 55,000,000 is in cash.

Shareholding Structure

Trade name/	Current Period		Prior Period	
Name-Surname of Partner	Value of shares (YTL)	Percentage (%)	Value of shares (YTL)	Percentage (%)
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstri A.Ş.	152,713,637	67.87	44,796,000	67.87
Mehmet Rüştü Başaran	65,799,000	29.24	19,301,040	29.24
Gülsel Altıntuğ	2,994,136	1.33	878,280	1.33
Aysel Başaran	2,792,864	1.24	819,240	1.24
Fikriye Filiz Haseski	225,818	0.10	66,240	0.10
Habaş Endüstri Tesisleri A.Ş.	450,000	0.20	132,000	0.20
Erol Altıntuğ	24,545	0.01	7,200	0.01
Total	**225,000,000**	**100**	**66,000,000**	**100**

HABAŞ GROUP

HABAŞ, one of the leading industrial groups in Turkey, operates in industrial and medical gases production, LPG and natural gas distribution, electricity generation, iron and steel manufacturing and industrial facilities construction. A leading group company, HABAŞ Sınai ve Tıbbi Gazlar ranked 15th among Turkey's 500 major industrial companies in terms of sales turnover and the 10th largest company with regard to export volume in 2005.

HABAŞ was established in 1956 by late Mr. Hamdi Başaran to produce and distribute industrial and medical gases, namely; oxygen, nitrogen, argon, narcosis gas, acetylene, carbon dioxide, helium, welding gas and special gases. HABAŞ grew with the advanced technology investments it made since its establishment paralleling Turkey's industrial development. Today, it is the leading company in industrial and medical gases with its principle of "Service, Quality and Trust", advanced production techniques, vast storage and transportation facilities, country-wide network of premises, comprehensive dealer network, technical assistance and maintenance teams, customer-oriented dynamic organizational structure and uninterrupted service understanding.

HABAŞ, serving the LPG sector, provides end-users with gas in containers, bulk or as auto gas at its filling and storing premises and with LPG tanker ships, sea terminals, extensive transportation fleet and network of dealers.

Following the liberalization of the natural gas sector, HABAŞ acquired the necessary licenses and launched its Liquefied Natural Gas (LNG) service to clients in places where the natural gas pipeline could not reach, which was a first in Turkey. It has provided manufacturers with the opportunity to use natural gas, instead of expensive and filthy fuels throughout the country. HABAŞ, introducing this inexpensive, easily utilisable and environment-friendly fuel to its customers, is the leader in the LNG sector. It has a far-reaching transportation fleet, massive investment capabilities, competent technical support and maintenance teams, a customer-oriented dynamic organizational structure and an uninterrupted service understanding, which have all helped HABAŞ to become the market leader in this business line.

HABAŞ, in addition to providing its customers located in places where the pipeline cannot reach with Liquefied Natural Gas (LNG), which was a first in Turkey, also created and launched the first supply chain of Concentrated Natural Gas (CNG) to meet the needs of those customers with lower consumption levels. HABAŞ, putting this cheap, easily utilisable and environment-friendly fuel to the use of small and medium-size industrial companies, is the leading company in the CNG sector. HABAŞ has also invested largely in electricity production. The capacities of electricity generation plants that were built to meet the needs of the Group companies have increased through new investments and reached 300 MWh. HABAŞ, following the

ANADOLUBANK HAS PROVED THAT IT WAS STRUCTURED TO OVERCOME ALL KINDS OF HARDSHIP EVEN UNDER EXTRAORDINARY ECONOMIC CONDITIONS.

liberalization of the electricity sector, acquired the necessary licenses and secured itself a place among the leading companies that sell electricity to consumers.

HABAŞ started iron and steel production in 1987 and is currently the market leader with 2.6 million tons of liquid steel production capacity. The Company exports 75-80% of its production (bloom, bar and wire rod) to various countries in five continents of the world. Total exports in 2006 reached US$ 729 million while scrap imports were US$ 656 million. The iron and steel production facilities equipped with state-of-the-art technology are located in the industrial zone in western Turkey-İzmir, Aliağa. The port premises owned by the Group where import and export activities are undertaken, are the largest premises of their kind in Turkey and have an extremely high loading and offloading capacity.

HABAŞ also offers services in industrial facility construction, rendering turn-key industrial plans including engineering, installation and manufacturing, to businesses in industrial processes, air separation, steel production, rolling, electricity generation and gas filling and storing. With extensive production facilities, the HABAŞ Group produces hardening furnaces, re-heating furnaces, pressurised tanks, heat exchangers, pressurised gas tubes, LPG tanks, CNG tubes cryogenic tanks, storing tanks and vaporisers, sphere and cylinder LPG stands, LNG storage tanks, LNG evaporators, transportation tanks, spiral welded pipe within its own manufacturing premises.

Total sales turnover of the Group exceeded US$ 1,600 million in 2006. Following the credit assessments by FitchRatings, the Local Currency Rating of HABAŞ was assigned an A+, the Long-Term Foreign and Local Currency Rating with a B+ (limited with sovereign rating) and the general outlook was affirmed as stable.

THE BOARD OF DIRECTORS

Mehmet Rüştü Başaran: Chairman and Managing Director, **Pulat Akçin,** Vice Chairman of the Board and General Manager, **Engin Türker:** Member, Audit Committee Member **Fikriye Filiz Haseski:** Member, Audit Committee Member, **Erol Altıntuğ:** Member, **Yusuf Gezgör:** Member, **İbrahim Kazancı:** Statutory Auditor, **Murat Koçoğlu:** Statutory Auditor

LETTER FROM THE CHAIRMAN

I am glad to see that the Turkish economy, after successive crises experienced at the turn of the millennium, is now strong and resilient to external surprises. I resisted using the word "again" in that sentence because the Turkish economy has never experienced such massive crises nor has it held such a strong position as it does now, since the founding of the Republic; deep crises followed by a strengthened position. This is something akin to the forces of nature. After successive earthquakes, often a mountain is born and exists for millions of years. Turkey has had some hard times but it has grown resilient and will remain so for the foreseeable future.

In May, turbulence in the markets affected developed countries to some extent but was felt more severely in the emerging market countries; it left Turkey with elevated real interest rates but did not trigger another crisis. This attests to the primed position of the Turkish economy, which was fortified by the direct foreign investment pouring into the country, the EU accession talks despite a suspension of eight chapters in December 2006, booming exports breaking record after record, strong adherence to budget discipline and the IMF sponsored program.

Nevertheless this picture would not be complete if we did not list the weaknesses along with the strengths. High unemployment that cannot be brought down, a current account deficit showing a parallel increase to exports and the fact that 2007 will see a new presidential election in May and a parliamentary election in September, poses uncertainties and problems ahead of us. But I, together with many of my colleagues in the banking profession, believe that the economy is now strong enough to withstand the difficulties that any changes may bring.

Drawing from our past experiences, we have built a flexible structure at Anadolubank that will cushion any adversity that we may encounter. We have developed sustainable sources of income and diversified our loan portfolio in terms of industries, regions and type of credit products. We have decreased our investments radically in government securities that might result in heavy losses during times of crisis and have alternatively sought to increase and strengthen our loan portfolio. Currently, the ratio of cash loans to total assets is 52%.

In a relatively stable economic environment where almost all margins shrank, we succeeded in increasing our profitability. Calculated on audited year-end financial statements, return on assets (ROA) was 1.89% and return on equity (ROE) was 20.37%. Both of these ratios are higher than those of the previous year.

My major source of pride in these results was to see that we were able to build a professional team that operates with well-honed entrepreneurial skills. We owe these successful results to all of our people at all levels of this value-creating chain. They have elevated Anadolubank to a position seen by its peers as a benchmark for comparison. I want to thank you all. I am confident that together with you, Anadolubank will continue to be a top-notch commercial bank with a vision to serve the economic prosperity of all stakeholders, whether they be depositors, borrowers, business partners or fellow business associates.

Mehmet R. Başaran
Chairman

WE HAVE FOCUSED ON COMMERCIAL BANKING AND HAVE DEVELOPED STATE-OF-THE-ART COMMERCIAL LENDING AND TREASURY MANAGEMENT PRODUCTS TO THE SATISFACTION OF OUR CLIENTS.

MESSAGE FROM THE GENERAL MANAGER

I am pleased to report that again this year, we have had favorable results.

For some time, my fellow bankers and I have been concerned about the type of measures that needed to be taken to tackle decreasing margins in all segments of the banking business. With government securities no longer viewed as a profit-making investment tool, some resorted to consumer banking and credit cards to increase commission revenue. Others turned to alternative delivery channels to decrease costs and increase efficiency. At Anadolubank, we prudently followed our balanced approach for different customer segments and emphasized commercial banking with a renewed focus on small businesses. We have maintained a clear-cut strategy for growth in commercial banking, an area of competence that we have developed over the years, while never neglecting other areas of business, such as consumer banking and credit cards.

We are not niche players but we are a multi-dimensional bank offering a balanced mix that concentrates on accumulating expertise and competency in these areas. Since our inception, we have focused on commercial banking and have developed state-of-the-art commercial lending and treasury management products to the satisfaction of our clients.

Here are some of the performance results we accomplished in 2006:

As a bank specifically focusing on trade finance, expanding our international business is of paramount importance to us. In 2006, we processed export transactions worth US$ 1,080 million (US$ 892 million in 2005) along with import transactions of US$ 1,554 million (US$ 1,337 million in 2005). This year, on behalf of our clients, we opened L/Cs totalling US$ 604 million (US$ 429 million in 2005). We expanded our reach into international markets by increasing the number of correspondent banks to 650, up from 555 in 2005. Most of our correspondent banks are located in Europe (384) followed by the Middle East and Africa (105), the Far East (96) and the Americas and Canada (65).

Paritem proved to be a very successful application right from the start. The number of customers trading on the Paritem platform reached 756 by the end of 2006. The volume of Paritem transactions was US$ 33,309 million, earning us an income of US$ 2,771,000. Compared to last year's figures of US$ 24,019 million for transaction volumes from 280 customers and a net income for Anadolubank of US$ 1,931,000, 2006 figures are evidence of a highly successful application favored by our clients.

← **Pulat AKÇİN**
Vice Chairman of the Board and
General Manager

OUR FAVORABLE RATINGS ALLOW US TO OBTAIN FUNDING FROM OVERSEAS SOURCES AT SUITABLE TERMS AND CONDITIONS. IN 2006, WE OBTAINED AN INTERNATIONAL CLUB LOAN FROM TEN PARTICIPATING BANKS FOR A TOTAL OF US$ 100 MILLION.

We view credit cards as an auxiliary operation to complete the full range of banking services. Therefore, we primarily target the shareholders, managers and employees of our corporate customers when issuing credit cards. With a 50% increase over the previous year, the purchasing volume of Anadolubank credit cards rose to YTL 199 million in 2006.

Our retail loans portfolio, made up of car, housing and consumer loans as well as credit card loans, continued growing in 2006. The largest increase was achieved in housing loans. Although the mortgage law is expected to pass through Parliament in early 2007, we have already intensified our activities in this area to take a larger share of this potentially fruitful business line for Turkish banks. Our housing loans increased to YTL 123.5 million in 2006 up from YTL 44.1 million last year. There was a slight decrease in car loans as expected because of the slowdown in automotive sales experienced in 2006. Car loans decreased to YTL 16.9 million in 2006 down from YTL 23.0 million in 2005. Consumer loans increased to YTL 12.1 million, up from YTL 10.9 million last year while credit card loans increased to YTL 31.9 million, up from YTL 21.2 million. We shall continue taking a significant share of the housing loan market, especially after the enactment of the mortgage law that is expected to bring incentives and expand this new market for Turkey.

After the market turbulence experienced in May of last year, interest rates stayed high until the end of the year helping to improve shrinking margins. Our net interest margin was 4.77% in 2004, which dropped to 3.84% in 2005. In 2006, it was slightly better, rising to 3.88%. Showing parallel growth was the return on assets (ROA) and return on equity (ROE). Our return on assets ratio was 2.53% in 2004; this decreased to 1.7% in 2005 and rose to 1.89% in 2006. Following a similar trend, our return on equity ratio was 35.03% in 2004 and dropped to almost half 18.85% in 2005 while in 2006, it rose to 20.37%.

Efficiency is a major consideration with regard to sustaining profitability. Despite meticulous efforts, our cost-to-income ratio has increased over the years to parallel our growth and expansion efforts. It was 53.54% in 2004, 59.48% in 2005 and finally 60.88% in 2006.

We have continued augmenting shareholders' equity mainly with retained earnings. In 2006, total shareholders' equity rose to YTL 306.1 million, up from YTL 233.7 million at the end of 2005. Consequently, our equity-to-assets ratio has also followed an upward trend; it was 8.09% in 2004, 9.84% in 2005 and 10.73% in 2006.

Similarly, free capital and free capital-to-assets ratios have been on the rise over the last three years. Free capital stood at YTL 286.4 million in 2006 with a free capital-to-assets ratio of 10.04%.

Based on these favorable financial and operational results year after year, our ratings from Fitch and Moody's continued to be high attesting to the sustainability of our performance. Our favorable ratings allow us to obtain funding from overseas sources at suitable terms and conditions. In 2006, we obtained an international club loan from 10 participating banks for a total of US$ 100 million; the proceeds raised under this facility went to export financing. Additionally, we obtained a one-year US$ 160 million syndicated facility from 30 participating banks in international markets. The demand for Anadolubank risk exceeded the original facility amount we mandated.

While utilising external funding sources when deemed necessary, we shall increase our depositor base by opening additional branch offices across the country in the future.

I would like to thank our most diligent staff members who have been the source of such successful results year after year, making Anadolubank a strong bank with a future. I would also like to thank our shareholders who have always supported us morally and financially. Without their strength behind us, we would not be as strong as we are now. Last but not least, I want to thank our customers, all social and economic stakeholders for the trust they have shown in our business. We work hard to satisfy their needs and match their expectations of us.

Pulat Akçin
General Manager

SENIOR MANAGEMENT

Pulat Akçin, Vice Chairman of the Board and General Manager
Yusuf Gezgör, Board Member
B. Gökhan Günay, Senior Assistant General Manager
Sibel Akın, Assistant General Manager-Corporate Banking
Recep Atakan, Assistant General Manager-Retail Banking
Merih Yurtkuran, Assistant General Manager-International Banking
Çiğdem Özkardeş, Assistant General Manager-Credit Cards and Electronic Banking
Cem Atik, Assistant General Manager-IT
Cengiz Doğru, Assistant General Manager-Financial Affairs and Operations
İsmet Demir, Assistant General Manager-Human Resources

← **Yusuf GEZGÖR**
Board Member

FINANCIAL HIGHLIGHTS

(YTL thousands)

	2006	2005
For the Year		
Net interest income	101,502	85,956
Non-interest income	69,563	61,050
Total income	171,065	147,006
Non-interest expense	100,150	83,172
Provision for loan losses	3,995	4,270
Taxation charge	17,534	15,838
Monetary loss due to inflation	-	5,658
Net income	49,386	38,068
At Year-End		
Assets	2,853,543	2,375,491
Loans	1,486,416	1,170,442
Securities	676,614	657,526
Total earning assets	2,825,234	2,351,152
Customer deposits	1,700,423	1,436,277
Short-term borrowings	661,379	392,326
Total shareholders' equity	306,145	233,662
Free capital	286,361	213,046

ANADOLUBANK'S RATINGS

Anadolubank was rated by FitchRatings in July 2006 and the following ratings were assigned:

Foreign Currency	
Long-Term	B+
Short-Term	B
Outlook	Stable
Local Currency	
Long-Term	B+
Short-Term	B
Outlook	Stable
National	
Long-Term	BBB+
Outlook	Stable
Individual	D
Support	4

Anadolubank was rated by Moody's in November 2006 and the following ratings were assigned:

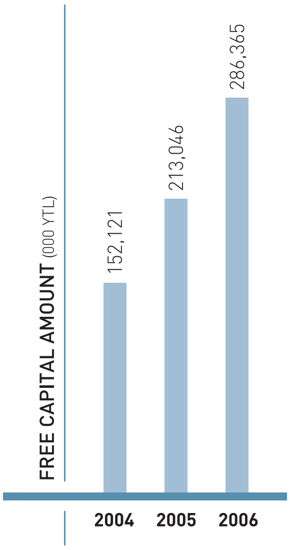
Foreign Currency Deposit Rating	B1 / (Not-Prime) (NP)
Outlook	Positive
Financial Strength	D-
Outlook	Stable

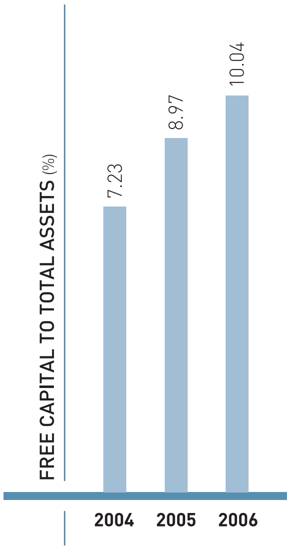
FINANCIAL RATIOS

(%)

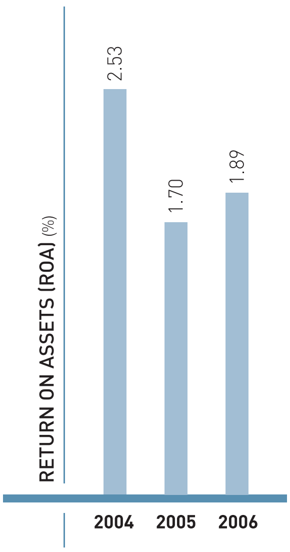
	2006	2005
Return on average equity (ROE)	20.37	18.85
Return on average assets (ROA)	1.89	1.70
Net interest margin (NIM)	3.88	3.84
Efficiency ratio	60.88	59.48
Capital adequacy ratio (BIS)	15.29	13.37
Total equity to total liabilities	10.73	9.84

FREE CAPITAL GROWTH

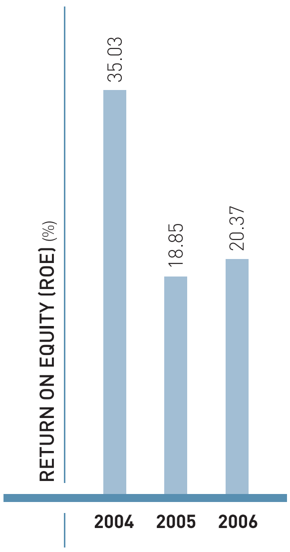




ROA-ROE

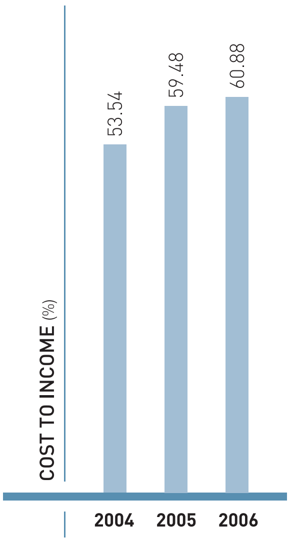


2004 profit includes TRY 9,600 extra gain result of tax case.Excluding this, 2004 ROA would be 1.96



2004 profit includes TRY 9,600 extra gain result of tax case. Excluding this, 2004 ROE would be 27.74

COST INCOME RATIO



AS A REQUIREMENT OF A LIQUID AND SECURE LOAN PORTFOLIO AS WELL AS THAT OF SUSTAINED PROFITABILITY, ANADOLUBANK PREFERS SMALL TO MEDIUM-SIZE ENTERPRISES AS TARGETS FOR LENDING.

MANAGEMENT'S ASSESSMENT OF OPERATIONS

Anadolubank's Strategies

In line with improving economic environment and stability in Turkey, banks, generally, had been questioning their existing strategies and designing new ones to respond to changes in the last three years. Consumer banking clearly emerged in 2005 as a solution and almost all banks, starting especially from the larger ones, redefined their standing in the market in retail banking.

Anadolubank continues its path in its already defined targets-commercial banking with an increased involvement in retail loans. Now, it goes without saying that a bank's strategies are shaped by supply and demand at a larger scale as limited by the requirements of general principles of finance that stress widely on risk return relationship and risk behavior. Even in simple speech it is impossible not to feel the high level of uncertainty conveyed in the terminology that, in practice, is dealt with by mathematical tools but is not mathematical and rather social in its essence unfortunately.

We try to mean here that Anadolubank's strategy of commercial banking stems from the necessity to cope with the interest rate risk as this strategy enables the Bank to afford the resilience it needs in order to manage the maturity mismatch between the assets and liabilities. The current environment of competition in Turkey, however, dictates the banks to manipulate the gap between the assets and liabilities in a way where almost all banks would, nowadays, have longer-term assets versus shorter-term liabilities. This strategy enables the banks to ensure profits for the medium run and is naturally based on flat or downward sloping yield curve considerations.

Lending constitutes the Bank's major goal in its asset building strategies. As a requirement of a liquid and secure loan portfolio as well as that of sustained profitability, Anadolubank prefers small to medium-size enterprises as targets for lending, aware of the fact that the banking profession is, above all, an offshoot of the "law of large numbers."

Because resisting the mainstream in the market may be too costly for any company unless it has a genial solution not yet invented by others, Anadolubank increased its involvement in retail banking under a strict control and would always prefer lesser profits to higher risks as already proved by the very regular growth and profitability trends it exhibited in the last five years.

Anadolubank aims to maintain a stable and sustained profitability, which explains its major emphasis on diversification. The diversity of funding sources is extremely important for Anadolubank as it ensures stability for the funding of loans and liquidity as well as the pricing advantage it offers through increased bargaining power. Anadolubank favors customer deposits from its corporate clientele and households.

For those who read this review as a first contact to Anadolubank, we should repeat what we said in our previous reports i.e. Anadolubank is a commercial bank as interpreted by ourselves via four basic principles: (a) a secure loan portfolio (b) adequate liquidity (c) diversified funding sources and (d) sustained profitability. The pages ahead will tell the reader how and to what extent these principles were put into effect.

Balance Sheet Analysis

Loans

Lending, especially to medium and small-size companies for their working capital needs, constitutes the backbone of Anadolubank's strategies. This core product is further complemented by consumer loans (mostly housing and vehicle loans) at a percentage about 10% of the total loan portfolio. Apart from the quality of the credit portfolio as measured by non-performing loan trends, Anadolubank's lending policy is shaped under two additional considerations: (a) avoid interest rate risk and (b) reach maximum diversity.

As a consequence of a long history in an inflationary economy where bank deposits were very short-term, Anadolubank seeks to build assets to match such liabilities by tenor, which is the major reason why relatively short-term working capital financing is favored. The other consideration i.e. the need for diversity stems directly from the very nature of banking profession and Anadolubank is not willing to be exposed to a certain industry for more than 10% of its total loan portfolio. Consumer loans and domestic trade finance loans are exceptions to this rule as these two segments have had an outstandingly successful year in 2006.

CASH LOANS BY INDUSTRY

(%)

	2006	2005
Non-bank financial institutions	7.9	15.8
Domestic trade	11.1	13.0
Metals & mining	7.0	9.4
Textiles	9.8	8.6
Food	6.5	6.6
Consumer loans	13.1	6.6
Chemicals	7.7	6.2
Iron & steel	7.9	6.1
Construction	5.8	5.7
Agriculture	4.9	4.3
Service	5.5	4.1
Export	2.9	3.4
Automotive	2.1	1.3
Finance	0.1	1.2
Electronics	1.5	1.0
Other	6.4	6.7
Total	**100.0**	**100.0**

NON-CASH LOANS BY INDUSTRY

(%)

	2006	2005
Non-bank financial institutions	8.8	6.6
Domestic trade	13.4	13.0
Metals & mining	6.8	14.1
Textiles	8.1	7.4
Food	6.1	3.9
Consumer loans	0.1	0.1
Chemicals	6.4	4.8
Iron & steel	9.5	5.0
Construction	11.9	15.8
Agriculture	1.9	3.3
Service	6.1	3.5
Export	2.7	3.6
Automotive	3.1	5.4
Finance	0.7	2.4
Electronics	6.1	5.2
Other	8.3	5.9
Total	**100.0**	**100.0**

ONE OF THE BANK'S KEY OBJECTIVES WAS TO INCREASE THE RATIO OF LOANS TO TOTAL ASSETS TO 50% AND THIS TARGET WAS ACHIEVED WITH A 52.0% RATIO AT THE END OF THE YEAR.

One of the Bank's key objectives was to increase the ratio of loans to total assets to 50% and this target was achieved with a 52.0% ratio at the end of the year.

LOAN BALANCES

(YTL thousands)	Year ended December 31, 2006	2005	Percent to total 2006	2005	Change (%)
Corporate Loans	**1,302,044**	**1,071,294**	**87.6**	**91.5**	**21.5**
TL loans	811,854	599,143	54.6	51.2	35.5
FX loans	490,190	472,151	33.0	40.3	3.8
Retail loans	**152,493**	**77,977**	**10.3**	**6.7**	**95.6**
TL loans	138,379	35,772	9.3	3.1	286.8
FX loans	14,114	42,205	0.9	3.6	(66.6)
Credit card receivables	**31,879**	**21,171**	**2.1**	**1.8**	**50.6**
Total	**1,486,416**	**1,170,442**	**100.0**	**100.0**	**27.0**

Non-performing loans

The control mechanisms established for the monitoring of lending activities have always been very important for Anadolubank, given the economic volatility of the environment it operates in. Four different units, under the leadership of an Executive Committee Member, review assessment, allocation and monitoring activities for credits at the Head Office. The result of such practices has been traditionally a low NPL ratio that showed a steady trend well under 2% in the last three years. The ratio of NPLs in 2006 was 1.23%. Further details are supplied in the following tables:

NON-PERFORMING LOANS

(YTL thousands)	Year ended on December 31, 2006	Year ended on December 31, 2005
Balance at the beginning of the year	15,887	14,357
Additions	8,481	5,474
Reductions	5,899	3,944
Payments	4,486	1,204
Written Off	1,413	2,368
Inflation adjustment	-	372
Balance at the end of the year	**18,469**	**15,887**
Provision for non-performing loans	**(18,469)**	**(15,887)**
Net non-performing loans	**-**	**-**
NPL/Total Loans	**1.23%**	**1.34%**

Related party transactions

The past bank failures in Turkey were mainly attributed to large exposure to related parties, particularly the shareholders. Therefore, the Bank is obliged to specifically report on relationships with related parties such as subsidiaries and shareholders. As a general rule, Anadolubank is not the sole banker for its shareholders and it occasionally enters into transactions with them when it is deemed profitable by the management. The result of such relationships in 2006 was as follows:

RELATED PARTY TRANSACTIONS

(YTL thousands)

	Year ended on December 31, 2006	Year ended on December 31, 2005	Percent to total assets 2006 (%)	Percent to total assets 2005 (%)	Change (%)
Loans	13,816	12,772	0.5	0.5	8.2
Off-balance sheet exposures	24,724	26,276	0.9	1.1	(5.9)
Deposits	68,308	99,470	2.4	4.2	(31.3)

Liquidity

Liquidity is generally used to fund assets and to take advantage of investment opportunities that may arise in the markets. In an emerging market economy's volatile environment, this item takes on further significance when used as a safe harbour in times of cyclic uncertainties, indeed often difficult to manage. It is a thorny issue for management, trying to decide between making a profit and using discretion.

Anadolubank considers the outstanding balances with the Central Bank and other banks as its core liquidity. Added to that are the unused credit limits from other banks, repo agreements and very short-term loans to, and investments with, financial institutions. The short-term character of the credit portfolio aids liquidity in general. Its broad base relies on customer deposits, a well-established and diversified funding source.

LIQUID ASSETS

(YTL thousands)

	Year ended December 31, 2006	Year ended December 31, 2005	Percent to total assets 2006 (%)	Percent to total assets 2005 (%)	Change (%)
Cash and due from banks	19,936	24,917	0.7	1.0	(20.0)
Central Bank deposits	38,732	16,104	1.4	0.7	140.5
Interbank placements	146,286	280,210	5.1	11.8	(47.8)
Placement with banks	277,991	94,541	9.7	4.0	194.0
Legal reserves	178,468	107,077	6.3	4.5	66.7
Total liquid assets	**661,413**	**522,849**	**23.2**	**22.0**	**26.5**

Securities

Anadolubank has endeavoured to decrease the share of securities in the composition of its assets-consistently over the years, this goal has been achieved. Securities constituted 39.4% of total assets in 2003, decreasing further to 36.9% in 2004 and 27.7% in 2005. At the end of 2006 this ratio was 23.7%.

The Bank invests only in Turkish Treasury bills and government bonds. Portfolio trends, in time, have changed in favor of trading securities in line with increases in the credit portfolio. For Anadolubank, securities are not considered to be a strategic investment area but rather a tool for storing liquidity and to take advantage of profit-making opportunities that may emerge in the markets. Exposure to government bonds is frequently funded through repurchase agreements for very short periods; therefore such exposure may now vary from one reporting period to the next. The consequence is that the Bank relies more on interest income from credits and non-interest income from banking services. Apart from a relatively low investment portfolio that provides the Bank with a regular stream of interest income, Anadolubank's core assets are increasingly made up of credits and liquid assets. In the future, credits in the total balance sheet will assume further importance and higher shares than reported at previous year-ends.

CONSEQUENT TO ANADOLUBANK'S EFFORTS TO ESTABLISH A RELIABLE AND DIVERSIFIED FUNDING BASE, RETAIL BANKING SERVICES INTENSIFIED AND ESPECIALLY DEPOSITS, THE MAJOR RETAIL PRODUCT, HAVE GROWN BY 18.4% THIS YEAR.

The following table shows a breakdown of securities at the end of 2006.

BREAKDOWN OF SECURITIES

(YTL thousands)

	Year ended on December 31, 2006	Year ended on December 31, 2005	Percent to total assets 2006 (%)	Percent to total assets 2005 (%)	Change (%)
Held-for-trading	**25,413**	**206,298**	**0.9**	**8.7**	**(87.7)**
Government bonds in YTL	25,248	199,855	0.9	8.4	(87.4)
Equity securities	-	110	-	-	(100.0)
Eurobonds issued by the Turkish Government	165	6,333	-	0.3	(97.4)
Investment Securities	**651,201**	**451,228**	**22.8**	**19.0**	**44.3**
Turkish government bonds	357,792	157,296	12.5	6.6	127.5
Eurobonds issued by the Turkish Government	175,445	146,693	6.1	6.2	19.6
Foreign currency government bonds	117,964	111,300	4.1	4.7	6.0
Foreign currency indexed government bonds	-	35,939	-	1.5	(100.0)
Total	**676,614**	**657,526**	**23.7**	**27.7**	**2.9**

Deposits

Consequent to Anadolubank's efforts to establish a reliable and diversified funding base, retail banking services intensified and especially deposits, the major retail product, have grown by 18.4% this year. This increase came mainly from a higher increase in Turkish lira deposits, compared to FX deposits, and paralleled market trends. The Bank's aim is to increase the ratio of deposits to total liabilities to 70%. It was realized at 59.6% by the end of 2006. Anadolubank plans to open additional branches in the upcoming years to strengthen its market presence and better manage its costs by collecting small deposits from households.

The Bank's efforts in the area of deposits are outlined in the following table:

COMPOSITION OF DEPOSITS

(YTL thousands)

	Year ended on December 31, 2006	Year ended on December 31, 2005	Percent to total assets 2006 (%)	Percent to total assets 2005 (%)	Change (%)
Turkish Lira Deposits	**801,960**	**717,109**	**28.1**	**30.2**	**11.83**
Demand deposits	69,874	70,298	2.4	3.0	(0.60)
Time deposits	732,086	646,811	25.7	27.2	13.18
FX Deposits	**898,463**	**719,168**	**31.5**	**30.3**	**24.93**
Non-interest bearing demand	139,289	133,640	4.9	5.6	4.23
Time	759,174	585,528	26.6	24.6	29.66
Total	**1,700,423**	**1,436,277**	**59.6**	**60.5**	**18.39**

Shareholders' equity

The shareholders' equity has increased by 31.1%, stemming from profits; at the end of the year, the capital adequacy ratio was 15.3%. Another important development in terms of equity was the increase of the free capital from 91.2% of total equity to 93.5%, by the end of 2006. As a rule, the management wants the capital adequacy ratio to be higher than 12% and shall strive to sustain this ratio at a minimum of this level as it has done in the past.

CAPITAL ADEQUACY

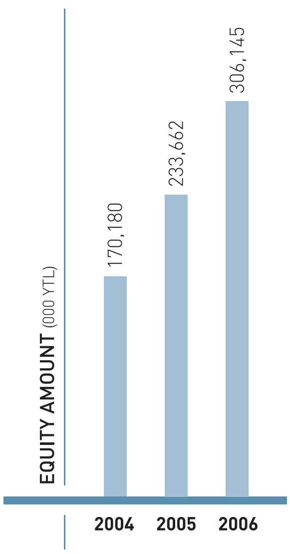
(YTL thousands)

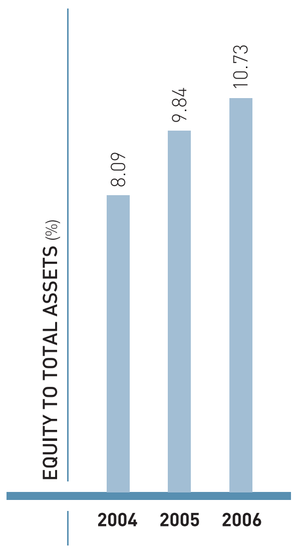
	Consolidated		Bank Only	
	Year ended on December 31,		Year ended on December 31,	
	2006	2005	2006	2005
Capital base	296,975	202,247	288,005	192,044
Risk weighted assets	1,891,923	1,405,587	1,843,045	1,256,091
VaR	48,163	106,650	53,125	103,938
Capital adequacy ratio	15.31	13.37	15.19	14.12

SHAREHOLDERS' EQUITY GROWTH

(YTL thousands)

	Year ended on December 31, 2006	Year ended on December 31, 2005	Percent to total assets 2006 (%)	Percent to total assets 2005 (%)	Change (%)
Total shareholders' equity	305,046	232,627	10.7	9.8	31.13





ANADOLUBANK'S STATE-OF-THE-ART PRODUCT, PARITEM PERMITS CUSTOMERS TO MAKE SPOT FX DEALS ON A REAL TIME ONLINE BASIS VIA A SOPHISTICATED INTERNET-BASED TRADING PLATFORM.

Commitments and Contingencies

This category consists of letters of credit that banks issue on behalf of their clients for the purpose of facilitating their commercial activities, extensively used in business agreements and letters of guarantee issued for various tenders, as well as other guarantees and acceptances.

These instruments have gained extra importance, since banks are trying to increase their non-interest income to counterbalance the drop in interest income as a result of falling interest rates. The following table shows the volume of these instruments issued by Anadolubank. The income obtained from such instruments is shown in the income statement section.

NON-CASH LOANS

(YTL thousands)

	2006	2005	Change (%)
Letters of guarantee	729,800	562,246	29.8
Letters of credit	265,158	179,622	47.6
Other guarantees and acceptances	223,199	107,331	108.0
Total non-cash loans	**1,218,157**	**849,199**	**43.4**

Income Statement Analysis

Interest Income

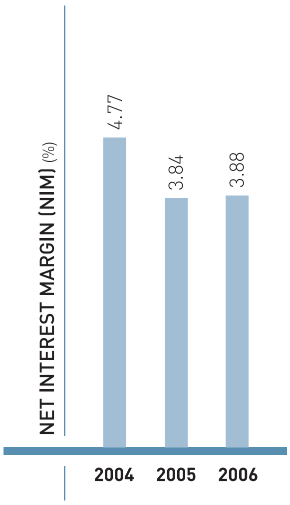
Mainly stemming from the market turbulence experienced in May, interest rates climbed while the year-end official inflation target could not be met. Real interest rates stayed high throughout the year despite the expectations of an economic climate where interest and inflation rates would decrease further.

Total interest income of Anadolubank has increased over the year by 23.5%. The increase in interest income from loans, which is the most important item of interest income, has been 46.2%, whereas the increase in other interest income has been higher at 83.2%. Similarly, the increase in total interest expenses has been 26.2%. Due to the rises in both interest income and interest expense, Anadolubank's net interest income has increased by 18.1% in 2006.

INTEREST INCOME

(YTL thousands)

	2006	2005	Change (%)
Interest on loans	198,678	135,891	46.2
Interest on securities	85,276	101,748	(16.2)
Other interest income	28,849	15,744	83.2
Total interest income	**312,803**	**253,383**	**23.5**
Interest on customer deposits	157,221	118,554	32.6
Interest on borrowing from banks	54,080	48,873	10.7
Total interest expense	**211,301**	**167,427**	**26.2**
Net interest income	**101,502**	**85,956**	**18.1**
NIM (Net interest Margin)	**3.88%**	**3.84%**	



Non-Interest Income

Anadolubank's efforts to manage non-interest income were concentrated in three main areas during 2006: (a) strict control of costs, (b) generation of commissions under off-balance sheet items such as letters of guarantee and letters of credit, (c) enhancing existing non-risk-bearing products and new product development. It should be emphasized here that Anadolubank has introduced a new product, Paritem, to Turkey. Paritem permits customers to make spot FX deals on a real time online basis via a sophisticated Internet-based trading platform.

NON-INTEREST INCOME

(YTL thousands)

	2006	2005	Change (%)
Net fees and commissions	46,488	28,177	65.0
Trading & FX income	16,668	28,427	(41.4)
Other income	6,407	4,446	44.1
Total non-interest income	**69,563**	**61,050**	**13.9**
Personnel expenses	60,426	43,748	38.1
Other non-interest expenses	43,719	43,694	0.1
Total non-interest expenses	**104,145**	**87,442**	**19.1**
Net non-interest income	**(34,582)**	**(26,392)**	**31.0**

Net Income

The Bank's profit before taxation and monetary position loss increased by 12.3% over the previous year to YTL 66,920,000. The net income increased by 29.7% to YTL 49,386,000 in 2006.

Return on assets (ROA) was 1.89% and return on shareholders' equity (ROE) was 20.37%. The ratio of operational efficiency stood at 60.88% at the end of the year. All of these ratios were higher than their counterparts in 2005, evidencing a higher profitability for the Bank in 2006. The ratio of shareholders' equity to average assets was 11.71%, higher than the 10.43% last year.

NET INCOME

(YTL thousands)

	2006	2005	Change (%)
Interest income net	101,502	85,956	18.1
Non-interest income net	(30,587)	(22,122)	38.3
Gross income	**70,915**	**63,834**	**11.1**
Provision for loan losses	(3,995)	(4,270)	(6.4)
Income before taxation and monetary position loss	**66,920**	**59,564**	**12.3**
Tax charge	(17,534)	(15,838)	10.7
Loss on net monetary position	-	(5,658)	(100.0)
Net income	**49,386**	**38,068**	**29.7**
ROA (Return on assets)	1.89%	1.70%	
ROE (Return on equity)	20.37%	18.85%	
Operational Efficiency	60.88%	59.48%	

AS AN INDISPENSABLE PART OF ANADOLUBANK'S CULTURE, THE ENTIRE STAFF STRONGLY ADHERES TO ETHICAL RULES OF BUSINESS CONDUCT AND CORPORATE GOVERNANCE PRINCIPLES AS THEY ACT PRUDENTLY WITHIN THE FRAMEWORK OF "KNOW YOUR CUSTOMER" TO AVOID TAKING PART IN ILLEGAL TRANSACTIONS OR MONEY LAUNDERING.

RISK MANAGEMENT

Risk awareness and management have always been important elements of Anadolubank's management philosophy. Risk management processes at Anadolubank are designed along the lines of the BRSA directives concerning the internal audit of banks and their risk management systems.

The Risk Management Department effectively oversees the entire risk management process while the Board of Internal Auditors and the Internal Control Centre take part in control and auditing activities, complementing the risk management function. Anadolubank's timely actions have placed it in a pioneering position in Turkey in terms of achieving risk control effectiveness required by the supervisory authority. As an indispensable part of Anadolubank's culture, the entire staff strongly adheres to ethical rules of business conduct and corporate governance principles as they act prudently within the framework of "know your customer" to avoid taking part in illegal transactions or money laundering.

The Internal Control and Risk Management Departments were established in 2001 as part of revised risk management and internal control systems at the Bank and make up supervisory bodies that work alongside the Board of Internal Auditors. Internal control and risk management are independent functions; both report to the Executive Board Member who is responsible for internal control and risk management in line with BRSA regulations.

The Risk Management Department, an independent unit, is responsible for defining, classifying, measuring, monitoring, analyzing, controlling and reporting the risk encountered by the Bank within the context of the principles approved by the Board of Directors.

Risk Management System

The risk management function oversees the analysis, identification, measurement, monitoring, reporting and controlling of risk through the establishment and application of risk management policies, guidelines and rules within principles set forth by the senior management and approved by the Board of Directors. The ultimate goal of the risk management function is to safeguard Anadolubank's assets by maintaining the balance between cost and risk in consistence with the Bank's goals, targets and strategies.

The primary task of risk management is to adopt best practices by raising all employees' awareness of risk and continuously improving systems and human resources. The risk management function in Anadolubank consists of Risk Management Department and the Supervision Committee, the latter of which is formed to assist the Board of Directors in the execution of auditing and supervising processes in compliance with the Regulation on Banks' Internal Systems issued by the Banking Regulation and Supervision Agency and published in the Official Gazette issue no. 26333, dated November 1, 2006.

Activities of the Risk Management Department include the overseeing of market, credit, liquidity, interest rate and operational risks. The ultimate goal is to achieve full compliance with the Basel II criteria, which represent the best practices.

Risk Management Methodology

Risk management efforts are based on international best practices and Banking Regulation and Supervision Agency regulations.

Market Risk

Market risk involves the likelihood of loss encountered as a result of a bank's exposure in the balance sheet and off-balance sheet accounts to interest rate risk, equity position risk or exchange rate risk ensuing from fluctuations in financial markets in interest rates, foreign exchange rates or stock prices.

Anadolubank's Board of Directors has ensured that the risk management units and senior management take the necessary steps to properly measure, monitor and manage the Bank's exposure to market risk. The Board of Directors determines the limits related to market risk and periodically revises these limits in accordance with market conditions and the Bank's strategies. Stop-loss and transaction limits are set on a product basis with regard to the Bank's daily transactions. These limits are monitored and reported on a daily basis. Anadolubank uses the standard method to calculate and report market risk to supervisory bodies.

The Value-at-Risk (VaR) figure, computed daily, is calculated using a variance/co-variance method on the basis of a 252-business-day data and a one-day holding period at a 99% confidence interval. The daily VaR figures are the main drivers of the Bank's internal reports for the monitoring of market risk. Back-testing is periodically carried out to validate the accuracy of calculations and the method used.

The VaR figures calculated by internal models to predict losses in the event of a possible crisis are also verified by scenario analyses and stress tests and then reported to senior management and the Board of Directors. Scenario analyses and stress tests involve the reapplication of past crises to existing portfolios or the observation of likely losses due to interest and foreign exchange shocks.

Market risk, the Bank's capital is subject to, is calculated through the standard method as stipulated by the Banking Regulation and Supervision Agency. In 2006, a market risk software was purchased in order to help accurately measure market risk by using the Value at Risk method. After testing and staff training, the Risk Management Department started implementation of the program. Following full integration of this software with the Bank's systems in 2007, VaR estimations will be reported on a daily basis to senior management and the related units.

Liquidity Risk

Liquidity risk is the risk that a bank might encounter in the event of mismatches in its cash inflows and outflows when it is not able to fully meet its cash obligations in time. Liquidity risk also includes the risk of loss that may arise when there is an inability to enter or exit the market as needed. When it is not possible for a bank to adequately close positions at favorable prices, at sufficient amounts or as rapidly as required, lack of adequate levels of cash may translate into losses.

Anadolubank's policy has always been to secure high quality in its asset structure in an effort to be able to meet all obligations by liquid assets. Anadolubank considers it of prime importance to be one of the most liquid banks in the sector. The Board of Directors regularly monitors and determines liquidity ratios and the relevant standards for maintaining high liquidity at all times. There is an effective management reporting system in place for timely reports of the Anadolubank's liquidity position to the Board of Directors, top management and all related units.

The Board has determined limits to ensure that adequate liquidity is always available. Cash flow analyses are carried out on the basis of maturity structures and currency units. Maturity mismatches are monitored and concentrations in funding sources are scrutinised closely.

As a matter of general policy, consistency in maturities, interest rates, currency mix and costs/returns are always maintained between the assets and liabilities and the balance sheet positions are always managed in the positive. It is under this strategy that the maturity risk is also managed within the limits determined by the Board of Directors. While the greater part of the Bank's liquidity needs is met by deposits, syndicated loans and pre-financing facilities are also used at times to obtain funds in addition to deposits. Anadolubank's policies assure a strong liquidity position at all times and afford the Bank to be a net lender to the markets.

THE ULTIMATE GOAL OF THE RISK MANAGEMENT FUNCTION IS TO SAFEGUARD ANADOLUBANK'S ASSETS BY MAINTAINING THE BALANCE BETWEEN COST AND RISK IN CONSISTENCE WITH THE BANK'S GOALS, TARGETS AND STRATEGIES.

Interest Rate Risk

Interest rate risk involves the likelihood of losses a bank could be exposed to due to fluctuations and volatility in interest rates, depending on the state of its portfolio positions. At Anadolubank, interest rate risk is managed by the Assets and Liabilities Committee. Protection against the impact of fluctuations in interest rates is the Bank's top priority.

To determine interest rate risk, the interest rate sensitivity of assets, liabilities and off-balance sheet items are closely scrutinised. The management monitors market interest rate movements on a daily basis and makes changes whenever necessary in deposit and loan interest rates. Anadolubank conducts simulations concerning interest revenue according to estimated macroeconomic indicators in the budget studies. The Risk Management Department conducts duration, term and sensitivity analysis and relays these calculations to the Assets and Liabilities Committee. The negative effects that fluctuations in market interest rates could have upon the financial position and cash flow are minimized by means of prompt decisions taken.

Foreign Exchange Rate Risk

Foreign exchange rate risk means the likelihood of loss that a bank may be exposed to in the event of changes in exchange rates. In the calculation of capital adequacy deriving from exchange rate risk, the Bank takes into account all of its foreign exchange-denominated assets, liabilities and forward foreign exchange contracts.

The VaR is calculated by the standard method and then reported to relevant bodies. Within the limits approved by the Board of Directors, the Treasury Division is responsible for the management of price, liquidity and fulfilment risk arising from fluctuations in Turkish or foreign currency prices in domestic or international markets. Money market risks and risk-bearing transactions are monitored on a daily basis and reported weekly to the Assets and Liabilities Committee.

Position limits determined by the Board of Directors are monitored on a daily basis and possible value changes in the Bank's monetary positions that may come about as a result of routine foreign currency transactions are also examined. As an important tool of the Bank's risk management strategy, all kinds of foreign currency liabilities are protected against exchange rate risk by derivative instruments. Equity participations in foreign companies are protected from exchange rate risk along the lines of Anadolubank's overall strategy. Foreign currency position risks are hedged by spot and forward transactions within legal limits.

Credit Risk

Credit risk is the loss that may be incurred in the event that the other party with which the bank has entered into a credit relationship does not comply with the requirements of the contract with the bank and fails, partially or entirely, to fulfil its obligations on time. The Board of Directors has the final authority in the allocation of credit limits. This power is delegated to the Head Office Departments and General Manager on certain conditions. The use of these delegated powers are regularly monitored and reported by the internal audit and risk management units.

In the assessment of customers, Anadolubank uses an internally developed rating system which takes into account both financial and non-financial data on the applicant company. The rating of the collateral proposed for the credit is also calculated using a system developed by the Bank. In line with Anadolubank's credit policy, overall credit risk is assessed through both debtor and collateral ratings.

Developments in the marketplace are closely monitored to minimize credit risk and industry limits are applied. As a result of the prudent policy adopted by Anadolubank, the maximum credit limit that can be allocated to a customer is kept at a lower level than legal limits, minimizing the risk of credit concentration.

Limits related to other party risk arising from treasury transactions or from customer-based commercial transactions are monitored on a daily basis. Daily control is also exercised on the limits that have been allocated to correspondent banks in accordance with their ratings and the maximum risk that the Bank is able to bear with its own capital. Country risk involves the likelihood in international credit transactions of failure, partially or entirely, to fulfil obligations on time, due to the economic, political or social events taking place in the country where the debtor person or company carry out their activities.

Advanced methods, market researches, global practices and R&D activities are employed to determine the most suitable credit risk modelling methodology to measure credit risk.

The Risk Management Department is continuing efforts to update the existing rating module and to make it Basel II compliant. Credit databases are reviewed and necessary infrastructures are built to ensure a state-of-the-art and fully Basel II compliant credit risk assessment and management process at the Bank.

Operational Risk

Operational risk is defined as the risk of loss that may result in a bank from inappropriate or malfunctioning practices, or from human and system errors or external reasons. Operational risk can occur along the entire spectrum of banking activities. It also includes the likelihood of loss resulting from mistakes and negligence, internal or external fraud and natural disaster. The Bank's main objectives are to achieve total compliance with internal and regulatory bodies' rules, to develop a strong internal control culture and to attain all the qualitative standards determined by the Basel Committee. Compliance with legal requirements, rules of information security, contingency and business continuity plans, "know-your-customer" practices, adherence to ethical values of the banking profession and prevention of internal and external fraud are all fundamental controls for the reduction of operational risk. The work relating to operational risk management is carried out in coordination with the Risk Management Department, Board of Internal Auditors and Internal Control Centre.

Policies, procedures, workflows and processes are reviewed and evaluated within the scope of a risk-focused approach. The Board of Internal Auditors and the Internal Control Center ensure that all banking transactions are legal and conform with regulations as they monitor misconduct or employee errors. These audit and control bodies also monitor branch performances and offer advice on how to improve efficiency.

ANADOLUBANK IS EXTREMELY SENSITIVE TO INTERNAL AUDIT AND RISK MANAGEMENT ISSUES AT ALL LEVELS OF ITS ORGANIZATIONAL STRUCTURE; IT CLOSELY FOLLOWS BOTH NEW LEGISLATION AND THE BEST PRACTICES EMPLOYED AT THE INTERNATIONAL LEVEL AND SWIFTLY PUTS THEM IN PRACTICE.

AUDIT COMMITTEE

The objectives of the Audit Committee are to centralize assessment, validation procedures, control and internal audit of all risk-bearing banking transactions listed below:

- Credit and other party risk
- Market and liquidity risk
- Administrative and operational risk
- Legal risk
- Accounting risk
- IT risk
- Human resources risk
- Reputation and commercial risk

The committee meets quarterly.

Committee Members:
Engin TÜRKER
Fikriye Filiz HASESKİ

ASSESSMENT OF INTERNAL AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Bank has emphasized internal audit and risk management systems ever since its incorporation. These systems have been organized in accordance with the "Regulation on Internal Systems of Banks" dated November 1, 2006, as stipulated by the Banking Regulation and Supervision Agency. To fortify this structure, Basel II principles adopted by European countries, along with the current legislation are also monitored and harmonization studies are on going.

The Risk Management Department, the Internal Control Center and the Board of Internal Auditors, all reporting to the Board of Directors, independent from each other but working in cooperation, have carried out their activities as usual during 2006. The Board of Directors has taken the necessary measures regarding the approval of important strategies and policies related to the control activities at Anadolubank and to the maintenance of effective internal audit and risk management systems. The internal audit system has been organized in such a way as to cover all the Bank's activities and units.

In 2006, the Board of Internal Auditors audited the Bank's branches, Head Office units and subsidiaries either through general or spot audits, inspections and inquiries. It also carried out feasibility studies regarding branch openings and surveys to measure and increase customer satisfaction. Internal control activities are organized in such a manner as to be inseparably tied up with daily activities and cover all areas of basic control. The Internal Control Center monitored transactions at the Bank's branches regularly in 2006 through the banking system and audit programs and on-site inspections were carried out through branch visits.

A risk management process, which is organized within the framework of risk management methodologies and which aids the formulation of a shared risk management culture throughout a company, must be structured in such a way that it emphasizes good corporate governance, isolates the units that actually assume risk from the internal units responsible for monitoring and controlling risk, defines risks in internationally recognized terms, and fulfils its measurement, analysis, monitoring, reporting, and control functions within the same framework.

In line with the effort to create a mutual risk culture and awareness, risk limits have been generated for each risk group and compliance with these limits is monitored through periodic inspections. Through regular assessments carried out on a bank-wide basis with approval systems and information security work, the risk-taking, controlling and approving structures are kept independent of each other. The Bank's aim is to ensure that personnel are aware of the risks that they encounter at each transaction and that they fulfil their duties using the required controls. Therefore, Anadolubank personnel are kept fully informed and well-trained on internal audit and risk management systems.

Work in 2007 will continue under aforementioned principles. The Bank plans to achieve full compliance to Basel II standards.

At its meeting in December 2006, the Board of Directors decided to establish an Audit Committee in accordance with Article 24 of the Banking Law numbered 5411 and further resolved that the powers of the Senior Level Risk Committee established in accordance with Law number 4389 be taken over by the new committee. This committee met six times during the course of the year. It monitors all the risks in a consolidated format at the Group level, establishing points of control, reviewing all written procedures, ensuring achievement of coordination between the Board of Internal Auditors, Risk Management Department, Compliance and Internal Control Center, as well as working toward the establishment of internal control systems of the same calibre in the Bank and the group companies.

We would like to state that Anadolubank is extremely sensitive to internal audit and risk management issues at all levels of its organizational structure, closely follows both new legislation and the best practices applied by at the international banking and swiftly puts them into effect.

Audit Committee Members
Engin Türker
F. Filiz Haseski

WE PLAN TO OPEN 20 NEW BRANCHES BY 2008. THE POTENTIAL GENERATED BY ITS BRANCH NETWORK PROVIDES ANADOLUBANK WITH THE OPPORTUNITY TO ACHIEVE SOUND AND REAL ORGANIC GROWTH.

ORGANIZATION

General

Anadolubank is organized at the Head Office level in Istanbul and has 63 branches spread throughout Turkey. In 2006, five new branches were opened, four in Istanbul and one in Bursa. The Bank has five collection offices, two in Istanbul, two in Ankara and one in Kayseri.

Four of the Anadolubank branches that are spread throughout Turkey exclusively serve large-scale corporate customers, thirteen of them serve only retail customers and the remaining branches render all varieties of banking services. Our commercial branch network operates in all regions of Turkey where 90% of the economic activities of the country are carried out. Furthermore, we plan to open 20 new branches by 2008. The potential generated by its branch network provides Anadolubank with the opportunity to achieve sound and real organic growth.

The management believes that Anadolubank has a relatively greater advantage when it comes to banking with traditional tools. The major portion of the Bank's income is related to this structure. Therefore, we decided to open new branches but not more than ten per year. We believe that the number of branches we currently have is sufficient to cover all industrially and commercially active centers and can adequately supply optimal funding sources for our assets.

In our branches, the Operations division operates in collaboration with one or multiple departments among Retail Marketing, Corporate Marketing and Small Business Banking, based on the expertise of the branch. Managers who report to the branch manager head these departments. This segmentation allows further specialization for the needs of different business groups and facilitates the speed and quality of banking services to them. The same structure is mirrored in the Head Office as well. At this level, there are marketing and support units reporting to the Assistant General Managers, who in turn

← **B. Gökhan GÜNAY**
Senior Assistant General Manager

THE CORPORATE BANKING DEPARTMENT SEEKS TO ESTABLISH LONG-TERM MULTI-FACETED RELATIONSHIPS WITH CORPORATE CUSTOMERS WITHOUT SACRIFICING ON PROFITABILITY FOR THE SAKE OF CREATING MERE BUSINESS VOLUME.

report to the General Manager. The exceptions are the Credits, Internal Audit and Risk Management Departments, which report directly to the Board. Cooperation between the branches and the Head Office are based on workflow aided by temporary and permanent committees constituted through the participation of different branches and departments.

Through concept changes, corporate identity elements were stressed in 2006 and new initiatives for workflow and document management have been launched in an effort to increase the Bank's operational efficiency. These endeavors to increase the level of visibility, introduce new and competitive products to the marketplace and increase the level of service quality by way of standardization shall continue in 2007.

Departments at the Head Office other than the Risk Management, Internal Control Center and Board of Internal Auditors that report directly to Board of Directors are summarized below:

- Corporate and Commercial Banking
- Credits
- Treasury and Retail Banking
- International Banking
- Investment Banking
- Credit Cards and Electronic Banking
- IT
- Operations
- Financial Affairs
- Human Resources
- Legal Consultancy

Corporate Banking

The Corporate and Commercial Banking Department is mainly responsible for streamlining and monitoring the Bank's customer-related assets such as commercial loans and off-balance sheet commitments. The Department follows budget targets in close cooperation with the branches and senior management. Officers from the Corporate and Commercial Banking Department keep pace with developments in the marketplace and share their views with senior management and different committees such as the ALCO and the Loan Committee.

The Corporate Banking Department seeks to establish long-term multi-faceted relationships with corporate customers without sacrificing on profitability for the sake of creating mere business volume. The Department targets balanced, profitable and sustainable growth in its line of business at all times.

The marketing channels and the credit assessment process have been differentiated based on customer segmentation. Corporate banking activities consist of;

- Corporate Banking Department targeting multinational companies and large-scale manufacturing companies with an annual sales turnover over US$ 25 million,
- Commercial Banking Department targeting companies with an annual sales turnover between US$ 2 million and US$ 25 million, and

Sibel AKIN →
Assistant General Manager
- Corporate Banking


PRAVACHOL 10 mg
Nicotinell

ALL COMPANIES, REGARDLESS OF SIZE AND LINE OF BUSINESS, THAT GENERATE ECONOMIC ADDED-VALUE AND A POTENTIAL TO CREATE LONG-TERM COOPERATION FALL WITHIN THE TARGET MASS OF ANADOLUBANK.

- Small Business Banking Department targeting companies with an annual sales turnover below US$ 2 million.

Segmentation increases the quality and speed of the service and helps give a better evaluation of customer requirements. At the end of 2006, Anadolubank had 6,500 active corporate customers from all three segments with credit limits assigned.

Our mission in the corporate and commercial banking segment, which is our core field of activity, is to determine customer requirements correctly and achieve high quality in banking solutions that meet these requirements, as a customer-focused bank. Therefore, we invest largely in our human capital. Our marketing team consistently undergoes training programs on developing and implementing client-oriented strategies and products. The main field where we greatly differ from our competitors is our ability to create a long-term commercial cooperation that enables us to meet our clients' needs correctly.

Credits

The Credits Department is made up of four units:

- Financial Analysis and Market Investigation Unit
- Corporate Credit Allocation Unit
- Commercial and Small Business Credit Allocation Unit
- Credit Control and Risk Follow-up Unit

Anadolubank had a very low NPL ratio at the end of 2006. This is evidence to the successful operations and cooperation among the four units that oversee the Bank's entire credit management activities. The Head Office credit staff at Anadolubank regularly visit customers with branch staff and share information with other banks and financial institutions.

Anadolubank launched its Small Business Banking Scheme in 2004 and since then has gone a long way developing a sound and widespread customer portfolio of small businesses across the country.

All companies, regardless of size and line of business, that generate economic added-value and a potential to create long-term cooperation fall within the target mass of Anadolubank. When we consider that our fundamental objective is to create long-term mutually beneficial relationships with our customers, we can see that all companies that operate with the expectation of being in the right market, with the right strategy and right product, right financial structure and high-quality service lie within Anadolubank's target clientele.

We do not differentiate between industries or business lines when it comes to granting credits. We aim to develop and maintain a credit portfolio that consists of companies with strong financial positions irrespective of the business lines they operate in, which are creditworthy and are not easily affected by economic crises. Our policy is to closely monitor industries, act with prudence in sectors that may be adversely affected by economic developments and when required, downsize the share of that sector in the portfolio. Our allocation policies are aimed at increasing the share of small and medium-size companies in our portfolio in parallel to the disinflation process, so that our profit margin and total risk are diversified.

In our collateral policy, credit decisions mainly ask for a tangible guarantee from small and medium-size companies, but generally, the company's creditworthiness, antecedents, experience of shareholders and top management, leverage, market position, corporate structure and the term of the loan demanded are considered when structuring the collaterals.

In the future, we shall continue allocating credits to only creditworthy companies without concentrating in any one business sector. We shall target to include more small and medium-size companies in our credit portfolio, whose share will increase in terms of credit balances.

Head Office Credit Committee

The Head Office Credit Committee consists of the General Manager, the Board Member Responsible for Credits, Assistant General Manager of Corporate Marketing and the Credit Allocation Managers. Throughout 2006, credit applications with an overall limit of between YTL 501,000 and YTL 750,000 have been discussed and resolved by this Committee. Credit applications of over YTL 750,000 have been discussed and resolved by the Board of Directors.

The Credit Committee meets regularly every Monday.

Treasury and Retail Banking

Retail Marketing and Deposits Department

is responsible for creating and implementing the marketing strategies for retail banking products and services in line with the Bank's general objectives and strategies. In this respect, marketing and sales management of time deposits, mutual funds, consumer loans, insurance and banking products for entrepreneurs, as well as development of new retail products and services are realized through this channel.

This Department is also responsible for the management of the Bank's major funding source; customer deposits at optimal cost, size and diversity.

Anadolubank's Retail Marketing and Deposits Department serves;

- People in the A and A+ socio-economic groups and who have savings of and in excess of US$ 250,000,
- Owners, shareholders and managers of the Bank's corporate clientele,
- Entrepreneurs making up the professionals, and
- Small business companies in services and manufacturing with a wide variety of banking products and services.

Exploiting cross sales opportunities is a major strategy employed by Anadolubank to increase the number of retail banking customers. Retail banking customers may come from all professions that make up Anadolubank's target clientele.

In 2006, bancassurance marketing efforts were emphasized as an agent of four large insurance companies; namely, Axa Oyak, Aviva, Başak Emeklilik and Başak Sigorta. Although the retail product and service line of our Bank is complete, it is the human factor that puts Anadolubank ahead of its competitors. To maintain this advantageous position, we place great emphasis on quality of service through regular training programs that the Bank's personnel undergo.

At the end of 2006, 14 of the 63 Anadolubank branches were designated as retail branches. In retail banking, the branches generally render services through ATMs and Internet Banking. Anadolubank offers three types of mutual funds, each catering to different investor risk-taking appetites. Aiming to provide the highest return in each category, Anadolubank follows an asset management strategy that is focused on efficiency and transparency. Sales of Treasury bills, Eurobonds and government bonds, repo transactions and automatic payment orders are also included in the retail product range.

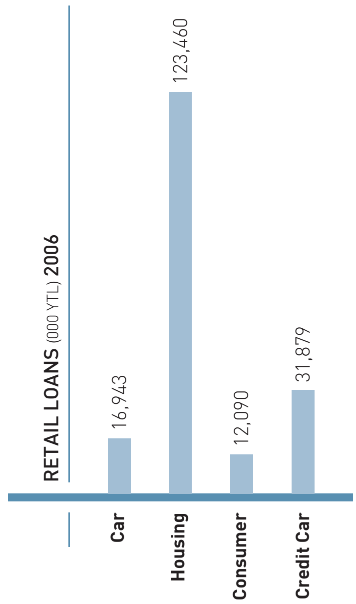

ROLAND
ROLAND
Rights Ready Burada

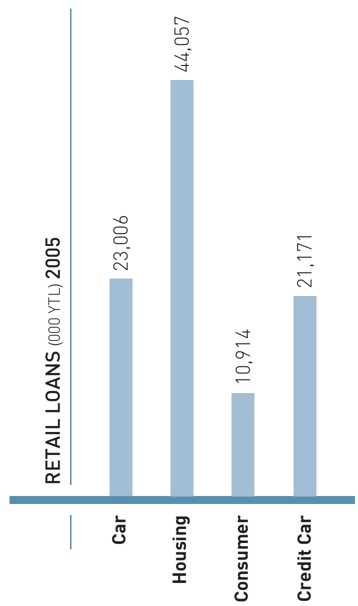
WITH ECONOMIC STABILITY ACHIEVED IN 2006, THE SHARE OF THE HOUSING LOANS HAS INCREASED BY 80%, VEHICLE LOANS BY 13% AND CONSUMER LOANS BY 7% AMONG TOTAL RETAIL LOANS. WE EXPECT THAT THIS TREND WILL CONTINUE IN 2007.

In session rooms located in 25 branches that act as the agents of Anadolu Yatırım A.Ş., the securities trading transactions of clients are carried out through expert investment consultants. Furthermore, with the product called Paritem, which was launched in 2004, Anadolubank remains the first and only bank to provide parity arbitrage 24 hours and 7 days on the Internet.

Retail Loan Allocation and Risk Monitoring Department is responsible for limit allocations and follow-up of overdraft accounts, entrepreneur, car, housing and consumer loans, as well as credit cards. With economic stability achieved in 2006, an increase, especially with regard to housing loans has been observed. In correlation with this development, the share of the housing loans has increased by 81%, vehicle loans by 11% and consumer loans by 8% among total retail loans. We expect that this trend will continue in 2007. With Mortgage Law to be enacted in early 2007, the housing loans will maintain their share in total retail loans while the share of consumer loans will increase further.

The generally preferred term for housing loans, which is the most important item in the retail loan book, is five years and the generally preferred term for vehicle loans is two years.





← **Recep ATAKAN**
Assistant General Manager-Retail Banking

THE TREASURY DEPARTMENT FOLLOWS DOMESTIC AND INTERNATIONAL MARKETS CLOSELY FOR THE BEST POSSIBLE PORTFOLIO MIXES WHILE CONSIDERING THE RISKS AND OPPORTUNITIES PREVAILING IN THE MARKETS.

Treasury Management

The Treasury Department analyzes all possible banking risks and market opportunities, supervises the asset/liability management and manages the Bank's liquidity through a team of highly qualified treasury experts.

The Treasury Department is made up of three units:

- Turkish Lira and Fixed Income Securities Unit
- Foreign Currency and Derivatives Unit
- Treasury Marketing Unit

The Treasury Department is one of the foremost members of the Bank's Asset-Liability Committee. In addition to managing the Bank's liquidity, the Department also oversees the effects of interest and FX rate volatility in domestic and international markets on the Bank's balance sheet.

The Treasury Department is responsible for the daily monitoring of the Bank's exposure during its routine operations while providing the necessary liquidity to the branches. To accomplish its tasks, the Department trades TL and FX money market securities, Treasury bills, and other domestic and foreign securities on a spot and term basis; additionally actively trades in Turkish and other countries' Eurobonds. Anadolubank's Treasury has maintained its pioneering role in 2006 in terms of trading volume.

Sharing its success in treasury management with its customers, Anadolubank offers corporate and large-scale customers a variety of tailor-made investment products that may include a combination of deposits, mutual funds, Treasury bills, government bonds, Eurobonds, repo, reverse repo, stocks and gold contracts.

The Treasury Department follows domestic and international markets closely for the best possible portfolio mixes while considering the risks and opportunities prevailing in the markets. The Department benchmarks its products against those of other domestic and international banks and improves its products accordingly while also taking into account risk for the Bank and its customers.

Reports containing facts and comments on domestic and international economies are periodically prepared and distributed to branches and clients through the Bank's distribution channels. Anadolubank tries to feel the pulse of the markets through the seminars it regularly organizes where market experts inform clients of developments and possible risks in the markets.

In the mutual funds markets, throughout the year, Anadolubank maintained its commendable position with three highly successful funds. Addressing investors with different risk profiles, B-Type Liquid, B-Type Variable and A-Type Variable funds continuously increased their market share and offered relatively high returns in their respective categories.

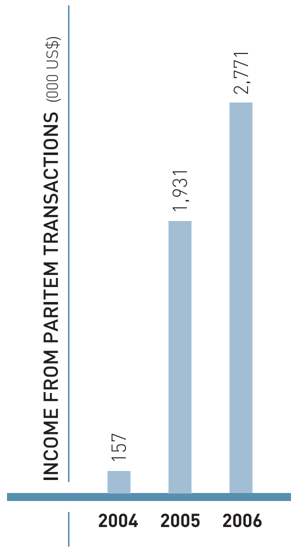
Pursuing prudent trading practices, Anadolubank's Treasury Department takes on only calculated risk and manages a diversified portfolio. Product diversification has enabled growth on both sides of the balance sheet. An increased usage of derivative products has paved the way for higher efficiency in current trading portfolios.

Paritem

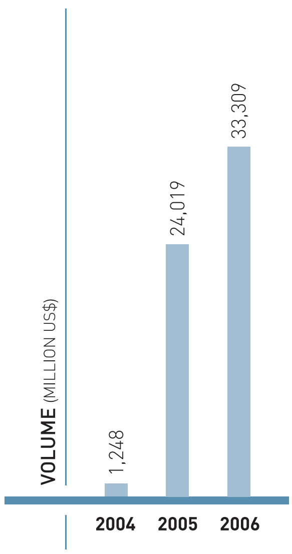
This product helps the clients buy and sell foreign exchange over the Internet.

In 2004, Anadolubank introduced to its clients a new web-based product named Paritem, a pioneer in its field. With the help of this tool, investors can trade over the globally most frequently transacted 23 currency pairs and carry out gold and silver trade for 24 hours and five days a week, from everywhere via uninterrupted Internet access. To benefit from this service, Anadolubank clients have to deposit a minimum of US$ 4,000 in a foreign currency deposit account. The clients may start FX arbitrage transactions as soon as they receive a personal password, enabling access to the Bank's website located at www.anadolubank.com.tr. Investors subscribing to Paritem are able to make transactions up to 25 times of the balance in their guarantee accounts.

As currency rates change minute by minute, Paritem enables Turkish investors not only to execute TL-FX trades but also FX-FX trades in world's leading currencies. Although not an alternative investment tool to equity trading, Paritem gained wide popularity in a very short time helping Anadolubank attain new customers. Paritem is improved in line with the increasing number of clients and client demands parallel to the transaction volume. It is planned that in 2007 new order types shall be added to the site, in addition to the current ones and US$/YTL trading shall be included in the system. Paritem continues to be a first in the Turkish banking sector.



Paritem transactions started in September 2004.



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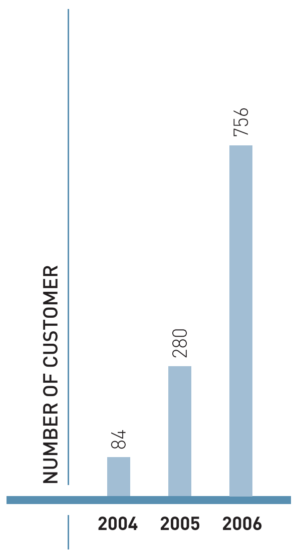



Aşk Şiirleri
Kitab-ı Aşk
MEVLÂNA
nusret özcan
Aşk Şiirleri
DİVAN-I KEBİR

THE CORRESPONDENT BANK NETWORK COVERS ALL MAJOR ECONOMIC REGIONS OF THE GLOBE; MAINLY LOCATED IN THE USA AND EUROPE. THIS NETWORK ENABLES ANADOLUBANK ALSO TO REACH ANY PART OF THE WORLD WHERE BUSINESS OPPORTUNITIES EXIST.

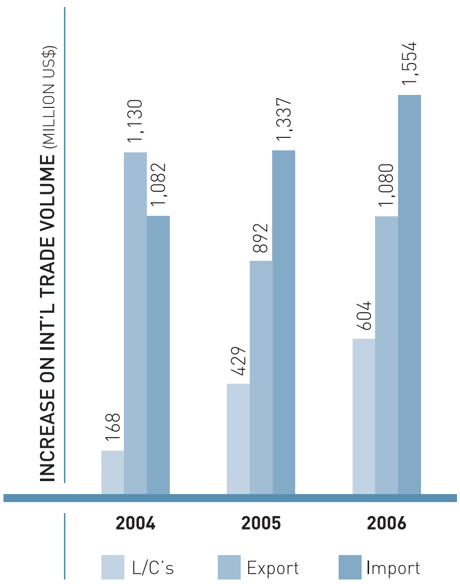
International Banking

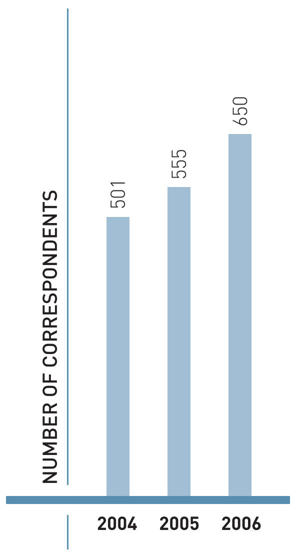
The International Banking Department assumes a major role in Anadolubank's trade finance activities, managing the Bank's relationship with 650 correspondents abroad, as of year-end 2006

The correspondent bank network covers all major economic regions of the globe; mainly the Americas and Europe. Correspondent banks are usually the largest banking institutions of their regions with worldwide branch networks. Such network enables Anadolubank to reach any part of the world where business opportunities exist. The foreign trade volume of Anadolubank, which had been US$ 2.2 billion in 2005 reached US$ 2.6 billion in 2006. All Anadolubank branches are authorized to handle international transactions; all of these transactions are centralized at the Head Office for increased efficiency and specialization.

In July 2006 the Bank was re-assessed by FitchRatings and was assigned Long-Term Local and Foreign Currency Ratings of "B+" with a stable outlook and Short-Term Local and Foreign Currency Ratings of "B" with a stable outlook. The Long-Term National Rating has been assigned a "BBB+" with a "stable" outlook.

In November 2006, Anadolubank was re-assessed by Moody's Investors Service and was assigned a Foreign Currency Rating of "B1/Not-Prime" and a Financial Strength Rating of "D-" with a "stable" outlook.

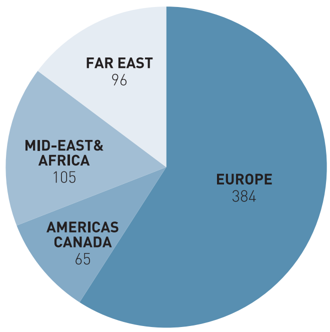




Merih YURTKURAN
Assistant General Manager-
International Banking

PURCHASES MADE WITH ANADOLUBANK CREDIT CARDS TOTALLED 199 MILLION YTL IN 2006, 49.40% UP FROM THE TOTAL IN 2005.

CORRESPONDENTS BREAKDOWN BY REGION



In April 2006, a one-year club loan amounting US$ 100 million was obtained from 10 international banks and the proceeds raised under this facility were used for export financing. The US$ 100 million facility raised in August 2005 was repaid and in October, an additional one-year US$ 160 million syndicated facility was raised from the international market with 30 banks participating. The deal went oversubscribed.

The Department takes pride on the close relationships developed with correspondent banks. In an effort to establish mutually beneficial relationships with correspondent banks, the International Banking Department pursues a solution-oriented approach at all times while displaying a detailed point-of-view and offering alternative routes to decisions.

The Bank also has access to the facilities of major Export Credit Agencies such as the US Exim, Coface, Hermes, SACE and ERG as well as CCC by which the medium and long-term financing requirements of clients for their cross-border trade can be met.

Credit Cards and Electronic Banking

Credit Cards and Electronic Banking was separated from the Retail Banking Department and has been restructured as a new business line in 2005. Anadolubank, following the strategy to become a top-notch commercial bank, plans to diversify the product line that serves retail clients primarily and to render more sophisticated services.

Anadolubank targets the shareholders and employees of its corporate and commercial segment customers, individuals already a customer of the Bank, salaried personnel who can document their income and individual customers in the A and B socio-economic segments in its credit card marketing efforts. Close and swift customer relationships help the Bank to maintain a solid credit card customer portfolio. In 2006, with a surprise concept the Bank launched Wondercard which enables cardholders to make purchases on an instalment basis and provides additional benefits. Different than the other credit cards in the marketplace, Wondercard accumulates bonus points in proportion to purchases whose value can be deducted from monthly statements.
In addition, Wondercard has lower interest rates and charges than its peers.
Cardholders often win surprise gifts with their purchases.

In 2006, Anadolubank's credit card portfolio has been enlarged with Royal Statue Card and Es Es Card in an effort of reaching more customers. Funika Card, Shopping Centre Gift Card, Virtual Card and Business Cards applications have continued with success. With the introduction of the Red Royal Card, Anadolubank will target the A+ high income customer segment. University students, formerly not within the Bank's target clientele, will be included in customer portfolio in the coming year.

Purchases made with Anadolubank credit cards totalled 199 million YTL in 2006, 50% up from the total in 2005. This credit card turnover places Anadolubank in the 18th place among all banks in Turkey with a market share of 0.37%. The number of Anadolubank credit cards rose to 120,012 by the end of 2006, with a 26.26% increase over the previous year.

Some characteristics of the credit card portfolio are as follows:

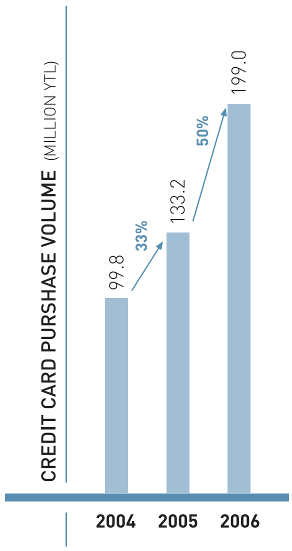
- One third of cardholders are female and two-thirds male.
- 22% are business owners, 5% are managers
- 27% belong to 20-30 age group, 35% to 30-40 age group and 24% to 40-50 age group.
- Most credit card used places are supermarkets, gas stations and restaurants.

Anadolubank's POS turnover rose to 132 million YTL in 2006, showing a 301% increase over the previous year. The Bank's market share was 0.16%. There were 3,455 POS terminals, 1,234 of which were offering instalment sales.

At the end of 2006, Anadolubank had 65,550 debit cards (Maestro and Electron) in use at ATMs located in Anadolubank branches as well as at ATMs belonging to the Ortak Nokta ATM sharing banks. Ortak Nokta is an ATM sharing alliance among 13 banks and four non-interest banks. Being a member of this alliance has provided Anadolubank access to all regions of Turkey as well as to the Turkish Republic of Northern Cyprus.

Due to a mandatory transition to EMV-standard cards at the end of 2006, the required technical specifications for both credit card application approval and card issuance have been completed; as of November 2005, Anadolubank made the conversion to POS machines that accept chip cards. Before the end of 2006, all active cards have been converted to chip cards.

The number of Internet Banking users reached 10,098 individual customers and 6,301 corporate customers. In 2006, new security measures were implemented in Internet Banking and the work on setting up a technical infrastructure for the use of one-time password was started. Anadolubank's website has been updated and the Wondercard website was launched.



IN 2006, WITH A SURPRISE CONCEPT THE BANK LAUNCHED WONDERCARD WHICH ENABLES CARDHOLDERS TO MAKE PURCHASES ON AN INSTALMENT BASIS AND PROVIDES ADDITIONAL BENEFITS. DIFFERENT THAN THE OTHER CREDIT CARDS IN THE MARKETPLACE, WONDERCARD ACCUMULATES BONUS POINTS IN PROPORTION TO PURCHASES WHOSE VALUE CAN BE DEDUCTED FROM MONTHLY STATEMENTS.

The Credit Cards and Electronic Banking division consists of three departments:

The Credit Cards and Member Merchant Marketing Department is responsible for the management of sales of credit cards and POS products in the branches and derivatives thereof, determining related marketing strategies, organising campaigns to increase client satisfaction and card use and developing and diversifying the products in question. Furthermore, a credit card sales team of 50 employees working in this Department markets the cards through direct client visits.

Credit Cards Allocation and Monitoring Department is responsible for allocating credit cards and POS request that come from the Head Office sales team and branches by evaluating these applications with regard to risk and efficiency, and monitoring these products in coordination with the branches and in line with the risk management policies of Anadolubank.

The Electronic Banking Department is responsible for the management of the telemarketing team under the management of the Client Services Unit, which is one of the Bank's alternative channels. Monitoring the sales performance of this team and the management of internet banking, credit card and debit card operations, POS and ATM operations also fall under the responsibility of this Department.

The services are of high quality and rendered without interruption, always cognizant of the importance of customer satisfaction.

Investment Banking

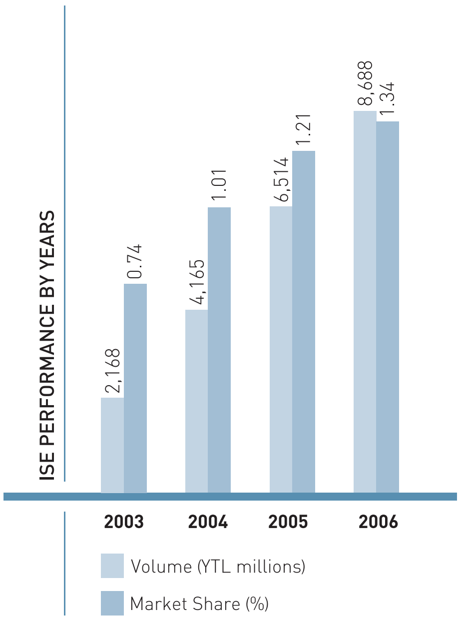
The vision, technological infrastructure, extensive distribution network and group-wide synergy of the Investment Banking Department help Anadolubank's corporate and individual clients derive the maximum benefit from capital markets.

With the steps toward EU accession and the sustainable growth trend, the capital markets of Turkey, which is among the leading emerging economies, have become the center of interest for local and foreign investors. The Istanbul Stock Exchange has been an active marketplace for foreign institutional investors and fund managers which earned higher yields compared to other emerging market stock exchanges. With prudent steps, Anadolubank's Investment Banking Department has earned itself a solid place in the Istanbul Stock Exchange that rapidly grows and gains depth with the ever-increasing numbers of foreign and local investors. The Department has reinforced its name in a business where "reliability" is the key. It follows competitive practices while strictly adhering to written and ethical rules of conduct adopted by the Bank.

← **Çiğdem ÖZKARDEŞ**
Assistant General Manager-
Credit Cards and Electronic Banking

WITH PRUDENT STEPS, ANADOLUBANK'S INVESTMENT BANKING DEPARTMENT HAS EARNED ITSELF A SOLID PLACE IN THE ISTANBUL STOCK EXCHANGE THAT RAPIDLY GROWS AND GAINS DEPTH WITH THE EVER-INCREASING NUMBERS OF FOREIGN AND LOCAL INVESTORS.

In 2006, the transaction volume achieved by Anadolubank on the Istanbul Stock Exchange increased by 33% over the year and totalled YTL 8.7 billion; this figure has increased the Bank's total market share from 1.21% to 1.34%.



The Investment Banking Department renders the following services to depositor clients and companies planning to fund their growth through capital markets:

- Stock trading in primary and secondary markets,
- Research reports,
- Corporate finance services,
- Derivatives trading.

In stock trading-the main scope of activity for the Investment Banking Department-63 branches of Anadolubank and session rooms located in 25 of these branches serve the investors with a client-oriented approach. Boutique brokerage services are rendered to small and medium-size companies and large-scale VIP clients, based on correct and timely research data supported by investment consultants.

In 2006, Anadolubank became the 61st member of the TurkDex and carries out its activities on this market through its Investment Banking Department. Anadolubank has developed its technical infrastructure and futures trading software and has well-trained and competent staff to undertake trades in the TurkDex. With these strengths, the Bank is focused to attain a significant market share in this market next year.

The Research team prepares periodical macroeconomic, company and industry specific reports for clients and employees of Anadolubank, provides a reliable source for short-medium-long term investment decisions encompassing all possible risks and makes portfolio mix proposals based on sophisticated theoretical grounds and experience. The team wields its know-how and experience in accordance with the needs of its clients and engages in "customized" work, guided by the Bank's client-focused approach. The Corporate Finance team advises companies that seek funding their investments through capital markets, by way of consulting and offering their shares to the public.

Information Technology

The IT division serves the Bank's technology requirements with best service quality. The division differentiates itself from its peers by creating a unique IT culture within Anadolubank with a distinct set of values, targets and solutions.

General IT infrastructure

Service Area

Anadolubank has placed great emphasis on its IT infrastructure, ever since its incorporation. Today, the Bank has one of the most advanced IT departments throughout the banking industry keeping touch with and implementing the latest innovations in the IT environment. The IT division also plays an important role in the Bank's ability to reach its targets by creating high-quality applications and solutions, with a customer-oriented service understanding.

The IT division at Anadolubank provides fast, cost-efficient and flexible solutions to all units within the Bank using its own resources, along the lines of IT systems management principles and adhering to the overall management principles of Anadolubank. These solutions are:

- application and software,
- system and operation,
- communication and infrastructure,
- process automation, and
- user support center.

With expert staff and accumulated know-how, the IT division has developed an extensive service list to date consisting of the following;

- An architecture and infrastructure that enable real-time and uninterrupted system resources, with sustainable continuity,
- Instalment and management of POS networks, telephone exchanges and ATM equipment and related infrastructure services,
- Helpdesk and technical support services for the use of all business lines,
- Application software design, development and implementation, and
- Document management.

The IT division chooses the best software development technology in the planning stage for the purpose of developing flexible and functional applications that best meet the requirements of different users. In this process, the department adheres to the principle of developing the most appropriate solution that supports the Bank's business strategies. During the software development process, the Department uses a combination of the following software development tools:

- JAVA
- ORACLE Forms
- Net
- Visual Basic
- LOTUS Domino Notes

THE IT DIVISION UNDERTAKES THE MANAGEMENT AND CONTINUOUS MONITORING OF THE COMMUNICATION ARCHITECTURE WHICH CONSTITUTES THE BACKBONE OF ANADOLUBANK'S COMMUNICATION INFRASTRUCTURE.

IT Infrastructure

The IT division offers uninterrupted 7/24 service to provide systems management, system availability and monitoring, back-up, archive, printout and dispatch at the Data Processing Center. It provides these services using the following systems and technologies at an average access rate of 99,999%:

Using SAN topology and connected to disk units:

- 3 production-environment Unix servers,
- 1 cluster Unix server,
- 1 standby Unix server,
- 1 backup Unix server,
- 5 testing and development environment Unix servers, and
- over 1500 PCs and 200 servers

The IT division undertakes the management and continuous monitoring of the communication architecture which constitutes the backbone of Anadolubank's communication infrastructure.

In this context, the following systems are monitored at an average availability rate of 99.5%:

- An ATM network comprising 65 ATMs,
- 63 bank branches and the Head Office infrastructure,
- uninterrupted MPLS leased lines,
- Metro Ethernet and G.SHDSL lines.

The Bank has a Disaster Recovery Center in Kartal, equipped to handle all banking transactions without interruption in case a disaster occurs that might disrupt operations at the Head Office in Istanbul.

Overview of 2006 Activities

New Applications

Several flexible and functional applications were developed in 2006 with a view to meeting customers' needs efficiently and without interruption. These applications were developed along the Bank's long-term objectives with the most appropriate solutions supporting the Bank's business strategies, and providing basic operational and reporting requirements to the users of the system.

Below are some of these applications:

- On-line foreign-currency transaction platform
- Complete revamp of the Call Centre/IVR implementation
- Use of OTP to access the Internet
- Investment transactions application
- Futures trading application
- Daily monitoring of branch and customer efficiency
- Insurance application
- Modifications and design changes in the Basic Banking Application

← **Cem ATİK**
Assistant General Manager-IT

IN ORDER TO PROVIDE SUPERIOR AND EFFECTIVE SERVICES, ALL SERVERS, DISKS AND BACKUP UNITS WILL BE CHANGED, WARNING MESSAGES WILL BE POSTED AND PREVENTIVE MEASURES WILL BE TAKEN TO PREVENT LOSS OF PERFORMANCE DUE TO FRAGMENTATION OF THE DATABASE IN 2007.

Infrastructure and Architecture

To provide more effective services to customers, in addition to developing new products, performance-enhancing features have been added to the central systems where the main banking applications reside. Application and database performance was enhanced by:

- adding statistical features,
- creating index definitions and
- separating the database into divisions.

Infrastructure and architecture improvements were made to provide real-time and uninterrupted system power with a view to providing continuous service. The following were achieved:

Quality Improvement

To create optimum solutions in any project and service, depending on the specific requirements of the task at hand, an initiative was launched to implement the methodology for COBIT and ISO quality standards, and the necessary restructuring was undertaken at the IT division.

Operations

The Operations division consists of four main functional deparment within its organization;

- Organization and Business Development,
- Branch Operations,
- Central Operations and
- Compliance.

Handling of operations play a major role in the uninterrupted, above-standard and high quality service rendering by Anadolubank to its clients. Anadolubank has opted in centralizing its operations in an effort to minimize operational risks, help branches focus on the client and the sale process, run its central cashier and handle check settlement and exchange transactions within "Branch Operations" and "Central Operations and Compliance" departments.

Anadolubank has achieved its goals regarding operations in recent years and has focused on "efficiency" and "audit" in 2006. The Bank has developed streamlined work flows, swift and easily monitored processes. Plans are constantly upgraded through the suggestions and tasks undertaken to improve work and streamline the progress that has enhanced the scope of improvement work. To this end, all operations are recorded, archived and the necessary databases are formed enabling an effective operational flow and distribution of tasks.

In operations undertaken by the Branches Operations department and the Central Operations department, branches will be offered the best operational services and achieve the highest customer satisfaction possible through swift, high-quality operations at zero error.

While performing the services of the Operations division, differences arising from operations are monitored in real time, allowing the division to report non-standard and deviant operations of branches, mapping out an operational risk distribution table and taking precautions even before any banking risk emerges. On issues concerning loans, foreign exchange, foreign trade and money laundering, the Bank's legislation consultants work towards the continuation and improvement of the legal compliance of the Bank's operations.

Organization and Business Development department reviews all work flows and internal processes and supports decision-making by carrying out feasibility studies for future projects in the pipeline. This department is also responsible for service quality development.

With its expert staff, the Organization and Business Development department is responsible for the following:

- Determining standards for the Bank's operations compliant to corporate standards and enabling coordination among the Bank's other departments to help them abide by these standards, as well as monitoring and coordinating the opening, transfer and closing transactions of the branches. In 2005, infrastructure work related to changes in the Bank's organizational structure was accomplished.
- Fulfilment of all processes for the support units of the Bank's non-banking activities in particular (from credit allocation processes to purchasing, centralized operations and compliance) in a fast, efficient and easily-monitored manner,
- Establishing all platforms required to easily share information constituting the Bank's corporate identity and fulfilling all work required to improve activities on these platforms.

In 2006, extensive processes such as Application for and Allocation of Credit Cards that require integration with other systems were put in place, and in this connection, 12 different work processes and database applications were combined under a common platform called "PORTALIM". With the introduction of "PORTALIM", work processes that were previously carried out manually can now be monitored online. In 2007, the major objective will be to integrate the credit card application and allocation processes to the Credit Limit Control System, creating a digital database of customer signatures and monitoring them on this platform, setting up a Customer Satisfaction Monitoring system, and also providing other improvements to the Bank's related systems.

The Bank aims to increase product and service quality to maximize customer satisfaction. To this end, all internal and external suggestions and proposals were evaluated, all processes were studied and improved, and all kinds of feasibility studies, analyses, and cost-benefit studies were undertaken to streamline operations in general, to reduce costs and enable effective use of resources.

IN THE PRESENT BANKING ENVIRONMENT WHERE THE SPREAD BETWEEN INTEREST INCOME AND EXPENSE HAS NARROWED COMPARED TO PREVIOUS PERIODS, MONITORING NON-INTEREST REVENUES AND NON-INTEREST EXPENSES HAS BECOME MORE IMPORTANT. IN LINE WITH THIS DEVELOPMENT, ANADOLUBANK UNDERTAKES EFFORTS TO INCREASE ITS NON-INTEREST REVENUE AND REDUCE NON-INTEREST EXPENSES.

Financial Affairs

The Financial Affairs division is responsible for the control and reporting of all financial data as well as treasury operations, taxes and insurance. The Budget and Financial Control department and the Financial Operations department. Work under the Financial Affairs division.

The Budget and Financial Control Department plays an extremely important key role in the decision-making processes through the Management Information System (MIS) and assists the senior management in setting strategy. All reports, primarily the reports prepared for the Board of Directors and the Asset-Liability Committee drawn up within the Bank are collected under this department. The balance sheet and income statement are compiled daily and departments and branches are supplied with much needed data to help guide them with policy implementation.

Net interest revenue, which is the main revenue item of a bank, is studied and reported in great detail by the deparment, and projections are made. In the present banking environment where the spread between interest income and expense has narrowed compared to previous periods, monitoring non-interest revenues and non-interest expenses has become more important. In line with this development, Anadolubank undertakes efforts to increase its non-interest revenue and reduce non-interest expenses. To this end, the department follows up non-interest revenue and expense items on a daily basis and in great detail, and compares results against budget figures. The department is responsible for comparative budget reporting of branch performance, along with preparing the budget for the Bank in entirety and the branches separately. In order to increase automated reporting and improve reporting quality, all employees of the department have been trained to use advanced software applications designed for this purpose.

The division prepares the Bank's profitability reports, where the contribution of the clients and branches are monitored, thus helping the Marketing Department's decision-making process. Profitability reports are prepared on a segment basis as well as on a branch and customer basis.

The reports submitted to official bodies such as the BRSA, the Central Bank, Bankers Association, State Institute of Statistics etc., are provided by the Budget and Financial Control department. These reports are provided on a daily, monthly, quarterly and annual basis and provide information to regulators and official bodies on the Bank's financial status and other related areas.

Financial Operations Department is responsible for the operation and reporting of basic treasury transactions, the Bank's general accounting, tax and insurance transactions. All major back-office operations for treasury transactions are executed by this department in conformity with applicable legislation and generally accepted rules worldwide. At the same time, reports pertaining to such transactions are sent to executive management on a daily basis, facilitating the management's strategic decisions.

All book-keeping entries related to general accounting are realized within the Financial Operations department. These transactions are executed in accordance with current legislation and cover wide ranging activities from payments to personnel and third parties to monitoring of affiliates, as well as from calculation of taxes to tax planning.

Providing insurance coverage to the Bank's assets recorded in accounting books and the execution, monitoring and reconciliation of insurance transactions undertaken by the branch offices on behalf of customers in the capacity of an insurance agent are the responsibility of this department.

← **Cengiz DOĞRU**
Assistant General Manager-
Financial Affairs and Operations

PARTICIPATION IN TRAINING PROGRAMS IS ACTIVELY PROMOTED IN THE BELIEF THAT TRAINING IS THE ONLY WAY TO FOSTER BOTH PERSONAL AND CORPORATE DEVELOPMENT AND ENHANCEMENT. TRAINING PROGRAMS, PARTICIPANTS AND LENGTH OF TRAINING ARE DETERMINED BY A WELL-PLANNED YEARLY SURVEY OF TRAINING REQUIREMENTS.

Human Resources and Training

The Human Resources division gathers under its roof the Training, Communication and Administrative Affairs and Security departments in addition to the Human Resources department. Since human resources are the Bank's most valuable assets, the recruitments involve very carefully designed interview and selection processes. Generally, the senior executives personally participate in this process. As of the end of 2006, Anadolubank, including its subsidiaries, had totally 1,433 employees, 496 of whom work at the headquarters and 937 at the branches.

Participation in training programs is actively promoted in the belief that training is the only way to foster both personal and corporate development and enhancement.

Training programs, participants and length of training are determined by a well-planned yearly survey of training requirements. Training programs cover a number of diverse subjects that enhance technical capacity and personal competence of the staff. In 2006, 98,397 hours of training were given to a total number of 3,298 participants. A total of 258 training programs were conducted, of which 145 were organized in-house and 113 were led by professional training institutions. The average training per employee was about 69 hours.

Anadolubank is striving to create a team of bankers with current, up-to-the-minute knowledge about the profession and who are multi-dimensional in their careers. Anadolubank always strives to fill vacant positions from within the ranks, preparing its personnel to be ready for promotion when the time comes.

PERSONNEL STATISTICS*

Number of Staff	2006	2005
Headquarters	496	433
Branches	937	793
Total	1,433	1,226
Number of staff per branch	22	21
Male	48%	48%
Female	52%	52%

* Including subsidiaries

Educational Backgrounds of the Staff	2006	2005
Post-Graduate Degree	65	36
University Degree	1,003	815
High School Graduate	355	361
Primary Education	10	14
Total	1,433	1,226

TRAINING STATISTICS

	Number of Training Programs		Number of Participants		Training Hours	
	2006	2005	2006	2005	2006	2005
In-House Training	145	263	3,121	4,613	95,368	88,028
External Training	113	132	177	200	3,029	4,148
Total	**258**	**395**	**3,298**	**4,813**	**98,397**	**92,176**

← **İsmet DEMİR**
Assistant General Manager-
Human Resources

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006
WITH INDEPENDENT AUDITOR'S REPORT

KPMG

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Independent Auditor's Report

To the Board of Directors of
Anadolubank Anonim Şirketi

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Anadolubank Anonim Şirketi ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

Istanbul, Turkey
26 February 2007

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006
(CURRENCY-THOUSANDS OF NEW TURKISH LIRA [YTL])

	Notes	31 December 2006	31 December 2005
ASSETS			
Cash and balances with the Central Bank	1	58,668	41,021
Deposits with banks and other financial institutions	1	277,991	94,541
Interbank money market placements	1	146,286	280,210
Reserve deposits at the Central Bank	2	178,468	107,077
Financial assets at fair value through profit or loss	3	25,413	206,298
Derivative financial instruments	4	791	335
Investment securities	5	651,201	451,228
Loans and receivables	6	1,486,416	1,170,442
Property and equipment	8	16,961	17,770
Intangible assets	9	2,819	2,846
Other assets	10	8,529	3,723
Total assets		**2,853,543**	**2,375,491**
LIABILITIES AND EQUITY			
Deposits from other banks	11	37,456	200,917
Customers' deposits	11	1,700,423	1,436,277
Other money market deposits	11	126,430	268,731
Funds borrowed	12	623,923	191,409
Derivative financial instruments	4	15,889	152
Other liabilities and provisions	13	35,088	34,519
Income taxes payable	14	5,795	4,306
Deferred tax liability	14	2,394	5,518
Total liabilities		**2,547,398**	**2,141,829**
Share capital issued	15	227,619	100,976
Revaluation of available-for-sale assets	15	(6,928)	25,411
Currency translation adjustment		(1,290)	(1,726)
Other reserves and accumulated profits	15	85,645	107,966
Total equity attributable to equity holders of the Bank		**305,046**	**232,627**
Minority interest	**15**	**1,099**	**1,035**
Total equity		**306,145**	**233,662**
Total liabilities and equity		**2,853,543**	**2,375,491**
Commitments and contingencies	**19**		

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(CURRENCY-THOUSANDS OF NEW TURKISH LIRA [YTL])

	Notes	31 December 2006	31 December 2005
Interest income			
Interest on loans and receivables		198,678	135,891
Interest on securities		85,276	101,748
Interest on deposits with banks and other financial institutions		21,218	14,118
Interest on other money market placements		3,715	953
Other interest income		3,916	673
Total interest income		**312,803**	**253,383**
Interest expense			
Interest on deposits		(157,221)	(118,554)
Interest on other money market deposits		(17,751)	(36,694)
Interest on funds borrowed		(27,673)	(11,968)
Other interest expense		(8,656)	(211)
Total interest expense		**(211,301)**	**(167,427)**
Net interest income		**101,502**	**85,956**
Fees and commissions income		54,048	33,123
Fees and commissions expense		(7,560)	(4,946)
Net fees and commissions income		**46,488**	**28,177**
Other operating income			
Trading income			
Foreign exchange gain		19,886	15,013
		-	13,414
Other income		6,40	74,446
Total other operating income		**26,293**	**32,873**
Other operating expense			
Salaries and employee benefits	17	(60,426)	(43,748)
Foreign exchange loss		(3,218)	-
Provision for possible loan losses, net of recoveries	6	(3,995)	(4,270)
Depreciation and amortization	8,9	(5,284)	(6,208)
Taxes other than on income		(2,826)	(3,770)
Other expenses	18	(31,614)	(29,446)
Total other operating expense		**(107,363)**	**(87,442)**
Income from operations		**66,920**	**59,564**
Income tax provision			
Loss on monetary position	14	(17,534)	(15,838)
		-	(5,658)
Net income for the year		**49,386**	**38,068**
Net income for the year attributable to:			
Equity holders of the Bank		49,322	37,843
Minority interest		64	225

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

(CURRENCY-THOUSANDS OF NEW TURKISH LIRA [YTL])

	Notes	Share capital	Minority Interest	Currency translation adjustment	Revaluation of available-for-sale assets	Legal reserves and accumulated profits	Total
Balances at 1 January 2005		**100,976**	**807**	**(1,726)**	**-**	**70,123**	**170,180**
Minority interest resulting from new subsidiary	15	-	3	-	-	-	3
Net market value gains from available-for-sale portfolio	15	-	-	-	25,411	-	25,411
Net income for the year		-	225	-	-	37,843	38,068
At 31 December 2005		**100,976**	**1,035**	**(1,726)**	**25,411**	**107,966**	**233,662**
Balances at 1 January 2006		**100,976**	**1,035**	**(1,726)**	**25,411**	**107,966**	**233,662**
Transfer from unappropriated earnings	15	71,643	-	-	-	(71,643)	-
Share capital increase	15	55,000	-	-	-	-	55,000
Net market value losses from available-for-sale portfolio	15	-	-	-	(25,634)	-	(25,634)
Net gains on available-for-sale assets transferred to the income statement on disposal	15	-	-	-	(6,705)	-	(6,705)
Currency translation adjustment		-	-	436	-	-	436
Net income for the year		-	64	-	-	49,322	49,386
At 31 December 2006		**227,619**	**1,099**	**(1,290)**	**(6,928)**	**85,645**	**306,145**

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006

(CURRENCY-THOUSANDS OF NEW TURKISH LIRA [YTL])

	Notes	31 December 2006	31 December 2005
Cash flows from operating activities			
Income before minority interest and monetary loss		49,386	43,726
Deferred taxation	14	9,487	(1,771)
Provision for loan losses	6	3,995	4,270
Depreciation and amortization	8,9	5,284	6,208
Provision for retirement pay liability	13	2,549	596
Other various expense accruals		2,638	3,220
Currency translation differences		(436)	-
Operating profit before changes in operating assets and liabilities		**72,903**	**56,249**
Changes in operating assets and liabilities			
Deposits with banks		(15,836)	22,793
Reserve deposits		(71,391)	(20,349)
Financial assets at fair value through profit or loss		180,885	96,616
Loans and receivables		(319,969)	(314,900)
Derivatives		15,281	2,949
Other assets		(3,923)	3,888
Deposits		100,685	188,829
Other liabilities and provisions		(4,618)	(2,892)
Income taxes payable		1,489	4,112
Cash (used in)/provided by operating activities		**(44,494)**	**37,295**
Cash flows from investing activities			
Net investment in property and equipment, and intangible assets		(4,448)	(8,765)
Net (increase)/decrease in security investments		(244,934)	37,065
Cash (used in)/provided by investing activities		**(249,382)**	**28,300**
Cash flows from financing activities			
Net increase in funds borrowed		290,213	58,499
Increase in share capital		55,000	-
Cash provided by financing activities		**345,213**	**58,499**
Effect of monetary gain/(loss) on cash and cash equivalent		-	(10,130)
Net increase in cash and cash equivalents		51,337	113,964
Cash and cash equivalents at the beginning of the period		415,772	301,808
Cash and cash equivalents at the end of the period	1	**467,109**	**415,772**
Interest paid		203,877	152,863
Interest received		298,124	292,505
Income taxes paid		6,445	13,502

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2006

(CURRENCY-THOUSANDS OF NEW TURKISH LIRA [YTL])

Overview of the Bank

Anadolubank AŞ ("the Bank"), has commenced operations pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August 1997 and numbered 39692 and started its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes. The Bank provides corporate, commercial and retail banking services through a network of 63 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 parent and the ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

The Bank has four consolidating subsidiaries which are Anadolubank Off-shore Limited ("Anadolu Offshore"), Anadolu Yatırım Menkul Kıymetler AŞ ("Anadolu Yatırım"), Anadolu Finansal Kiralama AŞ ("Anadolu Leasing"), and Anadolubank Nederland NV ("Anadolu Nederland").

The Bank has 99.4% ownership in Anadolu Offshore, established in the Turkish Republic of Northern Cyprus. Anadolu Offshore 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 99.92% ownership in Anadolu Leasing, located in Istanbul. Anadolu Leasing was established on 8 December 2005 by obtaining the leasing license which is required to operate in the financial leasing sector.

The Bank has 100% ownership in Anadolu Nederland, located in Amsterdam. The Bank aims to engage 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".

Significant accounting policies

a) Statement of compliance

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in New Turkish Lira ("YTL") in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), regulations promulgated by the Capital Market Board of Turkey and also the Turkish Commercial Code; The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in U.S. Dollars 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 ("IFRS"). The Group adopted all IFRS, which were mandatory as of 31 December 2006. The accompanying consolidated financial statements are authorized for issue by the directors on 26 February 2007.

b) Basis of preparation

The accompanying consolidated financial statements are presented in thousands of YTL.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, financial assets and liabilities held for trading, available-for-sale assets and tangible assets held for sale. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The accounting policies have been consistently applied by the Bank and its affiliates and are consistent with those used in previous years.

c) Basis of consolidation

i) Methodology

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

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

The major principles of consolidation are as follows:

- The balance sheets and income statements are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the balance sheets and income statements are eliminated.
- The results of the subsidiaries are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Minority interests in the shareholders' equity and net income of the consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated income statements

ii) Subsidiaries

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

		Principal	Effective Shareholding and Voting Rights (%)	
	Place of Incorporation	Activities	31 December 2006	31 December 2005
Anadolu Yatırım	Istanbul / Turkey	Brokerage	82.00	82.00
Anadolu Offshore	Turkish Republic of Northern Cyprus	Banking	99.40	99.40
Anadolu Leasing	Istanbul / Turkey	Leasing	99.92	99.92
Anadolu Nederland	Amsterdam / the Netherlands	Banking	100.00	-

d) Accounting in hyperinflationary economies

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies" as of 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 balance sheet date, and that corresponding figures for previous periods 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 has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Institute of Statistics (TIS). This together with the sustained positive trend in quantitative factors, such as the experienced financial and monetary economic stabilization, decreased interest rates and the appreciated value of Turkish Lira against USD, has resulted that Turkey should be considered non-hyperinflationary under IAS 29 from 1 January 2006. Therefore IAS 29 has not been applied to the accompanying consolidated financial statements as of and for the year ended 31 December 2006.

The main guidelines for the restatement mentioned above are as follows:

- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant conversion factors.
- All items in the income statement are restated by applying the monthly conversion factors except for those deriving from non-monetary items, which are calculated, based on the restated values of the related items.
- The effects of inflation on the net monetary positions of the Bank and its affiliates, is included in the income statement as "gain/(loss) on monetary position, net".

e) Foreign currency

i) Foreign currency transactions

Transactions are recorded in YTL, which represents the Group's functional currency except Anadolu Offshore and Anadolu 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 YTL at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the income statement as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the income statement as realized during the course of the period.

ii) Consolidated financial statements of foreign operations

The functional currencies of the foreign subsidiaries, Anadolu Offshore and Anadolu Nederland, are USD and EUR, respectively, and their financial statements are translated to the presentation currency, YTL, 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 balance sheet date. The income statements of the foreign subsidiaries are translated at quarterly 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.

f) Interest income and expense

Interest income and expense are recognised in the income statement 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 income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis
- interest on available-for-sale investment securities on an effective interest basis
- fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

g) 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 recognised 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 recognised 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.

h) Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss and available-for-sale.

i) Income taxes

Tax expense (income) is the aggregate amount included in the determination of net income or loss for the period in respect of current and deferred tax.

Deferred tax liabilities and assets are recognized for the tax effects attributable to differences between the tax and book bases of assets and liabilities (i.e. future deductible or taxable temporary differences) and tax losses carried forward, using the liability method. The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset at the balance sheet date.

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 substantively enacted at the balance sheet date.

Deferred tax assets and liabilities relating to individual consolidated subsidiaries that report to the same fiscal authority are offset against each other in the accompanying consolidated financial statements.

Deferred and current taxes related to fair value remeasurement of available-for-sale assets are charged or credited directly to equity and subsequently recognized in the income statement together with the deferred gains or losses that are realized.

j) Financial instruments

Classification

Financial instruments at fair value through profit or loss are those that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its subsidiaries provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise due to banks and loans and receivables to customers.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt investment.

Available-for-sale assets are financial assets that are not held for trading purposes, loans and receivables to banks and customers, or held to maturity. Available-for-sale instruments include certain debt investment.

Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized. Held-to-maturity instruments and loans and receivables are recognized on the day they are originated.

Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are recognized in the income statement as net gain/(loss) on trading and investment securities.

Gains and losses arising from a change in the fair value of available-for-sale securities are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement. Interest earned whilst holding available-for-sale securities is reported as interest income. Interest earned whilst holding held to maturity assets is reported as interest income.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Specific instruments

Cash and balances with Central Banks: Cash and balances with Central Banks comprise cash balances on hand, cash deposited with Central Banks and other cash items. Money market placements are classified in loans and advances to banks.

Investments: Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Loans and advances to banks and customers: Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Minimum lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Minimum lease receivables are included in loans and receivables.

k) Property and equipment

The costs of property and equipment purchased before 31 December 2005 are restated for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29. 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 income in the period 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 on a straight-line basis 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.

l) Intangible assets

Intangible assets mainly comprise computer software. Cost associated with developing or maintaining computer software programmes are recognised as an expense as incurred. They are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives for a period not exceeding 5 years from the acquisition date (Note 9). Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

m) Repurchase transactions

The Group enters into purchases/(sales) of investments under agreements to resell/(repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

n) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific allowance for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivables to their recoverable amounts.

The Group fully reflected all specific provisions in the accompanying consolidated financial statements. The expected cash flows for loans are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the income statement.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

o) 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 balance sheets, since such items are not the assets of the Group.

p) 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.

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 balance sheet date on government bonds, in accordance with IAS 19- "Employee Benefits".

The principal actuarial assumptions used at 31 December 2006 and 31 December 2005 are as follows;

	31 December 2006	31 December 2005
Discount rate	5%	6%
Expected rate of salary/limit increase	11%	12%
Turnover rate to estimate the probability of retirement	19%	19%

Actuarial gains and losses are recognized in the income statement in the period they occur.

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2006 is YTL 1,857; at 31 December 2005 it was YTL 1,727. The liability is not funded, as there is no funding requirement.

q) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

r) 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 balance sheet 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.

s) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the balance sheet dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

Index for the notes to the consolidated financial statements

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1. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash on hand	19,936	24,917
Balances with the Central Bank	38,732	16,104
Deposits with banks and other financial institutions	277,991	94,541
Interbank money market placements	146,286	280,210
Cash and cash equivalents in the balance sheet	**482,945**	**415,772**
Less: Time deposits with original maturities of more than three months	(15,836)	-
Cash and cash equivalents in the cash flow statement	**467,109**	**415,772**

As of 31 December 2006 and 31 December 2005, interest range of deposits and placements are as follows:

	31 December 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign Currency	YTL	Foreign Currency	YTL	Foreign Currency	YTL	Foreign Currency
Balances with the Central Bank	33	38,699	10.3-13.1	1.73-2.52	907	15,197	10.25	1.1-2.0
Deposits with banks and other financial institutions	149,261	128,730	17.5-19	2.00-5.38	2,069	92,472	14.5-15.00	2.4-4.3
Interbank money market placements	-	146,286	-	5.25-5.27	280,210	-	14.44	-
Total	**149,294**	**313,715**			**283,186**	**107,669**		

2. Reserve deposits at the Central Bank

	31 December 2006	31 December 2005
- YTL	70,076	41,113
- Foreign currency	108,392	65,964
Total	**178,468**	**107,077**

These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for YTL and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. Interest rates applied for reserve requirements are 13.12% (31 December 2005: 10.25%) for YTL deposits and 1.73%-2.515% (31 December 2005: 1.1%-2.0%) for foreign currency deposits.

3. Financial assets at fair value through profit or loss

	31 December 2006 Carrying value	31 December 2006 Effective Interest Rate (%)	31 December 2005 Carrying value	31 December 2005 Effective Interest Rate (%)
Debt instruments				
Government bonds in YTL	25,154	17.67-23.43	183,636	13.81 - 19.80
Treasury bills in YTL	94	19.18-20.75	16,219	13.87 - 15.81
Eurobonds issued by the Turkish Government	165	5.50-12.38	6,333	5.50-12.38
	25,413		206,188	
Others				
Equity securities (listed)	-	-	110	-
Total financial assets at fair value through profit or loss	**25,413**		**206,298**	

Income from debt and other instruments held at fair value is reflected in the consolidated income statement as interest on securities.

Carrying value of debt instruments given as collateral under repurchase agreements are:

	31 December 2006	31 December 2005
Financial assets at fair value through profit or loss	-	60,928

As of 31 December 2006, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and Türkiye İş Bankası for legal requirements and as a guarantee for stock exchange and money market operations are YTL 2,300 and YTL 2,049 (31 December 2005: YTL 37,771 and YTL 39,534), respectively.

4. Derivative financial instruments

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

The table below shows the favorable (assets) and unfavorable (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 period/year-end and are neither indicative of the market risk nor credit risk.

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

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	31 December 2006								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	227	-	413,587	391,250	15,891	3,128	3,318	-	-
Forward sale contract	-	183	413,353	391,249	15,750	3,132	3,222	-	-
Currency swap purchase	564	-	337,678	63,895	177,502	-	-	67,144	29,137
Currency swap sale	-	15,706	351,932	64,126	188,666	-	-	69,140	30,000
Put option sale	-	-	-	-	-	-	-	-	-
Total	**791**	**15,889**	**1,516,550**	**910,520**	**397,809**	**6,260**	**6,540**	**136,284**	**59,137**

	31 December 2005								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	97	-	229,798	207,433	19,905	2,180	280	-	-
Forward sale contract	-	152	229,927	207,466	19,990	2,189	282	-	-
Currency swap purchase	238	-	118,246	49,560	68,686	-	-	-	-
Currency swap sale	-	-	118,008	49,586	68,422	-	-	-	-
Total	**335**	**152**	**695,979**	**514,045**	**177,003**	**4,369**	**562**	**-**	**-**

5. Investment securities

As at 31 December 2006 and 31 December 2005, investment securities comprised the following:

	31 December 2006	31 December 2005
Available for sale securities	-	451,228
Held to maturity securities	651,201	-
Total investment securities	**651,201**	**451,228**

Available-for-sale securities

	31 December 2006		31 December 2005	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments				
Turkish government bonds	-	-	157,296	21.20
Eurobonds issued by Turkish government	-	-	146,693	10.50-11.88
Foreign currency government bonds	-	-	111,300	5.68-6.24
Foreign currency indexed government bonds	-	-	35,939	(a)
Total available-for-sale securities	**-**		**451,228**	

(a) The interest rates applied on these securities are Libor+2.85% as fixed semiannually by the Turkish Treasury.

Carrying value of debt instruments given as collateral under repurchase agreements are:

	31 December 2006	31 December 2005
Available-for-sale securities	-	250,066

Held to Maturity securities

	31 December 2006		31 December 2005	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments				
Turkish government bonds	357,792	14.31-21.16	-	-
Eurobonds issued by Turkish government	175,445	7.41-9.34	-	-
Foreign currency government bonds	117,964	6.81-7.08		
Total held to maturity securities	**651,201**		**-**	

Carrying value of debt instruments given as collateral under repurchase agreements are:

	31 December 2006	31 December 2005
Held to maturity securities	148,478	-

As of 31 December 2006, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 21,172 and YTL 20,360 (31 December 2005: YTL 114,461 and YTL 105,990), respectively.

The Group has also given the government bonds having carrying value of YTL 77,649 (USD 54,509 thousand) with a face value of USD 53,362 thousand as collateral to Morgan Stanley Bank International Limited for the funds provided amounting to YTL 60,000.

The government bonds given as collateral to the Standart Bank Plc London for derivative transactions (cross currency swaps) with carrying value amounting to YTL 37,609 are kept at Standart Yatırım Menkul Kıymetler Anonim Şirketi.

The Bank has reclassed the securities from available for sale securities to held to maturity securities with the fair value of YTL 375,941 at the transfer date in accordance with the decision of Board of Directors dated 8 May 2006. The previous loss of YTL 8,647 net off deferred tax that has been recognized directly in equity has been accounted to be amortized to income statement over the remaining life of the transferred securities using the effective interest method.

The Bank has also reclassified certain security investments, previously classified in its securities available-for-sale portfolio, amounting to YTL 263,251 thousands to its securities held-to-maturity portfolio. Such securities are included in the securities held-to-maturity portfolio above at their fair values of YTL 265,420 thousands as of their reclassification dates. The value increases of such securities amounting YTL 2,149 thousands are recorded under the shareholders' equity and amortized through the income statement up to their maturities as earned.

(CURRENCY-THOUSANDS OF NEW TURKISH LIRA [YTL])

6. Loans and receivables

	31 December 2006						
	Amount				Effective Interest Rate (%)		
	YTL	Foreign Currency	Foreign Currency Indexed	Total	YTL	Foreign currency	Foreign Currency Indexed
Minimum lease receivables (note 7)	4,853	24,680	-	29,533	9.63-11.70	11.73-25.14	-
Corporate loans	807,001	292,991	172,519	1,272,511	20.00-31.00	3.92-10.50	5.10-10.80
Consumer loans	138,379	-	14,114	152,493	18.44-26.28	-	3.60-12.60
Credit cards	31,879	-	-	31,879	67.44	-	-
Total loans	**982,112**	**317,671**	**186,633**	**1,486,416**			
Non performing loans				18,469			
Less: Reserve for possible loan losses				(18,469)			
				1,486,416			

	31 December 2005						
	Amount				Effective Interest Rate (%)		
	YTL	Foreign Currency	Foreign Currency Indexed	Total	YTL	Foreign currency	Foreign Currency Indexed
Minimum lease receivables	-	-	-	-	-	-	-
Corporate loans	599,143	294,777	177,374	1,071,294	14.00-30.00	3.70-8.00	3.50-8.00
Consumer loans	35,772	-	42,205	77,977	11.88-23.88	-	6.12-9.60
Credit cards	21,171	-	-	21,171	54.00	-	-
Total loans	**656,086**	**294,777**	**219,579**	**1,170,442**			
Loans in arrears				15,887			
Less: Reserve for possible loan losses				(15,887)			
				1,170,442			

The specific allowance for possible 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 2006	31 December 2005
Reserve at beginning of period/year	15,887	14,357
Provision for possible loan losses	8,481	5,474
Recoveries	(4,486)	(1,204)
Provision, net of recoveries	3,995	4,270
Loans written off during the period/year	(1,413)	(2,368)
Monetary (gain)/loss	-	(372)
Reserve at end of period/year	**18,469**	**15,887**

7. Minimum lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following financial lease receivables:

	31 December 2006
Financial lease receivables, net of unearned income (note 6)	29,533
Less: allowance for possible losses on lease receivables	-
	29,533

Analysis of net financial lease receivables	
Due within 1 year	6,089
Due between 1 and 5 years	28,070
Financial lease receivables, gross	34,159
Unearned income	(4,626)
Financial lease receivables, net	**29,533**

Analysis of net financial lease receivables, net	
Due within 1 year	5,018
Due between 1 and 5 years	24,515
Financial lease receivables, net	**29,533**

8. Property and equipment

Movement in tangible assets as of and for the period ended 31 December 2006 is as follows:

	31 December 2005	Additions	Disposals	31 December 2006
Cost				
Buildings	4,742	-	-	4,742
Motor vehicles	3,470	239	(31)	3,678
Furniture, office equipment and leasehold improvements	45,282	3,218	(17)	48,483
	53,494	**3,457**	**(48)**	**56,903**
Accumulated Depreciation				
Buildings	681	95	-	776
Motor vehicles	1,903	491	(10)	2,384
Furniture, office equipment and leasehold improvements	33,140	3,648	(6)	36,782
	35,724	**4,234**	**(16)**	**39,942**
Net Book Value	**17,770**			**16,961**

As of 31 December 2006, the cost of fully depreciated property and equipment are still in active use amounting to YTL 33,667 (31 December 2005 - YTL 33,433).

As of 31 December 2006, tangible assets were insured to the extent of YTL 37,681 (31 December 2005: YTL 34,616) in total.

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9. Intangible assets

Movement in intangible assets as of and for the period ended 31 December 2006 is as follows:

	31 December 2005	Additions	Disposals	31 December 2006
Cost				
Software	8,892	1,023	-	9,915
Other intangibles	1,381	-	-	1,381
	10,273	**1,023**	**-**	**11,296**
Accumulated Amortization				
Software	6,105	1,050	-	7,155
Other intangibles	1,322	-	-	1,322
	7,427	**1,050**		**8,477**
Net Book Value	**2,846**			**2,819**

10. Other assets

	31 December 2006	31 December 2005
Prepaid expenses	2,549	1,479
Due from credit cards	1,343	362
Prepaid taxes	401	-
Assets held for resale	292	299
Income accruals	257	338
Advances given	39	24
Others	3,648	1,221
Total	**8,529**	**3,723**

Assets held for resale obtained from loan customers are stated at restated cost less any impairment in value identified by the valuation reports made by independent appraisal firms.

11. Deposits

Deposits from other banks

	31 December 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Demand	46	87	-	-	152	136	-	-
Time	284	37,039	17.00-19.00	5.25-5.75	192,320	8,309	13.20-16.50	3.00-4.50
Total	**330**	**37,126**			**192,472**	**8,445**		

Customers' deposits

	31 December 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Saving								
Demand	17,227	59,988	-	-	22,266	51,315	-	-
Time	661,994	558,508	12.50-21.25	1.00-6.50	537,337	508,090	10.00-19.00	1.00-4.85
	679,221	**618,496**			**559,603**	**559,405**		
Commercial and other								
Demand	52,647	79,301	-	-	48,032	82,325	-	-
Time	70,092	200,666	12.75-21.25	2.75-5.90	109,474	77,438	10.00-18.75	1.50-4.75
	122,739	**279,967**			**157,506**	**159,763**		
Total	**801,960**	**898,463**			**717,109**	**719,168**		

Other money market deposits

	31 December 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	-	-	-	-	450	-	12.35-12.82	-
-Due to banks	89,238	37,192	17.85-18.35	5.58-6.31	170,280	98,001	13.70-15.25	3.19-4.46
Total	**89,238**	**37,192**			**170,730**	**98,001**		

12. Funds borrowed

	31 December 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Short-term	12,544	503,280	11.00-22.00	3.52-7.01	8,081	154,837	4.13-18.00	2.00-6.33
Medium/long term	66,907	41,192	12.45	4.63-6.96	27,022	1,469	9.95	3.89-5.42
Total	**79,451**	**544,472**			**35,103**	**156,306**		

On 27 January 2006, the Bank has obtained YTL 60,000 loan with a maturity of 2 years from Morgan Stanley Bank International Limited and the interest rate on such loan was 12.45%.

On 19 April 2006, the Bank has obtained YTL 141,310 (YTL equivalent of USD 100,000,000) syndication loan with a maturity of one year. The arranger of the loan was West LB AG and the interest rate on such loan is Libor+0.40%.

On 10 October 2006, the Bank has obtained YTL 226,096 (YTL equivalent of USD 160,000,000) syndication loan with a maturity of one year. The arranger of the loan was Standart Chartered Bank and the interest rate on such loan is fixed at 5,71 as of 31 December 2006.

The Bank has closed down the borrowing account of YTL 27,000 from Morgan Stanley Bank International limited by paying YTL 20,600 which was the net present value of such loan at that date before the maturity.

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

	31 December 2006 Fixed rate	31 December 2005 Fixed rate
2007	-	961
2008	100,865	508
2011	7,234	-
2015	-	27,022
Total	**108,099**	**28,491**

13. Other liabilities and provisions

	31 December 2006	31 December 2005
Transfer orders	9,752	12,166
Taxes other than on income	8,350	4,171
Other various accruals	4,562	4,051
Provision for retirement pay liability and liability for unused vacations	3,731	1,182
Cash collaterals and blockages	1,559	968
Others	7,134	11,981
Total	**35,088**	**34,519**

The movement in provision for retirement pay liability and for liability for unused vacations is as follows:

	31 December 2006	31 December 2005
Total provision at the beginning of period	**1,182**	**596**
Increase during the year	2,549	596
Monetary gain	-	(10)
Total	**3,731**	**1,182**

14. Income taxes

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2006. This rate was 30% for the year 2005. In accordance with Article No. 32 of the new Corporate Tax Law No. 5520 published in the Official Gazette No. 26205 dated 21 June 2006, corporate tax rate is reduced from 30% to 20%. Accordingly, effective from 1 January 2006, statutory income is subject to corporate tax at 20%. Excess of corporate taxes paid in advance based on the tax base calculated on the quarterly earnings of the companies at the rate of 30% subsequent to periods beginning after 1 January 2006, will be deducted from the corporate taxes paid in advance for the subsequent periods based on the new tax rate.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, provision for taxation charge, as reflected in the accompanying consolidated financial information, has been calculated on a separate-entity basis.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The effective tax rate for offshore subsidiary in Turkish Republic of Northern Cyprus is 2%.

Major components of income tax expense:

	31 December 2006	31 December 2005
Current income tax		
Current income tax charge	8,047	17,609
Deferred income tax		
Relating to origination and reversal of temporary differences	9,487	(1,771)
Income tax provision reported in consolidated income statement	**17,534**	**15,838**

The taxes payable and prepaid taxes are detailed below:

	31 December 2006	31 December 2005
Current taxes payable	8,047	17,609
Prepaid taxes	(2,252)	(13,303)
Net balance	**(5,795)**	**4,306**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the six-month period ended 31 December 2006 were as follows :

	31 December 2006	Tax rate (%)	31 December 2005	Tax rate (%)
Net profit from ordinary activities before income tax and minority interest and after monetary loss	**66,920**		**53,906**	
Taxes on income per statutory tax rate	13,384	20.00	16,171	30.00
Tax rate change	1,790	2.68	-	-
Disallowable expenses	841	1.26	168	0.31
Effect of income not subject to tax	(82)	(0.12)	(1,683)	(3.12)
Tax benefit of investment allowance	-	-	(375)	(0.70)
Effect of restatement and other, net	1,601	2.44	1,557	2.89
Provision for taxes on income	**17,534**	**26.26**	**15,838**	**29.38**

Deferred taxes at 31 December 2006 and 31 December 2005 are attributable to the items below:

	31 December 2006 Deferred tax Assets/ (Liabilities)	31 December 2005 Deferred tax Assets/ (Liabilities)
Deferred taxes:		
Valuation difference of derivative instruments	2,997	(55)
Provision for Retirement pay liability and Unused Vacation	725	209
Performance premium accrual	427	455
Valuation differences of premises and equipment, intangibles and assets held for resale	273	117
Provision for credit card awards	107	106
Provision for legal cases	52	279
Differences in securities valuation	(6,996)	(6,960)
Others	21	331
Total deferred tax liabilities	**(2,394)**	**(5,518)**

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15. Shareholders' equity

Share capital

	31 December 2006	31 December 2005
Number of common shares, YTL 0.001 (in full YTL), par value Authorized, issued and outstanding 225,000 millions;	**225,000**	**66,000**

The authorized nominal share capital of the Bank amounted to YTL 225,000 thousands as of 31 December 2006. As per the resolution of the Board of Directors on 30 October 2006, it was decided to increase the Bank's statutory share capital from YTL 66,000 thousands to YTL 225,000 thousands by cash contribution amounting to YTL 55,000 and through appropriation of capital reserves from inflation adjustments to paid in capital of YTL 32,357 thousands, legal reserves and accumulated profits of YTL 71,643 thousands. The increase was registered on 29 December 2006.

As of 31 December 2006 and 31 December 2005, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2006		31 December 2005	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	152,714	67.87	44,796	67.87
Mehmet Rüştü Başaran	65,799	29.24	19,301	29.24
Other shareholders	6,487	2.89	1,903	2.89
Historical amount	225,000	100.00	66,000	100.00
Restatement effect	2,619		34,976	
Total	**227,619**		**100,976**	

Legal Reserves

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 of 31 December 2006, the Group's legal reserves, which were included within the other reserves and accumulated profit balance amount to YTL 5,100 (31 December 2005: YTL 3,116).

Minority interest

As at 31 December 2006 net minority interest amounts to YTL 1,099 (31 December 2005: YTL 1,035). Minority interest is detailed as follows:

	31 December 2006	31 December 2005
Capital and other reserves	798	798
Accumulated profits	237	12
Current period net income/(loss)	64	225
Total	**1,099**	**1,035**

Revaluation of available-for-sale assets

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

	31 December 2006	31 December 2005
Balance at the beginning of the year	25,411	-
Net gains/(losses) from changes in fair value	(35,080)	36,301
Related deferred and current income taxes	9,446	(10,890)
Net (gains)/losses transferred to the income statement on disposal and impairment	(9,881)	-
Related deferred and current income taxes	3,176	-
Balance at the end of the year	**(6,928)**	**25,411**

16. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 67.87% (31 December 2005: 67.87%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

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

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

Outstanding balances

	31 December 2006	31 December 2005
Cash loans	13,816	12,772
Non-cash loans	24,724	26,276
Deposits taken	68,308	99,470
Notional amount of derivative transactions	20,667	20,754

Transactions

	31 December 2006	31 December 2005
Interest income	166	544
Interest expense	818	1,126
Other operating income	1,445	226
Other operating expense	1,326	457

Directors' Remuneration

The key management (nine executives including the general manager) and the members of the Board of Directors received remuneration and fees totaling YTL 2,471 for the year ended 31 December 2006 (31 December 2005: YTL 3,010).

17. Salaries and employee benefits

	31 December 2006	31 December 2005
Staff costs		
Wages and salaries	44,637	31,082
Cost of defined contribution plan (employer's share of social security premiums)	7,256	5,734
Other fringe benefits	5,984	6,336
Provision for employee termination benefits and liability for unused vacations	2,549	596
Total	**60,426**	**43,748**

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The average number of employees during the period is:

	31 December 2006	31 December 2005
The Bank	1,263	1,199
Subsidiaries	57	33
Total	**1,320**	**1,232**

18. Other expenses

	31 December 2006	31 December 2005
Operating lease charges	8,479	6,734
Communication expenses	2,839	3,930
Saving Deposit Insurance Fund premium	2,613	1,970
Advertising expenses	1,788	3,899
Transportation expenses	1,720	1,551
Energy costs	987	982
Cleaning service expense	975	901
Hosting cost	917	546
Office supplies	827	827
Maintenance expenses	822	692
POS service expenses	711	-
Chartered accountants	537	327
Other provisions	504	1,742
BRSA participation fee	486	470
Raw credit card expenses	477	100
Credit card service expense	364	5
Various administrative expenses	6,568	4,770
Total	**31,614**	**29,446**

19. Commitment and contingencies

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

	31 December 2006	31 December 2005
Letters of guarantee	729,800	562,246
Letters of credit	265,158	179,622
Acceptance credits	17,427	16,356
Other guarantees	205,772	90,975
Total non-cash loans	1,218,157	849,199
Credit card limit commitments	173,134	142,822
Other commitments	208,787	156,089
Total	**1,600,078**	**1,148,110**

Litigations

a) The Bank

i) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of USD 3,250,000 (initially USD 14,750,000, USD 11,500,000 of which was dropped) 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.

ii) In addition to the above mentioned cases, there are 26 other law cases opened against the Bank, claims of which in total amount to YTL 3,912. At 31 December 2006, the Bank management recorded the provision of YTL 259 for such cases.

b) The Subsidiaries

There are 3 law cases opened against Anadolu Yatırım, claims of which in total amount to YTL 1,657. As of 31 December 2006, a provision of YTL 13 is recorded for such cases.

Commitments Under Operating Leases

As of 31 December 2006 and 31 December 2005, future minimum rentals payable under non cancelable operating leases are as follows:

	31 December 2006	31 December 2005
Within one year	5,976	6,111
After one year but not more than five years	7,659	9,227
Total	**13,635**	**15,338**

20. Financial risk management

General

A dedicated member of the Board who is assigned as Risk Supervisor heads the Risk Management Group. The Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Group reviews the latest figures and projections for the Bank's profit and loss accounts and balance sheet, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

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Anadolubank Risk Rating Module is based on both qualitative and quantitative criteria and used in credit decisions as well as pricing. The performance of the ratings is monitored by the Risk Management Group who intensively works on establishing Basel II compliant systems.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Sectorial break down of cash and non-cash loans is as follows:

	31 December 2006				31 December 2005			
	Cash	Cash (%)	Non-cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Non-bank financial institutions	117,017	7.9	106,640	8.8	184,930	15.8	56,047	6.6
Domestic trade	164,526	11.1	162,813	13.4	152,157	13.0	110,396	13.0
Metal and mining	104,720	7.0	83,170	6.8	110,022	9.4	119,737	14.1
Textiles	145,908	9.8	98,578	8.1	100,658	8.6	62,841	7.4
Food	96,821	6.5	74,434	6.1	77,249	6.6	33,119	3.9
Consumer loans	194,671	13.1	1,186	0.1	77,977	6.6	849	0.1
Chemical	113,933	7.7	78,268	6.4	72,567	6.2	40,762	4.8
Iron & steel	117,014	7.9	116,186	9.5	71,397	6.1	42,460	5.0
Construction	86,318	5.8	145,187	11.9	66,715	5.7	134,173	15.8
Agriculture	72,849	4.9	23,228	1.9	50,329	4.3	28,024	3.3
Service	81,399	5.5	74,023	6.1	47,988	4.1	29,722	3.5
Export	42,465	2.9	32,379	2.7	39,795	3.4	30,571	3.6
Automotive	31,627	2.1	37,382	3.1	15,216	1.3	45,857	5.4
Finance	783	0.1	9,545	0.7	14,045	1.2	20,381	2.4
Electronics	21,619	1.4	73,956	6.1	11,704	1.0	44,158	5.2
Other	94,746	6.3	101,180	8.3	77,693	6.7	50,102	5.9
Total	**1,486,416**	**100.0**	**1,218,157**	**100.0**	**1.170.442**	**100.0**	**849,199**	**100.0**

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

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	Up to 1 Month	1 to 3 months	3 to 6 Months	6 to 12 Months	Over 1 years	Total
As at 31 December 2006						
Assets						
Cash and balances with the Central Bank	58,668	-	-	-	-	58,668
Deposits with banks and other financial Institutions	273,956	4,035	-	-	-	277,991
Interbank money market placements	130,450	15,836	-	-	-	146,286
Reserve deposits at the Central Bank	151,756	24,380	1,771	561	-	178,468
Financial assets at fair value through profit or loss	153	18	256	228	24,758	25,413
Investment securities	-	-	-	-	-	-
Held to maturity investments	-	-	-	215,513	435,688	651,201
Loans and receivables	369,571	396,505	365,733	106,710	247,897	1,486,416
Derivative financial instruments	264	-	-	-	527	791
Other assets	8,525	-	-	-	4	8,529
Total assets	**993,343**	**440,774**	**367,760**	**323,012**	**708,874**	**2,833,763**
Liabilities						
Deposits from other banks	37,456	-	-	-	-	37,456
Customers' deposits	1,448,800	226,629	19,533	5,261	200	1,700,423
Other money market deposits	109,689	16,741	-	-	-	126,430
Funds borrowed	15,979	17,373	183,295	304,218	103,058	623,923
Derivative financial instruments	245	-	-	-	15,644	15,889
Other liabilities and provisions	9,639	-	8,350	-	17,099	35,088
Income taxes payable	-	-	5,795	-	-	5,795
Deferred tax liability	-	-	-	-	2,394	2,394
Total liabilities	**1,621,808**	**260,743**	**216,973**	**309,479**	**138,395**	**2,547,398**
Net liquidity gap (*)	**(628,465)**	**180,031**	**150,787**	**13,533**	**570,479**	**286,365**
As at 31 December 2005						
Total assets	914,396	420,146	256,897	172,462	590,974	2,354,875
Total liabilities	1,558,486	444,347	22,714	79,444	36,838	2,141,829
Net liquidity gap (*)	**(644,090)**	**(24,201)**	**234,183**	**93,018**	**554,136**	**213,046**

(*) Property and equipment, intangible assets, minority interest and total equity are not included in net liquidity gap line.

Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 8 February 2001.

"General market risk" is the risk of loss composed of "interest rate risk", "equity position risk" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the number, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

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"Value at Risk" is calculated on a monthly basis by employing Standard Approach. The results have been reported to the Senior Level Risk Committee and Asset-Liability Committee in regular periods. By regarding the VaR results, the risk of maturity mismatch has been examined in the Asset-Liability Management Committee and the necessary measures have been taken by the ALCO.

The adequate amount of capital that banks shall maintain against losses which may result from existing and potential risks, on a consolidated and unconsolidated basis especially for the General Market Risk and Specific Risk, has been calculated by employing the Standard Approach and reported on a monthly basis regarding the provisions of "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

Currency Risk

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 2006, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

The concentrations of assets, liabilities and off balance sheet items:

	U.S. Dollars	Euro	Japanese Yen	Others	Total
As at 31 December 2006					
Assets					
Cash and balances with the Central Bank	10,535	42,826	47	164	53,572
Deposits with banks and other financial institutions	125,995	1,724	25	991	128,735
Interbank money market placements	146,286	-	-	-	146,286
Reserve deposits at the Central Bank	-	108,392	-	-	108,392
Financial assets at fair value through profit or loss	147	15	-	-	162
Investment securities	293,417	-	-	-	293,417
Loans and receivables	375,183	118,186	-	-	493,369
Derivative financial instruments	527	-	-	-	527
Property and equipment	43	-	-	-	43
Intangible assets	-	-	-	-	-
Other assets	1,670	-	-	-	1,670
Total assets	**953,803**	**271,143**	**72**	**1,155**	**1,226,173**

	U.S. Dollars	Euro	Japanese Yen	Others	Total
Liabilities					
Deposits from other banks	37,116	10	-	-	37,126
Customers' deposits	630,620	264,243	54	3,546	898,463
Other money market deposits	37,192	-	-	-	37,192
Funds borrowed	522,607	21,865	-	-	544,472
Derivative financial instruments	-	-	-	-	0
Other liabilities and provisions	3,023	-	-	-	3,023
Income taxes payable	-	-	-	-	-
Deferred tax liability	-	-	-	-	-
Total liabilities	**1,230,558**	**286,118**	**54**	**3,546**	**1,520,276**
Net on-balance sheet position	**(276,755)**	**(14,975)**	**18**	**(2,391)**	**(294,103)**
Off-balance sheet position					
Net notional amount of derivatives	281,138	24,292	(530)	(11,594)	293,306
Non- cash loans	408,835	281,448	4,154	1,656	696,093
As at 31 December 2005					
Total assets	856,592	143,204	103	2,982	1,002,881
Total liabilities	749,843	237,527	1	3,981	991,352
Net on balance sheet position	106,749	(94,323)	102	(999)	11,529
Net notional amount of derivatives	(92,683)	95,009	(88)	1,534	3,772
Non-cash loans	153,246	259,749	1,475	1,736	416,206

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Board of Directors sets limit on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the re-pricing date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non interest bearing	Total
As at 31 December 2006							
Assets							
Cash and balances with the Central Bank	-	-	-	-	-	58,668	58,668
Deposits with banks and other financial institutions	260,080	4,035	-	-	-	13,876	277,991
Interbank money market placements	130,450	15,836	-	-	-	-	146,286
Reserve deposits at the Central Bank	151,756	24,380	1,771	561	-	-	178,468
Financial assets at fair value through profit or loss	153	2,348	18,200	228	4,484	-	25,413
Held to maturity securities	-	-	116,936	143,353	390,912	-	651,201
Loans and receivables	795,844	203,856	147,079	94,398	245,239	-	1,486,416
Derivative financial instruments	-	-	-	-	527	264	791
Property and equipment	-	-	-	-	-	16,961	16,961
Intangible assets	-	-	-	-	-	2,819	2,819
Other assets	-	-	-	-	-	8,529	8,529
Total assets	**1,338,283**	**250,455**	**283,986**	**238,540**	**641,162**	**101,117**	**2,853,543**

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	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non interest bearing	Total
Liabilities							
Deposits from other banks	37,323	-	-	-	-	133	37,456
Customers' deposits	1,239,637	226,629	19,533	5,261	200	209,163	1,700,423
Other money market deposits	109,689	16,741	-	-	-	-	126,430
Funds borrowed	15,979	17,373	183,295	304,218	103,058	-	623,923
Derivative financial instruments	-	-	-	-	15,644	245	15,889
Other liabilities and provisions	9,639	-	8,350	-	17,099	-	35,088
Income tax payable	-	-	5,795	-	-	-	5,795
Deferred tax liability	-	-	-	-	-	2,394	2,394
Total liabilities	**1,412,267**	**260,743**	**216,973**	**309,479**	**136,001**	**211,935**	**2,547,398**
On balance sheet interest sensitivity gap	(73,984)	(10,288)	67,013	(70,939)	505,161	(110,818)	306,145
Off balance sheet interest sensitivity gap	-	96,280	-	(99,140)	-	-	(2,860)
Total interest sensitivity gap	**(73,984)**	**85,992**	**67,013**	**(170,079)**	**505,161**	**(110,818)**	**303,285**

As at 31 December 2005							
Total assets	1,086,719	322,703	247,021	167,024	472,755	79,269	2,375,491
Total liabilities	1,332,568	438,859	13,805	79,444	28,497	248,656	2,141,829
On balance sheet interest sensitivity gap	(245,849)	(116,156)	233,216	87,580	444,258	(169,387)	233,662
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(245,849)**	**(116,156)**	**233,216**	**87,580**	**444,258**	**(169,387)**	**233,662**

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. This definition captures operational risk events such as IT problems, shortcomings in the organizational structure, lapses in internal controls, human error, fraud, and external threats such as major earthquake, major fire, flood or terror.

The Risk Management Group investigates and approves policies, procedures, workflows and business processes. The main principle in the Bank is that management at all levels are responsible for directing and managing their own operational risks.

Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank. The Internal Control and the Internal Audit Departments are fully engaged in monitoring the responsibilities within the Bank, a detailed testing and verification of the Bank's control over all operational systems; and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of 31 December 2006, the Bank's statutory capital adequacy ratio on a consolidated basis is above the minimum required by BRSA.

21. Fair value financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and best evidenced by a quoted market price.

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, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown sings of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for those security investments. These balance sheet instruments include loans and advances to banks and customers, obligations under repurchase agreements, loans and advances 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 value of security investments is YTL 629,566, whereas the carrying amount is YTL 651,201 in the accompanying consolidated balance sheet as at 31 December 2006.

22. Subsequent events

None.

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