Anadolubank Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements
31 December 2006
With Independent Auditor's Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

26 February 2007

This report contains the "Independent Auditors' Report" comprising 1 page and the "Consolidated Financial Statements and their explanatory notes" comprising 35 pages.

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Anadolubank Anonim Şirketi
And Its Subsidiaries

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KPMG

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Yapı Kredi Plaza C Blok Kat 17
Büyükdere Caddesi
Levent 34330 İstanbul

Telephone +90 (212) 317 74 00
Fax +90 (212) 317 73 00
Internet www.kpmg.com.tr

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.

Istanbul, Turkey
26 February 2007

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

Anadolubank Anonim Şirketi 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 5 to 35 are an integral part of these consolidated financial statements.

Anadolubank Anonim Şirketi 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		19,886	15,013
Foreign exchange gain		--	13,414
Other income		6,407	4,446
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	14	(17,534)	(15,838)
Loss on monetary position		--	(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 5 to 35 are an integral part of these consolidated financial statements.

Anadolubank Anonim Şirketi 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 5 to 35 are an integral part of these consolidated financial statements.

Anadolubank Anonim Şirketi and Its Subsidiaries
Consolidated Statement of Cash Flows
For the year ended 31 December 2006
Currency – Thousands of New Turkish Lira (YTL)

	Note s	**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 5 to 35 are an integral part of these consolidated financial statements.

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

(Currency – Thousands of New Turkish Lira (YTL))

Significant accounting policies *(continued)*

ii) Subsidiaries

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

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			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”.

Significant accounting policies *(continued)*

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.

Significant accounting policies *(continued)*

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.

Significant accounting policies *(continued)*

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.

Significant accounting policies *(continued)*

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.

Significant accounting policies *(continued)*

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.

(Currency – Thousands of New Turkish Lira (YTL))

Significant accounting policies *(continued)*

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

(Currency – Thousands of New Turkish Lira (YTL))

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.

(Currency – Thousands of New Turkish Lira (YTL))

3. Financial assets at fair value through profit or loss

	31 December 2006		31 December 2005	
	Carrying value	**Effective Interest Rate (%)**	**Carrying value**	**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.

(Currency – Thousands of New Turkish Lira (YTL))

4. Derivative financial instruments *(continued)*

	31 December 2006								
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives 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 months**	**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.

(Currency – Thousands of New Turkish Lira (YTL))

5. Investment securities *(continued)*

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	148,4	--

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	--	29,917	9.63-11.70	11.73-25.14	--
Corporate loans	807,001	292,991	172,519	1,272,127	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**

(Currency – Thousands of New Turkish Lira (YTL))

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)	29,917
Less: allowance for possible losses on lease receivables	-
	29,917
Analysis of net financial lease receivables	
Due within 1 year	6,089
Due between 1 and 5 years	28,454
Financial lease receivables, gross	34,543
Unearned income	(4,626)
Financial lease receivables, net	29,917
Analysis of net financial lease receivables, net	
Due within 1 year	5,018
Due between 1 and 5 years	24,899
Financial lease receivables, net	29,917

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.

(Currency – Thousands of New Turkish Lira (YTL))

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**		

(Currency – Thousands of New Turkish Lira (YTL))

11. Deposits *(continued)*

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	1,46[illegible]	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.

(Currency – Thousands of New Turkish Lira (YTL))

12. Funds borrowed *(continued)*

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.

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

	31 December 2006	31 December 2005
	Fixed rate	**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.

(Currency – Thousands of New Turkish Lira (YTL))

14. Income taxes *(continued)*

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	31December 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)	(1,6	(3.12)
Tax benefit of investment allowance	--	--	(375)	(0.70)
Effect of restatement and other, net	1,601	2.44	1,5	2.89
Provision for taxes on income	**17,534**	**26.26**	**15,8**	**29.38**

(Currency – Thousands of New Turkish Lira (YTL))

14. Income taxes *(continued)*

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)**

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**	

(Currency – Thousands of New Turkish Lira (YTL))

15. Shareholders' equity *(continued)*

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)	36,3
Related deferred and current income taxes	9,44	(10,89
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**

(Currency – Thousands of New Turkish Lira (YTL))

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	13,509	12,772
Non-cash loans	24,724	26,276
Deposits taken	111,691	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**

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**

(Currency – Thousands of New Turkish Lira (YTL))

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:

	31December 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) <u>The Bank</u>

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) <u>The Subsidiaries</u>

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.

(Currency – Thousands of New Turkish Lira (YTL))

19. Commitment and contingencies *(continued)*

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.

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.

(Currency – Thousands of New Turkish Lira (YTL))

20. Financial risk management *(continued)*

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**

(Currency – Thousands of New Turkish Lira (YTL))

20. Financial risk management *(continued)*

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.

20. Financial risk management *(continued)*

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.

"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 – Thousands of New Turkish Lira (YTL))

20. Financial risk management *(continued)*

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**
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

(Currency – Thousands of New Turkish Lira (YTL))

20. Financial risk management *(continued)*

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**
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**

20. Financial risk management *(continued)*

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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