Tekstil Bankası
Anonim Şirketi

Consolidated Financial Statements
Together With
Report of Independent Auditors
31 December 2006

Tekstil Bankası Anonim Şirketi

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tekstil Bankası Anonim Şirketi:

We have audited the accompanying consolidated financial statements of Tekstil Bankası Anonim Şirketi and its affiliates ("the Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Group as at 31 December 2005 were audited by another audit firm. The audit firm issued an unqualified audit opinion on the financial statements as at 31 December 2005, on their report dated 27 February 2006.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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, in all material respects, 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.

14 March 2007
Istanbul,

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Tekstil Bankası Anonim Şirketi

CONSOLIDATED BALANCE SHEET
At 31 December 2006
(Currency – In thousands of New Turkish Lira)

	Notes	2006	2005
ASSETS			
Cash and balances with the Central Bank	4	118,810	107,611
Deposits with other banks and financial institutions	4	417,110	81,160
Other money market placements	4	-	52,039
Reserve deposits at the Central Bank	5	104,227	171,365
Trading securities	6	32,909	67,865
Derivative financial instruments	18	1,134	1,820
Loans and advances	9	1,744,175	1,290,191
Investment securities-available for sale	7	52,309	256
Cash collateral on securities borrowed	8	248,956	140,726
Assets held for sale	10	23,897	21,181
Property and equipment	11	71,590	72,626
Intangible assets	12	1,108	1,002
Deferred tax asset	17	3,582	13,155
Other assets	13	11,087	3,156
Total assets		**2,830,894**	**2,024,153**
LIABILITIES			
Deposits from other banks	14	132,303	44,258
Deposits from customers	14	1,374,753	1,171,142
Other money market deposits	14	276,349	164,421
Derivative financial instruments	18	8,648	1,727
Funds borrowed	15	656,660	387,495
Other liabilities	16	38,256	53,516
Provisions	16	5,108	4,279
Total liabilities		**2,492,077**	**1,826,838**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	19	300,000	145,000
Share capital advance		-	30,000
Adjustment to share capital		13,557	13,557
Share capital premium		172	89
Unrealized gains in available for sale investments		829	192
Translation reserve		(133)	(294)
Legal reserves and retained earnings		24,392	8,771
Total equity		**338,817**	**197,315**
Total equity and liabilities		**2,830,894**	**2,024,153**

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006
(Currency – In thousands of New Turkish Lira)

	Notes	2006	2005
Interest income			
Interest on loans and advances		216,043	139,231
Interest on securities		31,662	21,871
Interest on deposits with other banks and financial institutions		9,476	3,558
Interest on other money market placements		576	61
Other interest income		5,280	2,746
Total interest income		**263,037**	**167,467**
Interest expense			
Interest on deposits		(119,714)	(71,727)
Interest on other money market deposits		(22,250)	(18,333)
Interest on funds borrowed		(36,693)	(17,411)
Other interest expense		(55)	-
Total interest expense		**(178,712)**	**(107,471)**
Net interest income		**84,325**	**59,996**
Provision for impairment of loans and advances	9	(18,414)	(8,119)
Net interest income after provision for impairment of loans and advances		**65,911**	**51,877**
Foreign exchange gain		5,599	4,517
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**71,510**	**56,394**
Other operating income			
Fees and commission income	25	17,675	16,453
Income from banking services		10,127	6,712
Gains less losses from investment securities	7	2,306	2,188
Net trading income	24	5,147	5,220
Other income	27	7,205	5,622
		42,460	36,195
Other operating expenses			
Fees and commission expense	25	(3,005)	(3,048)
Salaries and employee benefits	26	(50,698)	(39,228)
Depreciation and amortization	11,12	(4,988)	(5,835)
General and administrative expenses	28	(23,000)	(20,193)
Taxes other than on income		(2,378)	(1,528)
Other expenses	29	(3,977)	(3,994)
		(88,046)	(73,826)
Profit from operating activities before income tax and monetary loss		**25,924**	**18,763**
Income tax – deferred	17	(9,511)	(5,160)
Monetary loss		-	(3,217)
Net profit for the year		**16,413**	**10,386**
Attributable to:			
Equity holders of the parent		16,413	10,386
Minority interest		-	-
Net profit		**16,413**	**10,386**
Earnings per share (YTL)	22	**7,38**	**7,16**

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006
(Currency – In thousands of New Turkish Lira)

		Attributable to equity holders of the parent								Minority Interest	Total Equity
	Notes	Share capital	Share capital advance	Adjustment to share capital	Share capital premium	Unrealized gain (loss) in available for sale investments	Currency translation differences	Legal reserves and Retained Earnings / accumulated deficit	Total		
At 1 January 2005		122,500	20,200	21,200	-	21	(325)	(6,958)	156,638	-	156,638
Net change in unrealized gain on available- for -sale investments		-	-	-	-	171	-	-	171	-	171
Currency translation difference		-		-	-	-	31	-	31	-	31
Total income and expense for the year recognized directly in equity		-	-	-	-	171	31	-	202	-	202
Net profit for the year		-	-	-	-	-	-	10,386	10,386	-	10,386
Total income for the year		-	-	-	-	171	31	10,386	10,588	-	10,588
Increase in paid in capital	19	22,500	(20,200)	(2,300)	-	-	-	-	-	-	-
Share capital advance		-	30,000	-	89	-	-	-	30,089	-	30,089
At 31 December 2005 / 1 January 2006		**145,000**	**30,000**	**13,557**	**89**	**192**	**(294)**	**8,771**	**197,315**	**-**	**197,315**
Net change in unrealized gain on available- for -sale investments		-	-	-	-	637	-	-	637	-	637
Currency translation difference		-	-	-	-	-	161	-	161	-	161
Total income and expense for the year recognized directly in equity		-	-	-	-	637	161	-	798	-	798
Net profit for the year		-	-	-	-	-	-	16,413	16,413	-	16,413
Total income for the year		-		-	-	637	161	16,413	17,211	-	17,211
Increase in paid in capital	19	155,000	(30,000)	-	-	-	-	-	125,000	-	125,000
Share capital advance		-	-	-	83	-	-	-	83	-	83
Expenses related to the capital increase		-	-	-	-	-	-	(792)	(792)	-	(792)
At 31 December 2006		**300,000**	**-**	**13,557**	**172**	**829**	**(133)**	**24,392**	**338,817**	**-**	**338,817**

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2006
(Currency – In thousands of New Turkish Lira)

	Notes	2006	2005
Cash flows from operating activities			
Interest received		254,285	149,741
Interest paid		(168,219)	(98,535)
Fees and commissions received		17,675	16,453
Income from banking services		10,127	6,712
Trading income		7,453	5,220
Recoveries of loans previously written off and impaired loans		3,705	1,167
Fees and commissions paid		(3,005)	(3,048)
Cash payments related to employee benefits and similar items		(49,868)	(37,240)
Cash received from other operating activities		7,204	4,891
Cash paid for other operating activities		(58,336)	(25,029)
Monetary loss		-	7,722
Income taxes paid		-	-
Cash flows from operating activities before changes in operating assets and liabilities		**21,021**	**28,054**
Changes in operating assets and liabilities			
Trading securities		(19,785)	(54,617)
Reserve deposits at Central Bank		66,868	(102,683)
Loans and advances		(413,664)	(484,830)
Other assets		(9,213)	(1,180)
Deposits from other banks		88,045	22,688
Deposits from customers		203,260	330,048
Other money market deposits		111,928	34,618
Other liabilities		(1,419)	24,029
Net cash used in operating activities		**26,020**	**(231,927)**
Cash flows from investing activities			
Purchases of available for sale securities		(146,163)	(10,935)
Proceeds from sale and redemption of available for sale securities	7	10,465	283
Proceeds from sale of assets held for sale		3,279	466
Purchases of property and equipment	11	(3,584)	(1,743)
Proceeds from the sale of property and equipment		251	1,498
Purchase of intangible assets	12	(725)	(155)
Proceeds from the sale of intangible assets		-	-
Net cash used in investing activities		**(136,477)**	**(10,586)**
Cash flows from financing activities			
Proceeds from funds borrowed		646,520	247,687
Repayments of funds borrowed		(387,495)	(98,196)
Proceeds from of share capital advance and share capital premium		124,452	30,089
Net cash provided by financing activities		**383,477**	**179,580**
Net increase/(decrease) in cash and cash equivalents		294,041	(34,879)
Cash and cash equivalents at beginning of year		240,677	275,556
Cash and cash equivalents at end of year	4	**534,718**	**240,677**

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of these consolidated financial statements.

(Currency – In thousands of New Turkish Lira)

1. CORPORATE INFORMATION

General

Tekstil Bankası Anonim Şirketi (a Turkish joint stock company – "Tekstilbank" or "the Bank") is incorporated on 29 April 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul. Certain ordinary shares of the Bank, representing 24.50% of the total, are listed on the Istanbul Stock Exchange since May 1990.

The registered office address of the Bank is located at Büyükdere Caddesi, No. 63, Maslak 34398 Istanbul/Turkey.

The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

Nature of Activities of the Bank / Group

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

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2006 and 2005 are as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			2006	**2005**
The Euro Textile Bank Ltd. ("ETB")	Lefkosa/Cyprus	Banking	99.99	99.99
Tekstil Menkul Değerler A.Ş. ("Tekstil Menkul")	Istanbul/Turkey	Brokerage	99.92	99.92

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, trading securities and available-for-sale financial assets that have been measured at fair value.

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation. The foreign subsidiary maintains its books of account and prepares its statutory financials in US Dollars and in accordance with the regulations of the country in which it operates. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira ("YTL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies

IFRSs and IFRIC Interpretations Not Yet Effective

A number of new standards, amendments to standards and interpretations, announced by International Financial Reporting Interpretations Committee ("IFRIC") are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- On 18 August 2005 the International Accounting Standards Board issued IFRS 7 "*Financial Instruments: Disclosures*". The standard supersedes IAS 30 "*Disclosures in the Financial Statements of Banks and Similar Financial Institutions*" and the disclosure requirements of IAS 32 "*Financial Instruments: Disclosure and Presentation*"; the presentation requirements of IAS 32 remain unchanged and many of the disclosure requirements of IAS 32 have been transferred to IFRS 7 and IFRS 7 is effective for annual periods beginning on or after 1 January 2007 with earlier application encouraged. The Group preferred not to early adopt IFRS 7 before its effective date of 1 January 2007.
- IFRIC 7 *"Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 8 *"Scope of IFRS 2 Share-based Payment"* addresses the accounting for share-based payment transactions in which some or all of goods or services received can not be specifically identified. IFRIC 8 will become mandatory for the Bank's 2007 financial statements, with retrospective application required. The Group currently does not have any share-based payments, and IFRIC 8 is not expected to have any impact on the consolidated financial statements.
- IFRIC 9 *"Reassessment of Embedded Derivatives"* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Group's 2007 financial statements. The Group has not yet determined the potential effect of the interpretation.
- IFRIC 10 "*Interim Financial Reporting and Impairment"* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39, respectively. IFRIC 10 is not expected to have any impact on the consolidated financial statements.

2.3 Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of available-for-sale equity instruments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

(b) Impairment on property and equipment

After recognition the Group assesses the recoverable amount of its property and equipment. In assessing whether there is any indication that an impairment loss recognized in prior periods for the property and equipment may no longer exists or may have decreased, the Group considers the asset's value in use and the expected cash inflows that are largely independent of the cash inflows from other assets.

Estimation Uncertain

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment Losses on Loans and Advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of such loans, advances and receivables as of 31 December 2006 1,744,175 YTL (2005 - YTL 1,290,191 net of impairment allowance of YTL 18,164 (2005 - YTL 10,981).

(b) Fair Value of Derivatives and Other Financial Instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 17 and Note 32.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income Taxes

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly. As of 31 December 2006, the Group carries a net deferred tax asset amounting to YTL 3,582 (2005 - YTL 13,155).

(d) Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 15 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2006 is YTL 3,254 (2005 - YTL 2,708).

Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiary Which Operate in Turkey:

The Group’s functional and presentation currency is YTL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of YTL.

The restatement for the changes in the general purchasing power of YTL until 31 December 2005 is based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). 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 the corresponding figures for previous period/year be restated in the same terms. Determining whether an economy is hyperinflationary in accordance with IAS 29 requires judgment as the standard does not establish an absolute rate, instead it considers the following characteristics of the economic environment of a country to be strong indicators of the existence of hyperinflation: (a) the general population prefers to keep its wealth in non monetary assets or in a relatively stable currency; amounts of local currency held are immediately invested to maintain purchasing power, (b) the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable currency; prices may be quoted in that currency, (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, (d) interest rates, wages and prices are linked to a price index and (e) the cumulative inflation rate over three years is approaching, or exceeds 100%.

IAS 29 describes characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgment when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in October 2004. As at 31 December 2006, the three-year cumulative rate has been 32.8% (2005 - 35.6%) based on the Wholesale Price Index published by the Turkish Statistical Institution (previously, State Institute of Statistics (SIS)). Based on these considerations, restatement pursuant to IAS 29 has been applied until 31 December 2005 and Turkey ceased to be hyperinflationary effective from 1 January 2006.

(Currency – In thousands of New Turkish Lira)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Index and conversion factors for the three-year period ended 31 December 2005 as they are applied for IAS 29 restatement by the Group until 31 December 2005 (based on the Turkish Countrywide Wholesale Price Index - WPI - published by the SIS) are provided below:

Dates	Index	Conversion Factors
31 December 2003	7,382.10	1.190
31 December 2004	8,403.80	1.045
31 December 2005	8,785.74	1.000

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

- the inflation adjusted share capital was derived by indexing cash contributions from the date they were contributed through 31 December 2005.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity are restated by applying the relevant conversion factors through 31 December 2005.
- the effect of general inflation on the net monetary position is included in the consolidated income statement as monetary gain/(loss) until 31 December 2005.
- all items in the consolidated income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets, which have been calculated based on the restated gross book values and accumulated depreciation/amortization until 31 December 2005.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

***Functional Currencies of Foreign Subsidiaries**:*

As of 31 December 2006 and 2005, ETB's functional currency is U.S. Dollars.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at December 31 each year.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities .This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent Bank, using consistent accounting policies.

(Currency – In thousands of New Turkish Lira)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	YTL/ EUR (full)	YTL/ USD (full)
31 December 2004	1.8268	1.3421
31 December 2005	1.5478	1.3083
31 December 2006	1.8515	1.4056

The assets and liabilities of the foreign subsidiary (of which does not have the currency of a hyperinflationary economy) are translated into the presentation currency of the Group ("YTL") at the rate of exchange ruling at the balance sheet date. The income statement of the foreign subsidiary is also translated at year-end exchange rates as the impact of translation at the weighted average exchange rates for the year is not material. On consolidation exchange differences arising from the translation of the net investment in foreign entity is included in equity as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement as a component of the gain or loss on disposal.

Property and Equipment

Property and equipment are stated at the restated cost until 31 December 2005 less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Machinery and equipment	5 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years
Leasehold improvements	Lease period

Expenses for repairs and maintenance are charged to expenses as incurred.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying values of property and equipment are reviewed for impairment 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 the fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Assets held for sale

Assets held for sale are stated at cost less accumulated depreciation and any impairment in value. Assets held for sale are depreciated on a straight-line basis over the estimated useful life of 50 years.

Assets held for sale are derecognized when either they have been disposed of or when the assets held for sale are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an asset held for sale are recognized in the income statement in the year of retirement or disposal.

Transfers are made to assets held for sale when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from assets held for sale when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 5 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading or as available for sale, the change in value is recognized through profit or loss and in equity, respectively.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in income.

Loans and receivables

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 Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognised or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity's right to receive payment is established.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as cash collateral on securities borrowed when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognized in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

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

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, that are recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of Financial Assets

a) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

c) Available-for-sale financial assets

If an available- for- sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest -bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Employee Benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined Benefit Plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

(b) Defined Contribution Plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Leases

The Group as Lessee

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

Dividends are recognized when the shareholders' right to receive the payments is established.

Income Tax

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

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Tax

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

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

The carrying amount of deferred income tax assets is 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 to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income 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.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

(Currency – In thousands of New Turkish Lira)

3. SEGMENT INFORMATION

Business Segments

The Group is organized into 3 main business segments which are organized and managed separately according to the nature of the products and services provided

Year ended 31 December 2006

	Retail banking	Corporate banking	Investment Banking/ Treasury	Others	Group
External revenues	21,712	124,398	(4,072)	(9,654)	**132,384**
Revenues from other segments	(4,818)	(38,278)	14,810	28,286	**-**
Total revenues	**16,894**	**86,120**	**10,738**	**18,632**	**132,384**
Segment result (A)	3,220	17,034	3,049	2,621	**25,924**
Unallocated costs (B)	-	-	-	-	**-**
Operating profit (A-B)	**3,220**	**17,034**	**3,049**	**2,621**	**25,924**
Profit before income tax and monetary loss	3,220	17,034	3,049	2,621	**25,924**
Income tax				(9,511)	(9,511)
Net profit	**3,220**	**17,034**	**3,049**	**(6,890)**	**16,413**
Assets and Liabilities					
Segment assets	37,583	1,898,046	784,025	111,240	**2,830,894**
Unallocated assets	-	-	-	-	-
Total assets	**37,583**	**1,898,046**	**784,025**	**111,240**	**2,830,894**
Segment liabilities	4,751	1,548,705	956,888	320,550	**2,830,894**
Unallocated liabilities	-	-	-	-	-
Total liabilities	**4,751**	**1,548,705**	**956,888**	**320,550**	**2,830,894**
Capital expenditures					
Property and equipment	-	-	-	3,591	**3,591**
Intangible assets	-	-	-	718	**718**
Depreciation	**282**	**688**	**19**	**3,387**	**4,376**
Amortization	**-**	**-**	**-**	**612**	**612**
Non-cash expense(*) other than depreciation and amortization	**4,143**	**3,814**	**-**	**10,457**	**18,414**

(*) Non-cash expense relates to the impairment of property held for sale and allowance for losses on loans and advances.

(Currency – In thousands of New Turkish Lira)

3. SEGMENT INFORMATION (continued)

Year ended 31 December 2005

	Retail banking	Corporate banking	Investment banking/ Treasury	Others	Group
External revenues	16,485	76,594	6,437	1,192	100,708
Revenues from other segments	(3,800)	(12,170)	9,529	6,441	-
Total revenues	**12,685**	**64,424**	**15,966**	**7,633**	**100,708**
Segment result (A)	936	15,748	1,084	995	18,763
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**936**	**15,748**	**1,084**	**995**	**18,763**
Profit before income tax and monetary loss	936	15,748	1,084	995	18,763
Income tax	-	-	-	(5,160)	(5,160)
Monetary loss	-	-	-	(3,217)	(3,217)
Net profit	**936**	**15,748**	**1,084**	**(7,382)**	**10,386**
Assets and Liabilities					
Segment assets	34,683	1,286,143	575,716	127,611	2,024,153
Unallocated assets	-	-	-	-	-
Total assets	**34,683**	**1,286,143**	**575,716**	**127,611**	**2,024,153**
Segment liabilities	3,056	1,257,177	593,337	170,583	2,024,153
Unallocated liabilities	-	-	-	-	-
Total liabilities	**3,056**	**1,257,177**	**593,337**	**170,583**	**2,024,153**
Capital expenditures					
Property and equipment	-	-	-	1,743	1,743
Intangible assets	-	-	-	155	155
Depreciation	**277**	**776**	**42**	**3,439**	**4,534**
Amortization	**-**	**-**	**-**	**1,301**	**1,301**
Non-cash expense (*) other than depreciation and amortization	**3,436**	**3,659**	**-**	**1,643**	**8,738**

(*) Non-cash expense relates to the impairment of property held for sale and allowance for losses on loans and advances.

Geographical Segments

The Group's geographical segments are based on the location of the Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary business segments.

The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment assets, segment liabilities and revenue from customers outside of Turkey do not exceed 10% of total entity assets, total entity liabilities and total entity revenue.

(Currency – In thousands of New Turkish Lira)

4. CASH AND CASH EQUIVALENTS

	2006	2005
Cash on hand	14,078	12,269
Balances with Central Bank	104,732	95,342
Cash and balances with central banks	**118,810**	**107,611**
Deposits with other banks and financial institutions	**417,110**	**81,160**
Other money market placements	**-**	**52,039**
Cash and cash equivalents in the balance sheet	**535,920**	**240,810**
Less: Time deposits with original maturities of more than three months	-	-
Less: Income accrual	1,202	133
Cash and cash equivalents in the cash flow statement	**534,718**	**240,677**

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

	2006				2005			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with central banks	51,706	53,026	13.12%	1.73% - 2.52%	74	95,268	10.25%	1.09% - 2.03%
Deposits with other banks and financial institutions	14,420	402,690	20.49% - 20.55%	3.61% - 5.53%	2,830	78,330	14.45%-16.80%	2.53% -4.65%
Interbank & other money market placements	-	-	-	-	52,039	-	14.45%	-
Total	**66,126**	**455,716**			**54,943**	**173,598**		

5. RESERVE DEPOSITS AT THE CENTRAL BANK

	2006	2005
- YTL	-	103,805
- Foreign currency	104,227	67,560
	104,227	**171,365**

According to the regulations of the Central Bank of Turkish Republic (“the Central Bank”), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group’s day to day operations.

As of 31 December 2006 and 2005, reserve deposit rates applicable for Turkish lira and foreign currency liability accounts with the Central Bank are 6% and 11%, respectively.

As of 31 December 2006, the interest rates applied for Turkish lira and USD reserve deposits by the Central Bank are 13.12% and 2.52% –1.73% (2005 - 10.25% and 2.03% - 1.09%), respectively.

(Currency – In thousands of New Turkish Lira)

6. TRADING SECURITIES

Trading Securities:

	2006		2005	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Debt instruments				
Turkish government bonds	313	18.27-22.72	37,745	15.05-19.79
Turkish treasury bills	-	-	26,805	14.48-17.76
Foreign currency government bonds	29,099	6.20-6.21	265	5.29-6.25
Eurobonds issued by the Turkish government	3,497	4.44-7.36	3,050	3.28-7.28
Total trading securities	**32,909**		**67,865**	

YTL 29,099 of trading securities has floating interest rates and the remaining portion has fixed rates.

As of 31 December 2006, the carrying value and the nominal amounts of to government securities (including cash collateral on securities borrowed – Note 8) kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 47,732 and YTL 45,855 (2005 - YTL 63,572 and YTL 62,239), respectively.

7. INVESTMENT SECURITIES

Available for Sale Securities

	2006		2005	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Debt instruments-YTL				
Turkish government bonds	22,715	20.94-22.72	-	-
Turkish corporate bonds	29,321	8.08-11.37	-	-
Eurobonds issued by Turkish government	273	7.35	256	7.28
Total available for sale securities at fair value	**52,309**		**256**	

YTL 52,036 of available for sale debt securities have floating interest rates and the remaining portion has fixed rates.

The movement in investment securities (including cash collateral on securities borrowed – Note 8) is summarized as follows:

	2006	2005
	Available for Sale	**Available for Sale**
At 1 January	256	547
Exchange differences and monetary gain (loss) on monetary assets	17	(8)
Additions	151,443	10,465
Transfer to cash collateral on securities borrowed	(99,407)	(10,465)
Disposals (sale and redemption)	-	(283)
At 31 December	**52,309**	**256**

(Currency – In thousands of New Turkish Lira)

Gains and losses from investment securities comprise:

	2006	2005
Derecognition of available-for-sale securities	2,306	2,188
	2,306	**2,188**

8. CASH COLLATERAL ON SECURITIES BORROWED

Market and carrying value of securities pledged under repurchase agreements is as follows:

	2006	2005
Trading securities	149,549	93,051
Investment securities	99,407	10,465
Debt instruments	-	37,210
Total	**248,956**	**140,726**

Repurchase agreements mature within one month.

Market and carrying value of securities that are related to liabilities is as follows:

	2006	2005
Trading securities	137,848	84,397
Investment securities	88,424	9,612
Debt instruments	-	36,903
Total	**226,272**	**130,912**

Repurchase agreements mature within one month.

(Currency – In thousands of New Turkish Lira)

9. LOANS AND ADVANCES

	2006						
	Amount				**Effective interest rate**		
	New Turkish Lira	**Foreign Currency**	**Foreign Currency Indexed**	**Total**	**New Turkish Lira**	**Foreign Currency**	**Foreign Currency Indexed**
Corporate loans	847,954	371,011	446,674	1,665,639	14.1-34.7	4.1-10.3	4.0-10.0
Loans to government	-	-	-	-	-	-	-
Consumer loans	45,948	-	2,424	48,372	12.6-27.6	-	5.0-9.5
Credit cards	32,371	404	-	32,775	67.2	2.5	-
Total loans	926,273	371,415	449,098	1,746,786			
Loans in arrears	14,358	1,195	-	15,553			
Less: Allowance for losses on loans and advances	(17,165)	(999)	-	(18,164)			
	923,466	371,611	449,098	1,744,175			

	2005						
	Amount				Effective interest rate		
	New Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	New Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	531,061	371,694	337,658	1,240,413	14.7 - 31.1	4.0 - 9.0	5.0-9.0
Loans to government	-	-	1,990	1,990	-	-	13.9
Consumer loans	8,048	-	1,427	9,475	12.84-27.60	-	7.2-9.4
Credit cards	31,142	308	-	31,450	63.0	3.0	-
Total loans	570,251	372,002	341,075	1,283,328			
Loans in arrears	17,844	-	-	17,844			
Less: Allowance for losses on loans and advances	(10,981)	-	-	(10,981)			
	577,114	372,002	341,075	1,290,191			

Loans and advances with variable rates are YTL 529,690 (2005 – YTL 265,420) and the remaining portion has fixed rates.

The portfolio reserve amounting to YTL 7,951 (2005 – YTL 5,354) for impairment is provided based on past experience, management's assessments of the current economic conditions, the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

Movements in the allowance for impairment:

	2006	**2005**
Allowance at beginning of year	10,981	6,378
Charge for the year	19,614	8,519
Recoveries	(1,200)	(400)
Provision net of recoveries	18,414	8,119
Loans written off during the year	(11,231)	(3,351)
Monetary gain	-	(165)
Allowance at end of year	**18,164**	**10,981**

As of 31 December 2006, loans and advances on which interest is not being accrued, or where interest is suspended amounted to YTL 15,553 (2005 - YTL 17,844).

(Currency – In thousands of New Turkish Lira)

10. ASSETS HELD FOR SALE

Assets held for sale comprises property that is acquired from defaulted loan customers and will be mainly realized through sale.

	2006	2005
Opening balance at 1 January	21,181	22,767
Additions	7,340	672
Disposals	(4,624)	(1,639)
Provision for impairment	-	(619)
Closing balance at 31 December	**23,897**	**21,181**

The fair value of the assets held for sale as at 31 December 2006 is based on an independent expertise report and is YTL 23,897 (2005- YTL 21,181).

(Currency – In thousands of New Turkish Lira)

11. PROPERTY AND EQUIPMENT

	Buildings	**Furniture and office equipment**	**Leasehold improvements**	**Motor Vehicles**	**Total**
At 1 January 2006, net of accumulated depreciation and impairment	66,808	3,046	2,298	474	72,626
Additions	186	2,255	723	427	3,591
Disposals	-	(63)	-	(188)	(251)
Depreciation charge for the year	(1,482)	(1,635)	(1,162)	(97)	(4,376)
At 31 December 2006, net of accumulated depreciation and impairment	**65,512**	**3,603**	**1,859**	**616**	**71,590**
At 1 January 2006					
Cost	75,800	47,186	5,171	1,066	129,223
Accumulated depreciation	(8,992)	(44,140)	(2,873)	(592)	(56,597)
Net carrying amount	**66,808**	**3,046**	**2,298**	**474**	**72,626**
At 31 December 2006					
Cost	75,986	49,339	5,894	1,152	132,371
Accumulated depreciation	(10,474)	(45,736)	(4,035)	(536)	(60,781)
Net carrying amount	**65,512**	**3,603**	**1,859**	**616**	**71,590**

	Buildings	Furniture and office equipment	Leasehold improvements	Motor Vehicles	Total
At 1 January 2005, net of accumulated depreciation and impairment	66,272	3,811	2,857	1,869	74,809
Additions	-	1,079	469	195	1,743
Disposals	-	(23)	-	(1,521)	(1,544)
Impairment	2,152	-	-	-	2,152
Depreciation charge for the year	(1,616)	(1,821)	(1,028)	(69)	(4,534)
At 31 December 2005, net of accumulated depreciation and impairment	66,808	3,046	2,298	474	72,626
At 1 January 2005					
Cost	75,800	46,495	4,702	3,965	130,962
Accumulated depreciation	(7,376)	(42,684)	(1,845)	(2,096)	(54,001)
Impairment	(2,152)	-	-	-	(2,152)
Net carrying amount	66,272	3,811	2,857	1,869	74,809
At 31 December 2005					
Cost					
Accumulated depreciation	75,800	47,186	5,171	1,066	129,223
Accumulated impairment	(8,992)	(44,140)	(2,873)	(592)	(56,597)
Net carrying amount	66,808	3,046	2,298	474	72,626

The carrying value of property and equipment held under finance leases at 31 December 2006 was YTL 1,859 (2005-YTL 2,298). Additions during the year include YTL 723 (2005-YTL 469) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

(Currency – In thousands of New Turkish Lira)

12. INTANGIBLE ASSETS

31 December 2006	**Software Licenses and Other**
At 1 January 2006, net of accumulated amortization	1,002
Additions	718
Disposals	-
Amortization charge for the year	612
At 31 December 2006, net of accumulated amortization	**1,108**
At 1 January 2006	
Cost	13,858
Accumulated amortization	12,856
Net carrying amount	**1,002**
At 31 December 2006	
Cost	14,576
Accumulated amortization	13,468
Net carrying amount	**1,108**

Software and licenses are being amortized over their economic useful lives of 5 years.

31 December 2005	Patents and Licenses
At 1 January 2005 net of accumulated amortization	2,148
Additions	155
Disposals	-
Amortization charge for the year	1,301
At 31 December 2005 net of accumulated amortization	1,002
At 1 January 2005	
Cost	13,703
Accumulated amortization	11,555
Net carrying amount	2,148
At 31 December 2005	
Cost	13,858
Accumulated amortization and impairment	12,856
Net carrying amount	**1,002**

(Currency – In thousands of New Turkish Lira)

13. OTHER ASSETS

	2006	2005
Collaterals given	8,141	79
Prepaid expenses	517	200
Office supply inventory	476	572
Payments for credit card settlements	160	176
Payments for mutual funds	152	1,004
Advances given	130	241
Others	1,511	884
	11,087	**3,156**

14. DEPOSITS

Deposits from other banks

	2006				2005			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Demand	7	4	-	-	116	-	-	-
Time	111,018	21,274	19.68-20.88	5.28-5.40	15,840	28,302	15.30-18.68	2.42-4.50
Total	**111,025**	**21,278**			**15,956**	**28,302**		

Deposits from customers

	2006				2005			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Saving								
Demand	10,708	29,547	-	-	14,309	45,007	-	-
Time	330,772	404,813	17.8-23.44	3.29-6.38	220,651	307,521	12.18- 20.80	1.51-5.52
	341,480	**434,360**			**234,960**	**352,528**		
Commercial and other								
Demand	55,295	61,622	-	-	68,365	77,035	-	-
Time	120,196	361,800	14.36-23.62	3.29-6.22	265,434	172,820	12.18- 20.80	1.51-5.52
	175,491	**423,422**			**333,799**	**249,855**		
Total	**516,971**	**857,782**			**568,759**	**602,383**		

As at 31 December 2006, deposits from customers of YTL 104,601 (2005-YTL 73,808) are held as collateral for cash and non-cash loans originated by the Bank.

(Currency – In thousands of New Turkish Lira)

14. DEPOSITS (continued)

Other money market deposits

	2006				2005			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
- Due to customers	3,564	-	19.09-20.28	-	3,803	-	13.59-16.43	-
- Due to banks	222,708	-	19.09-20.28	-	127,109	-	15.59-16.58	-
	226,272	**-**			**130,912**	**-**		
Interbank deposits	50,077	-	19.92-20.47	-	33,509	-	15.83-16.17	-
Total	**276,349**	**-**			**164,421**	**-**		

Deposits have fixed interest rates.

15. FUNDS BORROWED

	2006				2005			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Short term								
Fixed interest	31,280	103,021	12.11-17.16	5.13-7.07	21,937	103,415	11.30-18.81	2.97-6.51
Floating interest	-	201,521	-	5.96		238,618	-	4.37
Medium/long term								
Fixed interest	-	91,035	-	4.99-7.19	-	22,733	-	3.82-5.88
Floating interest	-	229,182	-	6.17	-	-	-	-
Finance lease	-	621	-	7.42-15.99	-	792	-	8.69-7.42
Total	**31,280**	**625,380**			**21,937**	**365,558**		

Repayments of medium/long term borrowing are as follows:

	2006	**2005**
2006	-	6,522
2007	46,188	16,211
2008	246,741	-
2009	13,231	-
Thereafter	**14,057**	**-**
	320,217	**22,733**

As at 31 December 2006 and 2005, funds borrowed are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for period of 6 months.

(Currency – In thousands of New Turkish Lira)

15. FUNDS BORROWED (continued)

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2006 (2005-none).

	2006	2005
Finance lease repayment schedule		
No later than 1 year	512	730
Later than 1 year and no later than 5 years	148	104
Total minimum finance lease obligations	**660**	**834**
Less amounts representing finance charges	(39)	(42)
Present value of minimum finance lease obligations	**621**	**792**
Representing finance lease liabilities, net	621	792
Current	477	690
Non-current	144	102
	621	**792**

16. OTHER LIABILITIES AND PROVISIONS

	2006	2005
Other liabilities		
Transfer orders	27,642	46,065
Taxes and funds payable	7,028	4,580
Payables for credit card settlements	1,653	1,442
Transitory payables	431	264
Advances taken	360	511
Blocked checks	119	373
Others	1,023	281
	38,256	**53,516**
Provisions		
Employee termination benefits	3,254	2,708
Employee unused vacation provision	1,854	1,571
	5,108	**4,279**
Total	**43,364**	**57,795**

The movement in provision for employee termination benefits is as follows:

	2006	2005
At 1 January 2006	2,708	2,223
Interest cost	162	129
Paid during the year	(159)	(340)
Increase during the year	543	418
Exchange differences/ Monetary gain	-	278
At 31 December 2006	**3,254**	**2,708**

(Currency – In thousands of New Turkish Lira)

16. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 1.857 and YTL 1.727 at 31 December 2006 and 2005, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as of 31 December 2006 and 2005, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The annual ceiling has been increased to YTL 1.961 effective 1 January 2007.

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2006	2005
Discount rate	11.0	12.0
Expected rates of salary/limit increases	5.0	6.2

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated income statement in the period they occur.

17. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, the corporation tax rate for the fiscal year ending 31 December 2005 was 30%. Effective from 1 January 2006 corporate tax rate is reduced to 20%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

(Currency – In thousands of New Turkish Lira)

17. INCOME TAXES (continued)

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

As of 31 December 2006 and 2005, effective tax rate of consolidated foreign subsidiary established in Cyprus is 2%.

Major components of income tax expense for the years ended 31 December 2006 and 2005 are:

	2006	**2005**
Consolidated income statement		
Deferred income tax		
Relating to origination and reversal of temporary differences	9,511	5,160
Income tax expense reported in consolidated income statement	**9,511**	**5,160**

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2006 and 2005 is as follows:

	2006	**2005**
Profit before income tax after monetary loss	25,924	15,546
At Turkish statutory income tax rate of 20% (2005 – 30%)	5,185	4,664
Effect of tax rate change	972	-
Income not subject to tax	(136)	(1,467)
Expenditures not allowable for income tax purposes	378	4,280
Unutilized tax losses carry forward	4,334	-
Unrecognized portion for deferred tax assets	-	(350)
Others, net	(1,222)	(1,967)
Income tax expense	**9,511**	**5,160**

(Currency – In thousands of New Turkish Lira)

17. INCOME TAXES (continued)

Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2006	**2005**	**2006**	**2005**
Deferred income tax liabilities				
Valuation and depreciation differences of property and equipment and restatement effect	-	406	406	(406)
Accounting for finance leases	126	437	(126)	88
Valuation differences of securities	-	36	-	(36)
Valuation differences of derivatives	-	29	-	(29)
Gross deferred income tax liabilities	**126**	**908**	**280**	**(383)**
Deferred income tax assets				
Liability for defined benefit plans and unused vacation pay liability	1,015	869	141	154
Reserve for loan losses	992	307	(495)	307
Valuation differences of securities	152	-	(236)	(800)
Deferred tax on tax loss carry forward	-	21,403	(10,900)	(6,220)
Valuation differences of derivatives	1,503	-	1,503	-
Others	196	1,488	196	1,432
Gross deferred income tax assets	**3,858**	**24,067**	**(9,791)**	**(5,127)**
Net deferred income tax asset	**3,732**	**23,159**	**(9,511)**	**(5,510)**
Unrecognized portion for net deferred tax asset	**(150)**	**(10,004)**	**-**	**350**
Deferred income tax asset / (expense), net	**3,582**	**13,155**	**(9,511)**	**(5,160)**

Movement of net deferred tax liability/asset can be presented as follows:

	2006	**2005**
Deferred tax asset, net at 1 January	13,155	18,803
Deferred income tax recognized in the consolidated income statement	(9,511)	(5,160)
Other / Monetary loss	(62)	(488)
Deferred tax asset, net at 31 December	**3,582**	**13,155**

(Currency – In thousands of New Turkish Lira)

18. DERIVATIVES

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, swaps, futures and options.

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

	2006			2005		
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Derivatives held for trading						
Forward purchase contract	127	8,438	171,828	1	1,347	114,572
Forward sale contract	999	35	181,422	1,112	168	115,013
Currency swap purchase	2	-	121,688	30	28	132,167
Currency swap sale	6	175	121,917	673	51	130,986
Options purchase contract	-	-	-	-	133	35,654
Options sale contract	-	-	-	4	-	35,654
Future purchase contract	-	-	-	-	-	-
Future sales contracts	-	-	-	-	-	-
	1,134	**8,648**	**596,855**	**1,820**	**1,727**	**564,046**

As of 31 December 2006 and 2005, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

(Currency – In thousands of New Turkish Lira)

19. SHARE CAPITAL

	2006	2005
Number of common shares, YTL 0.1 (in full YTL), par value **(**Authorized and issued)	3,000,000,000	1,450,000,000

As of 31 December 2006 and 2005, the Bank's subscribed and issued share capital in historical terms is YTL 300,000 and YTL 145,000 respectively.

The movement of the share capital of the Bank (in numbers and in historical YTL) is as follows:

	2006		2005	
	Number	**YTL**	**Number**	**YTL**
At 1 January	1,450,000,000	145,000	1,225,000,000	122,500
Shares issued in				
- cash	1,550,000,000	155,000	202,000,000	20,200
- bonus shares from adjustment to share capital	-	-	23,000,000	2,300
At 31 December	**3,000,000,000**	**300,000**	**1,450,000,000**	**145,000**

The Board of Directors of the Bank has convened on 9 December 2005 and decided to increase the registered paid-in capital of the Bank to YTL 300 million from YTL 145 million. The total increase completed as a cash injection. The afore-mentioned capital increase for an amount of YTL 155 million represents 107% upsurge.

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

	2006		2005	
	Amount	**%**	**Amount**	**%**
GSD Holding A.Ş.	226,501	75.50	109,380	75.43
Other Shareholders	73,499	24.50	35,620	24.57
	300,000	**100.00**	**145,000**	**100.00**
Restatement effect	13,557		13,557	
	313,557		**158,557**	

(Currency – In thousands of New Turkish Lira)

20. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2006			2005		
	Legal Reserves	**Retained Earnings**	**Total**	**Legal Reserves**	**Retained Earnings**	**Total**
At 1 January	**1,596**	**7,175**	**8,771**	**1,596**	**(8,554)**	**(6,958)**
Net profit for the year	-	16,413	16,413	-	10,386	10,386
Transfer from retained earnings	507	(507)	-	-	5,343	5,343
Decrease in retained earnings coming from prior year	-	(792)	(792)			
At 31 December	**2,103**	**22,289**	**24,392**	**1,596**	**7,175**	**8,771**

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.

21. DIVIDENDS PAID AND PROPOSED

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

The Group did not declare or pay dividends out of profits for the 2006 as of the date of preparation of these financials. As of 31 December 2005, the Group did not distribute any dividends to shareholders in respect of 2005 profit.

22. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2006.

There is no dilution of the shares as at 31 December 2006 and 2005.

The following reflects the income (in YTL) and share data used in the basic earnings per share computations

	2006	**2005**
Net profit attributable to ordinary equity holders of the parents for basic earnings per share	7.38	7.16
Weighted average number of ordinary shares for basic earnings per share	2,225,000,000	1,450,000,000

(Currency – In thousands of New Turkish Lira)

23. RELATED PARTY DISCLOSURES

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 the financial and operating decisions. The Group is controlled by GSD Holding A.Ş. and owns 75.50% (2005- 75.43%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and GSD Group companies are referred to as related parties. Related parties also include individuals that are principal owners, 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 and at rates which approximate market rates

Related party		Cash loans	Non-cash loans	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Shareholders	2006	7,731	20	1,413	-	196	1,924	-	-
	2005	6,308	20	9,783	-	506	855	-	-
Others(*)	2006	46,230	5,924	39,341	-	5,751	5,688	152	73
	2005	40,252	6,563	65,292	6,389	756	5,964	217	158
Directors' interests	2006	-	-	6,074	-	-	105	-	2,374
	2005	-	-	3,543	-	-	38	-	1,297

(*) Others represent the group companies of GSD Holding.

Compensation of key management personnel of the Group

For the year ended 31 December 2006, the executive and non-executive member of Board of Directors and management received remuneration and fees totaling approximately YTL 2,374 (2005 - YTL 1,297) comprising salaries and other short-term benefits.

24. NET TRADING INCOME

	2006	2005
Fixed income	5,147	5,098
Equities	-	122
Total	**5,147**	**5,220**

(Currency – In thousands of New Turkish Lira)

25. FEE AND COMMISSION INCOME AND EXPENSE

	2006	2005
Fee and commission income		
Loans	1,365	1,097
Letters of guarantee	13,595	12,930
Letters of credit	2,715	2,426
Total	**17,675**	**16,453**
Fees and commission expense		
Corresponding bank fees	3,005	3,048
Total	**3,005**	**3,048**

26. SALARIES AND EMPLOYEE BENEFITS

	2006	2005
Staff costs		
Wages and salaries	37,909	29,393
Other fringe benefits	6,096	3,307
Provision for employee termination benefits and unused vacation pay liability	826	1,988
Cost of defined contribution plan (employers' share of social security premiums)	5,867	4,540
Total	**50,698**	**39,228**

The number of employees for the years is:

	2006	2005
The Bank	1,313	1,112
Subsidiaries	40	41
Total	**1,353**	**1,153**

27. OTHER INCOME

	2006	2005
Collections from loans written off in prior years	3,705	767
Fund management fee	1,294	1,040
Recovery from prior year property and equipment impairment	-	2,152
Others	2,206	1,663
Total	**7,205**	**5,622**

(Currency – In thousands of New Turkish Lira)

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Rent expenses	6,925	4,783
Communication expenses	2,459	2,484
Advertising expenses	2,222	2,310
Transportation expenses	1,948	1,759
Maintenance expense	1,210	1,277
Heating and lighting expenses	1,382	1,149
Insurance expenses	767	865
Computer expenses	261	356
Others	5,826	5,210
Total	**23,000**	**20,193**

29. OTHER EXPENSE

	2006	2005
Saving deposit insurance fund premium	1,547	1,229
Consultancy expenses	392	344
Loss on sale of fixed assets	929	644
Credit card expenses	602	670
Provision for impairment of head office building and investment property	-	619
Other expenses	507	488
Total	**3,977**	**3,994**

30. COMMITMENTS AND CONTINGENCIES

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

	2006	2005
Letters of Guarantee	1,079,550	967,042
Letters of Credit	274,933	229,982
Acceptance Credits	16,650	24,038
Other Guarantees	65,858	54,807
Total Non Cash Loans	**1,436,991**	**1,275,869**
Other Commitments	71,235	63,045
Credit Card Limits	161,746	128,972
	1,669,972	**1,467,886**

30. COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of between 1 and 5 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non cancelable operating leases.

Litigation

(i) A customer has sued the Bank in year 1998 with the claim that his deposit money has been withdrawn from his account with false documents. The amount is 1,299,213 Australian Dollars (equivalent to YTL 1,440). The trial is still in progress and no provision has been made as professional advice indicates that it is unlikely that any loss will arise.

(ii) In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group also manages 4 open-ended investment funds (2005 - 4 open-ended investment funds) which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. Management fee and commission income received from investment funds amounted to YTL 1,294 (2005 – YTL 1,040).

As of 31 December 2006, the Group had investment custody accounts amounting to YTL 90,739 (2005 – YTL 79,014)

31. 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.

31. FINANCIAL RISK MANAGEMENT (continued)

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

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports those control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks, is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity, is performed daily. The risk concentration of the off-balance sheet transactions are followed up by the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

As at 31 December 2006, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 45% (2005 – 49%).

As at 31 December 2006, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 57% (2005 – 60%).

(Currency – In thousands of New Turkish Lira)

31. FINANCIAL RISK MANAGEMENT (continued)

Industry exposure information for cash loans and non-cash loans is as follows:

	2006		2005	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Finance	175,216	170,351	161,931	93,142
Iron & Steel	59,299	75,990	59,279	93,191
Main metal product, processed materials	39,091	15,749	33,799	6,909
Textile, Fabrics, Yarn Industry	179,144	90,946	151,192	118,383
Construction	218,260	442,075	133,757	383,049
Service	75,747	35,281	71,320	46,503
Food and Beverage, Tobacco	166,553	86,269	99,547	89,635
Energy	76,730	69,754	79,147	76,770
Automotive Industry	110,019	49,457	43,024	51,484
Optics and Electrical Equipments	77,303	55,006	61,455	56,421
Chemical Industry	66,640	28,366	59,214	30,557
Paper Production and Publishing	18,761	17,659	9,607	13,294
Agriculture	27,410	33,185	41,551	24,801
Manufacturing	81,110	89,541	56,926	63,450
Foreign Trade	52,090	53,690	36,166	56,066
Tourism	30,875	11,540	35,641	20,765
Government	-	-	1,990	-
Others	184,166	105,667	94,223	45,142
Corporate loans	1,638,414	1,430,526	1,229,769	1,269,562
Consumer loans	80,220	6,465	40,397	6,307
Interest accruals	28,152	-	13,162	-
Loans in arrears	15,553	-	17,844	-
Provision for possible loan losses	(18,164)	-	(10,981)	-
	1,744,175	**1,436,991**	**1,290,191**	**1,275,869**

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the ISE Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the balance sheet, the maximum limits have been set by the Board of Directors.

(Currency – In thousands of New Turkish Lira)

31. FINANCIAL RISK MANAGEMENT (continued)

Major part of the liquidity has been maintained by the saving deposits in the Bank. Additionally, the volume of saving deposits has retained a stable path during the period. On the contrary, the Bank executes the strategy of increasing long-term loans from international markets rather than loans from domestic secondary market.

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.

	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Unallocated	Total
As at 31 December 2006								
Assets								
Cash and balances with central banks	14,078	104,732	-	-	-	-	-	118,810
Deposits with other banks and financial institutions	6,092	411,018	-	-	-	-	-	417,110
Other money market placements	-	-	-	-	-	-	-	-
Reserve deposits at central banks	-	104,227	-	-	-	-	-	104,227
Trading securities	-	253	15	451	22	32,168	-	32,909
Derivative financial instruments	-	235	318	479	102	-	-	1,134
Loans and advances	-	355,603	442,158	481,468	313,848	153,709	(2,611)	1,744,175
Investment securities	-	-	-	-	-	52,309	-	52,309
Cash collateral on securities borrowed	-	6,958	14,225	26,098	25,107	176,568	-	248,956
Assets held for sale	-	-	-	-	-	-	23,897	23,897
Property and equipment	-	-	-	-	-	-	71,590	71,590
Intangible assets	-	-	-	-	-	-	1,108	1,108
Deferred tax asset	-	-	-	-	-	3,582	-	3,582
Other assets	-	10,382	-	-	-	-	-	11,087
					-	-		
Total assets	**20,170**	**993,408**	**456,716**	**508,496**	**339,079**	**418,336**	**94,689**	**2,830,894**
Liabilities								
Deposits from other banks	11	132,157	135	-	-	-	-	132,303
Deposits fromcustomers	157,169	1,024,372	148,441	24,475	16,045	4,251	-	1,374,753
Other money market deposits	-	276,349	-	-	-	-	-	276,349
Derivative financial instruments	-	365	7,645	411	227	-	-	8,648
Funds borrowed	-	20,460	54,988	46,235	266,987	267,990	-	656,660
Other liabilities	38,256	-	-	-	-	-	-	38,256
Provisions	-	-	-	-	-	-	5,108	5,108
Total liabilities	**195,436**	**1,453,703**	**211,209**	**71,121**	**283,259**	**272,241**	**5,108**	**2,492,077**
Net liquidity gap	**(175,266)**	**(460,295)**	**245,507**	**437,375**	**55,820**	**146,095**	**89,581**	**338,817**
As at 31 December 2005								
Total assets	16,460	766,684	310,021	394,679	225,796	208,162	102,351	2,024,153
Total liabilities	209,636	1,085,768	144,590	65,824	296,079	22,233	2,708	1,826,838
Net liquidity gap	(193,176)	(319,084)	165,431	328,855	(70,283)	185,929	99,643	197,315

31. 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 1 November 2006.

"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 daily basis by employing Standard Approach, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. 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

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net asset position in foreign currencies, almost entirely in US Dollar, EURO and YTL.

The Group's foreign currency position risk is measured by "Standard Approach" and Internal Models. Level of share capital requirement is calculated by using Standard Approach.

(Currency – In thousands of New Turkish Lira)

31. FINANCIAL RISK MANAGEMENT (continued)

The concentrations of assets, liabilities and off balance sheet items are as follows;

	New Turkish Lira	US Dollars	Euro	Others	Total
As at 31 December 2006					
Assets					
Cash and balances with central banks	57,308	56,907	4,335	260	118,810
Deposits with other banks and financial institutions	14,421	354,795	42,351	5,543	417,110
Other money market placements	-	-	-	-	-
Reserve deposits at central banks	-	12	104,215	-	104,227
Trading securities	314	31,902	693	-	32,909
Derivative financial instruments	1,134	-	-	-	1,134
Loans and advances	923,466	540,432	273,442	6,835	1,744,175
Investment securities	22,715	29,594	-	-	52,309
Cash collateral on securities borrowed	248,956	-	-	-	248,956
Assets held for sale	23,897	-	-	-	23,897
Property and equipment	71,590	-	-	-	71,590
Intangible assets	1,108	-	-	-	1,108
Deferred tax asset	3,582	-	-	-	3,582
Other assets	2,766	2,762	5,559	-	11,087
Total assets	**1,371,257**	**1,016,404**	**430,595**	**12,638**	**2,830,894**
Liabilities					
Deposits from other banks	111,025	21,037	241	-	132,303
Deposits from customers	516,955	603,514	250,021	4,263	1,374,753
Other money market deposits	276,349	-	-	-	276,349
Derivative financial instruments	8,648	-	-	-	8,648
Funds borrowed	31,281	589,916	33,780	1,683	656,660
Other liabilities	18,631	6,471	12,490	664	38,256
Provisions	5,108	-	-	-	5,108
Total liabilities	**967,997**	**1,220,938**	**296,532**	**6,610**	**2,492,077**
Net balance sheet position	**403,260**	**(204,534)**	**134,063**	**6,028**	**338,817**
Off-balance sheet position	-	-	-	-	-
Net notional amount of derivatives	**(78,481)**	**208,490**	**(133,887)**	**(5,945)**	**(9,823)**
Net Position	**324,779**	**3,956**	**176**	**83**	**328,994**
At 31 December 2005					
Total assets	995,742	669,119	357,471	1,821	2,024,153
Total liabilities	793,723	782,977	244,603	5,535	1,826,838
Net balance sheet position	202,019	(113,858)	112,868	(3,714)	197,315
Off-balance sheet position	(2,139)	113,787	(114,605)	3,696	739
Net Position	199,880	(71)	(1,737)	(18)	198,054

Cash Flow and Fair Value Interest Rate Risk

Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

(Currency – In thousands of New Turkish Lira)

31. FINANCIAL RISK MANAGEMENT (continued)

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 repricing date:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2006								
Assets								
Cash and balances with central banks	104,715	-	-	-	-	-	14,095	118,810
Deposits with other banks and financial institutions	411,019	-	-	-	-	-	6,091	417,110
Other money market placements	-	-	-	-	-	-	-	-
Reserve deposits at central banks	104,227	-	-	-	-	-	-	104,227
Trading securities	253	14,714	14,851	22	3,069	-	-	32,909
Derivative financial instruments	235	318	479	102	-	-	-	1,134
Loans and advances	885,293	239,871	250,167	218,936	152,519	-	2,611	1,744,175
Investment securities	36,075	15,959	-	-	275	-	-	52,309
Cash collateral on securities borrowed	76,558	107,603	26,098	25,107	13,590	-	-	248,956
Assets held for sale	-	-	-	-		-	23,897	23,897
Property and equipment	-	-	-	-	-	-	71,590	71,590
Intangible assets	-	-	-	-	-	-	1,108	1,108
Deferred tax asset	-	-	-	-	-	-	3,582	3,582
Other assets	-	-	-	-	-	-	11,087	11,087
Total assets	**1,618,375**	**378,465**	**291,595**	**244,167**	**169,453**	**-**	**128,839**	**2,830,894**
Liabilities								
Deposits from other banks	132,292	-	-	-	-	-	11	132,303
Deposits from customers	1,024,372	148,441	24,475	16,045	4,251	-	157,169	1,374,753
Other money market deposits	276,349	-	-	-	-	-	-	276,349
Derivative financial instruments	365	7,645	411	227	-	-	-	8,648
Funds borrowed	442,141	54,988	46,235	69,500	43,796	-	-	656,660
Other liabilities	-	-	-	-	-	-	38,256	38,256
Provisions	-	-	-	-	-	-	5,108	5,108
Total liabilities	**1,875,519**	**211,074**	**71,121**	**85,772**	**48,047**	**-**	**200,544**	**2,492,077**
Balance sheet interest sensitivity gap	**(257,144)**	**167,391**	**220,474**	**158,395**	**121,406**	**-**	**(71,705)**	**338,817**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2005								
Total assets	1,029,62[illegible]	252,412	271,451	191,440	144,782	-	134,443	2,024,153
Total liabilities	1,274,10[illegible]	144,590	65,824	57,461	22,233	-	262,627	1,826,838
Balance sheet interest sensitivity gap	(244,478)	107,822	205,627	133,979	122,549	-	(128,184)	197,315

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency ("BRSA"). These ratios measure capital adequacy (minimum 8% as required by BRSA) 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 Group's capital adequacy ratio on a consolidated basis is 14.11%.

(Currency – In thousands of New Turkish Lira)

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2006	**2005**	**2006**	**2005**
Financial assets				
Loans and advances	1,744,175	1,290,191	1,739,523	1,290,345
	1,744,175	**1,290,191**	**1,739,523**	**1,290,345**
Financial liabilities				
Deposits from other banks	132,303	44,258	132,303	44,258
Deposits from customers	1,374,753	1,171,142	1,373,640	1,171,515
Funds borrowed	656,660	387,495	658,563	387,579
	2,163,716	**1,602,895**	**2,164,506**	**1,603,352**

Loans and Advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks, deposits with banks, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.