Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

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

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

We have audited the accompanying consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (formerly named C Kredi ve Kalkınma Bankası A.Ş.) ("the Bank"), 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 Bank 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 3 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 Bank 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.

21 February 2007
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi
(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

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	3	63	51
Deposits with other banks and financial institutions	3	113,711	19,859
Other money market placements	3	2,329	8,185
Reserve deposits at the Central Bank	4	23,577	11,415
Trading assets	5	1,773	1,896
Receivables from customers due to brokerage activities		12,442	10,123
Loans and advances	7	238,720	94,443
Minimum lease payments receivables	8	38,083	49,059
Investment securities	6	16,438	20,099
Loaned securities	6	19,205	-
Property and equipment	9	5,799	2,457
Intangible assets	10	4,438	1,923
Deferred tax assets	15	365	660
Other assets	11	3,534	2,235
Total assets		**480,477**	**222,405**
LIABILITIES			
Other money market deposits	12	23,524	5,509
Trading liabilities	5	341	2
Funds borrowed	13	156,944	75,322
Other liabilities	14	62,982	49,906
Provisions	14	442	161
Current tax liabilities	15	521	38
Deferred tax liabilities	15	18	-
Total liabilities		**244,772**	**130,938**
EQUITY			
Share capital and share premium	16	182,597	47,500
Adjustment to share capital	16	23,311	23,311
Unrealized gains/(losses) in available for sale investments, net of tax		(58)	124
Legal reserves and retained earnings	17	29,855	20,532
Total equity		**235,705**	**91,467**
Total equity and liabilities		**480,477**	**222,405**

The accompanying notes are an integral part of this consolidated financial statement.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi
(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

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		20,606	13,125
Interest on securities		36	89
Interest on deposits with other banks and financial institutions		4,501	2,082
Interest on other money market placements		1,460	692
Interest on financial leases		4,278	3,596
Other interest income		2,896	1,411
Total interest income		**33,777**	**20,995**
Interest expense			
Interest on other money market deposits		(1,033)	(247)
Interest on funds borrowed		(7,863)	(2,276)
Other interest expense		(3,233)	(1,525)
Total interest expense		**(12,129)**	**(4,048)**
Net interest income		**21,648**	**16,947**
Fees and commission income	22	7,257	6,080
Commission income on brokerage activities		2,800	3,143
Fees and commission expense	22	(1,055)	(381)
Net fee and commission income		**9,002**	**8,842**
Net trading income/(expense)	21	(142)	329
Foreign exchange gain, net		2,436	2,526
Gains from investment securities, net	6	3,697	1,916
Provision for impairment of loan and lease receivables	7 and 8	(347)	(663)
		5,644	**4,108**
Other operating income	24	**1,564**	**1,482**
Salaries and employee benefits	23	(12,523)	(7,467)
Depreciation and amortization	9 and 10	(1,525)	(806)
Administrative expenses	25	(9,095)	(4,674)
Taxes other than on income		(724)	(479)
Other expenses		(1,949)	(515)
Total operating expense		**(25,816)**	**(13,941)**
Profit from operating activities before income tax and monetary loss		**12,042**	**17,438**
Income tax – current	15	(2,406)	(1,952)
Income tax – deferred	15	(313)	68
Monetary loss		-	(3,575)
Net profit for the year		**9,323**	**11,979**
Earnings per share (full YTL) - basic		0.02	0.03

The accompanying notes are an integral part of this consolidated financial statement.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi
(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

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

	Notes	Share capital	Share Premium	Adjustment to share capital	Unrealized gain (loss) in available for sale investments, net of tax	Legal reserves and Retained Earnings	Total
At 1 January 2005		47,500	-	23,311	101	11,601	82,513
Net change in unrealized gain on available- for -sale investments		-	-	-	23	-	23
Total income and expense for the year recognized directly in equity		-	-	-	23	-	23
Net profit for the year		-	-	-	-	11,979	11,979
Total income for the year		-	-	-	23	11,979	12,002
Dividends declared and paid	18	-	-	-	-	(3,048)	(3,048)
At 31 December 2005 / 1 January 2006		47,500	-	23,311	124	20,532	91,467
Share capital increase		**64,396**	**70,701**	**-**	**-**	**-**	**135,097**
Net change in unrealized gain on available- for -sale investments		**-**	**-**	**-**	**(182)**	**-**	**(182)**
Total income and (expense) for the year recognized directly in equity		**-**	**-**	**-**	**(182)**	**-**	**(182)**
Net profit for the year		**-**	**-**	**-**	**-**	**9,323**	**9,323**
Total income / expense for the year		**-**	**-**	**-**	**(182)**	**9,323**	**9,141**
At 31 December 2006		**111,896**	**70,701**	**23,311**	**(58)**	**29,855**	**235,705**

The accompanying notes are an integral part of this consolidated financial statement.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi
(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

CONSOLIDATED CASH FLOWS 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		31,225	22,290
Interest paid		(10,414)	(3,945)
Fees and commissions received		10,057	9,223
Trading income		(142)	329
Recoveries of loans previously written off		1,159	440
Fees and commissions paid		(1,055)	(381)
Cash payments to employees and other parties		(12,262)	(7,451)
Cash received from other operating activities		5,835	1,482
Cash paid for other operating activities		(11,609)	(5,668)
Income taxes paid		(2,415)	(2,340)
Cash flows from operating activities before changes in operating assets and liabilities		10,379	13,979
Changes in operating assets and liabilities			
Decrease/(increase) in trading assets		1,409	(1,807)
Increase in reserve deposits at central banks		(12,028)	(2,218)
Increase in loans and advances		(142,807)	(29,193)
Decrease/(increase) in minimum lease payments receivable		11,505	(12,255)
(Increase)/decrease in other assets		(811)	430
Increase in receivables from customers due to brokerage activities		(2,319)	(6,705)
Increase in other money market deposits		18,017	1,205
Increase in other liabilities		12,425	19,772
Net cash provided by operating activities		(104,230)	(16,792)
Cash flows from investing activities			
Purchases of available for sale securities		(25,736)	(14,346)
Proceeds from sale and redemption of available for sale securities		11,119	2,657
Purchases of property and equipment	9	(4,231)	(971)
Proceeds from the sale of premises and equipment		34	284
Purchases of intangible assets	10	(3,191)	(374)
Proceeds from sale of intangible assets		6	532
Net cash used in investing activities		(21,999)	(12,218)
Cash flows from financing activities			
Proceeds from share capital increase	16	135,097	-
Proceeds from funds borrowed		569,789	71,221
Repayment of funds borrowed		(489,368)	(31,867)
Dividends paid to equity holders of the parent	18	-	(3,048)
Net cash provided by financing activities		215,518	36,306
Effect of net foreign exchange difference and monetary gain/ loss on monetary items		(1,281)	636
Net increase in cash and cash equivalents		88,008	7,932
Cash and cash equivalents at beginning of the year	3	28,095	20,163
Cash and cash equivalents at end of the year	3	**116,103**	**28,095**

The accompanying notes are an integral part of this consolidated financial statement.

1. CORPORATE INFORMATION

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. (formerly C Kredi ve Kalkınma Bankası A.Ş.) (The Bank) was incorporated in Turkey in 9 April 1999 as Toprak Yatırım Bankası A.Ş. as a subsidiary of Toprakbank A.Ş. On 1 December 2001, Toprakbank A.Ş. (the previous parent company) was taken over by the Saving Deposit Insurance Fund (SDIF). As a result, SDIF became the controlling shareholder of Toprak Yatırım Bankası A.Ş. C Faktoring A.Ş. (formerly Elit Finans Faktoring Hizmetleri A.Ş.) acquired 89.92% of the Bank's shares on 1 November 2002 in an auction from Savings Deposit Insurance Fund. Following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş. and the share capital was increased to YTL 47,500,000 (full YTL). C Faktoring A.Ş. and its nominees increased their shareholding to 100% by share capital increases and by purchasing other third party minority shareholders' shares.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalized and a final agreement was signed on 13 December 2005. Under this agreement, the Bank Hapoalim B.M. ("Bank Hapoalim"), Israel's leading financial group and the largest bank, was to acquire a 57.55% stake in Bankpozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim. As at 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş. Necessary legal approvals have been obtained from Israeli and Turkish authorities in 2006 and Extraordinary General Assembly of the Bank was convened at 31 October 2006 concerning the new partnership. At the Extraordinary General Assembly meeting, the Bank's share capital was increased by YTL 64,396,348 (full YTL) to YTL 111,896,348 (full YTL) and the share premium amount for the new issued shares paid by Tarshish was decided to be equal to YTL 70,701,000 (full YTL). Tarshish deposited YTL 135,097,348 (full YTL) in the Bank's account at 2 November 2006. Banking Regulatory and Supervision Agency ("BRSA") approved the transfer of capital payment amount by Tarshish on 16 November 2006 and the share capital increase was finalized.

As at 31 December 2006, 57.55% (2005 - nil) of the shares of the Bank belongs to Tarshish and are controlled by Bank Hapoalim.

The registered head office address of the Bank is located at Büyükdere Caddesi, Beybi Giz Plaza Kat: 7 Meydan Sok. No: 28 Maslak 80670 İstanbul -Turkey.

The consolidated financial statements as at 31 December 2006 of the Bank are authorized for issue by the management on 21 February 2007. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Bank / Group

The Bank carries out its activities as corporate and retail banking, and mainly involved in corporate services such as financial leasing, trade finance, corporate lending and project finance. As a non-deposit taking bank, the Bank borrows funds from financial markets, its counterparties, its clients and obtains cash blockages and cash collaterals from its credit customers but is not entitled to receive deposits from customers.

C Menkul Değerler A.Ş. (C Menkul) is involved in intermediary, brokerage, corporate finance and underwriting activities.

C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. (C Bilişim) is specialized in software development and other technological affairs related to financial industry.

(Currency - In thousands of New Turkish Lira)

Pratic İletişim ve Teknoloji Hizmetleri Ticaret Anonim Şirketi(Pratic) is a dormant company. Group's effective shareholding in Pratic is 99% and it is carried at cost. Since Pratic is not operating; the financial statements of Pratic were not included to the accompanying consolidated financial statements.

As at 31 December 2006, the Bank provides services through its head office and also has six branches located in Istanbul, Ankara and İzmir.

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

The affiliates 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**
C Menkul Değerler A.Ş.	Istanbul/Turkey	Intermediary, brokerage, corporate finance and underwriting activities	100	100
C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş.	Istanbul/Turkey	Software development and technology	100	100

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements as at 31 December 2006 has been prepared in accordance with International Financial Reporting Standards (IFRS), on a 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 affiliates 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 consolidated financial statements have been prepared from statutory financial statements of the Bank and its affiliates 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. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of YTL until 31 December 2005, consolidation of affiliates, deferred taxation and employee termination benefits until 31 December 2005.

2.2 Changes in Accounting Policies

IFRSs and IFRIC Interpretations Not Yet Effective

The Group has not applied the IFRSs and IFRIC Interpretations that have been issued but are not yet effective. In this context, the Group expects that the adoption of IFRS 7 "Financial Instruments-Disclosures", which supersedes IAS 30 and disclosure requirements of IAS 32 and effective for annual periods beginning on or after 1 January 2007, will impact the presentation of additional disclosures on financial instruments.

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 are reflected in the measurement of income and expense in the consolidated income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. 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.

The judgments and estimates that may have a significant effect on amounts recognized in the accompanying consolidated financial statements are as follows;

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 consolidated financial statements:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Estimation Uncertainty

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 of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was YTL 275 (2005 - YTL 275) and there is no impairment recorded related to goodwill.

(b) 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 consolidated 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 at 31 December 2006 is YTL 289,245 (2005 - YTL 153,625) net of impairment allowance of YTL 3,514 (2005 - YTL 3,957).

(c) Fair Value of Derivatives and Other Financial Instruments

The fair value 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. As at 31 December 2006, the carrying amount of derivative financial instrument assets YTL 1,375 (2005 - YTL 89) and the carrying amount of derivative financial instrument liabilities is YTL 341 (2005 - YTL 2).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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. As at 31 December 2006, the Group carried YTL 521 net income taxes payable (2005 - YTL 38).

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 at 31 December 2006, the Group carries a net deferred tax asset amounting to YTL 347 (2005 - YTL 660).

(e) 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 14 are reviewed regularly. The carrying value of employee termination benefit provisions as at 31 December 2006 is YTL 125 (2005 - YTL 161).

2.4 Summary of Significant Accounting Policies

Functional and Presentation Currency

The Group's functional and presentation currency is 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.

Basis of Consolidation

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

Affiliates 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.

Affiliates 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.

(Currency - In thousands of New Turkish Lira)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognized by the Group.

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

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealized 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 consolidated income statement.

Foreign currency translation rates used by the Group are as follows:

	EUR / TL (full)	USD / TL (full)
31 December 2004	1.8268	1.3421
31 December 2005	1.5904	1.3430
31 December 2006	1.8586	1.4131

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment in value.

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

Buildings	50 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years
Leasehold improvements	Lease period
Leased assets	4 years

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 consolidated 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 consolidated income statement in the year the asset is derecognized.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary or associate at the date of acquisition. Goodwill on acquisition of affiliates is included in "intangible assets". Following initial recognition goodwill is measured at cost less any impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units.

Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to that entity sold.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research costs are expensed as incurred. An intangible asset arising from development expenditure incurred on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and impairment losses.

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 consolidated income statement when the asset is derecognized.

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, plus in the case of financial assets not at fair value through profit or loss, any directly attributable incremental cost of acquisition. 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 consolidated income statement.

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 the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is presented as interest income in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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. Equity securities whose fair values cannot be measured reliably are recognized at cost less impairment, if any.

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 consolidated financial statements as loaned securities 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 consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is 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 the consolidated income statement.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the consolidated 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 based on the 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.

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 the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the consolidated income statement.

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 the consolidated income statement, is transferred from equity to the the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement.

Interest -bearing Customer Accounts and Borrowings

All customer accounts and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing customer accounts classified in other liabilities and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 consolidated 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 in the consolidated income statement.

Leases

The Group as Lessee

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 consolidated 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.

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 item 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as Lessor

Finance Lease

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and Expense Recognition

Interest income and expense are recognized in the consolidated 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 amortized 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.

Fees and commissions are generally 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 recognized 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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.

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 consolidated 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.

(Currency - In thousands of New Turkish Lira)

3. CASH AND CASH EQUIVALENTS

	2006	2005
Cash and balances with Central Bank	63	51
Deposits with other banks and financial institutions	113,711	19,859
Interbank & other money market placements	2,329	8,185
Cash and cash equivalents in the balance sheet	116,103	28,095
Less : Time deposits with original maturities of more than three months	-	-
Cash and cash equivalents in the cash flow statement	**116,103**	**28,095**

As at 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 Bank	2	14			7	44	-	-
Deposits with other banks and financial institutions	68,930	44,781	18.58%	USD-5.12% EUR-3.11%	18,613	1,246	15.02%	0.95%
Interbank & other money market placements	2,329	-	16.04%		8,185	-	13.95%	-
Total	**71,261**	**44,795**			**26,805**	**1,290**		

4. RESERVE DEPOSITS AT THE CENTRAL BANK

	2006	2005
- New Turkish lira	1,533	106
- Foreign currency	22,044	11,309
	23,577	**11,415**

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

As at 31 December 2006, the interest rates applied for YTL and USD reserve deposits by the Central Bank are 13.12% and 2.52 % (2005 – 10.25 % and 2.03%), respectively.

(Currency - In thousands of New Turkish Lira)

5. TRADING ASSETS

	2006		2005	
	Amount	**Effective Interest rate**	**Amount**	**Effective Interest rate**
Trading assets at fair value				
Debt instruments-YTL				
Turkish government bonds	49	19.85 %	1,723	16.39%
Turkish treasury bills	-		9	16.70%
	49		**1,732**	
Others				
Mutual funds	61	-	75	-
Equity investment	288	-		-
	349		**75**	
Derivative transactions				
Fair value through profit and loss	**1,375**		**89**	
Total trading assets	**1,773**		**1,896**	

There are no trading securities pledged under repurchase agreements as at 31 December 2006 and 2005.

As at 31 December 2006, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2006, all trading debt securities have fixed interest rates.

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 and options.

(Currency - In thousands of New Turkish Lira)

5. TRADING ASSETS (continued)

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		
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**
Derivatives held for trading			
Forward purchase contract	-	92	4,293
Forward sale contract	141	-	4,233
Currency swap purchase	914	249	44,775
Currency swap sale	-	-	43,815
Future purchase contract	318	-	27,670
Future sales contract	2	-	27,182
Total derivatives held for trading	**1,375**	**341**	**151,968**

	2005		
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**
Derivatives held for trading			
Forward purchase contract	42	-	8,553
Forward sale contract	-	2	8,511
Currency swap purchase	47	-	11,300
Currency swap sale	-	-	11,062
Total derivatives held for trading	**89**	**2**	**39,426**

The Group undertakes approximately all of its transactions in derivative financial instruments with banks and other financial institutions.

In order to minimize the asset-liability interest rate mismatch risk, the Bank entered into interest rate cap agreement amounting to a total of USD 3.1 million as at 31 December 2006.

(Currency - In thousands of New Turkish Lira)

6. INVESTMENT SECURITIES

Available for Sale Securities

	2006		2005	
	Amount	**Effective Interest Rate**	**Amount**	**Effective Interest Rate**
Available for sale securities at fair value				
Debt instruments-YTL				
Turkish government bonds	16,378	22.06%	19,567	17.8%
Total available for sale securities at fair value	**16,378**		**19,567**	
Available for sale securities at cost				
Equity instruments - unlisted	60		532	-
Total available for sale securities	**16,438**		**20,099**	

Carrying value of available for sale securities given as collateral under repurchase agreements which are classified as loaned securities and related liability are as follows:

	31 December 2006	31 December 2005
Available for sale securities	19,205	-
Related liability	17,097	-

Repurchase agreements mature within one month.

As at 31 December 2006 and 2005, all available-for-sale securities comprise Turkish Government floating rate notes (FRN) with semi-annual and quarterly coupon payments having a maturity range of July 2008 - September 2011 and January 2006 - August 2010, respectively.

As at 31 December 2006, government securities with carrying value of YTL 4,633 are kept in the Central Bank and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for stock exchange and money market operations. As at 31 December 2005, government securities with carrying value of YTL 19,103 are kept in the Central Bank and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for stock exchange and money market operations and for derivative transactions.

As at 31 December 2006, the Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the current year (2005 - none).

(Currency - In thousands of New Turkish Lira)

6. INVESTMENT SECURITIES (continued)

For the years ended 31 December, gains and losses from investment securities arise from derecognition of available for sales securities.

	2006	2005
Derecognition of available-for-sale securities	3,697	1,916

Unlisted equity instruments classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently, they are reflected at cost less reserve for impairment, as a reliable estimate of their fair values could not be made.

The movement in investment securities (including loaned securities) is summarized as follows:

	2006 Available For Sale	2005 Available For Sale
At 1 January	20,099	8,487
Exchange differences and monetary gain (loss) on monetary assets	-	(77)
Additions	26,845	14,346
Disposals (sale and redemption)	(11,119)	(2,657)
Change in unrealized gains and losses	(182)	-
At 31 December	**35,643**	**20,099**

7. 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	79,075	56,887	63,489	199,451	23.02%	USD-9.06% EUR-8.59%	USD-9.90% EUR-7.06%
Consumer loans	33,805	-	6,837	40,642	22.15%	-	USD-9.22% EUR-7.70%
Total loans	**112,880**	**56,887**	**70,326**	**240,093**			
Loans in arrears (*)				2,141			
Less: Specific Reserve for impairment				(898)			
Less: Portfolio Reserve for impairment				(2,616)			
	112,880	**56,887**	**70,326**	**238,720**			

(*)YTL 201 (2005 - 2,326) of loans in arrears was transferred from the previous shareholders through acquisition of the Bank from SDIF auction.

(Currency - In thousands of New Turkish Lira)

7. LOANS AND ADVANCES (continued)

	2005						
	Amount				**Effective interest rate**		
	New Turkish Lira	**Foreign Currency**	**Foreign Currency Indexed**	**Total**	**New Turkish Lira**	**Foreign Currency**	**Foreign Currency Indexed**
Corporate loans	27,567	30,650	27,971	86,188	20.74%	USD- 9.00% EUR-8.87%	USD- 9.10% EUR-8.74%
Consumer loans	3,155	-	6,400	9,555	19.00%	-	USD- 9.29% EUR-6.52%
Total loans	30,722	30,650	34,371	95,743			
Loans in arrears (*)				2,657			
Less: Specific Reserve for impairment				(2,657)			
Less: Portfolio Reserve for impairment				(1,300)			
	30,722	**30,650**	**34,371**	**94,443**			

(*)YTL 2,141 (2005 - 2,326) of loans in arrears was transferred from the previous shareholders through acquisition of the Bank from SDIF auction.

As at 31 December 2006, loans with variable rates are YTL 137,810 (2005 - YTL 59,851) and fixed rates are YTL 106,872 (2005 - YTL 35,892).

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

Movements in the reserve for possible loan losses:

	2006	**2005**
Reserve at beginning of year	3,957	3,444
Provision for loan impairment	1,506	1,103
Recoveries	(1,159)	(440)
Provision net of recoveries	347	663
Loans written off during the year	(790)	-
Monetary gain	-	(150)
Reserve at end of year	**3,514**	**3,957**

As at 31 December 2006, loans and advances on which interest is not being accrued, or where interest is suspended amounted to YTL 2,141 (2005 - YTL 2,657). As at 31 December 2006 and 2005, there is no uncollected interest accrued on impaired loans.

(Currency - In thousands of New Turkish Lira)

8. MINIMUM LEASE PAYMENTS RECEIVABLES

	2006	2005
No later than 1 year	20,641	23,120
Later than 1 year and no later than 5 years	22,647	32,799
Later than 5 years	-	142
Minimum lease payments receivable, gross	43,288	56,061
Less: Unearned interest income	(5,205)	(7,002)
Net investment in finance leases	38,083	49,059
Less: Reserve for impairment	-	-
Minimum lease payments receivables, net	**38,083**	**49,059**

Net investment in finance leases are analyzed as follows:

	2006	2005
No later than 1 year	17,545	19,890
Later than 1 year and no later than 5 years	20,538	29,033
Later than 5 years	-	136
	38,083	**49,059**

As at 31 December 2006, YTL 13,001 of net investment in finance leases is denominated in USD, YTL 24,197 of net investment in finance leases is denominated in EUR (2005 - YTL 20,507 and YTL 25,818 denominated in USD and EUR, respectively) and YTL 885 of net investment in finance leases is denominated in YTL (2005- YTL 2,734).

As at 31 December 2006, the effective interest rate for minimum lease receivables denominated in USD is 8.65% (2005 - 8.51%), in EUR 7.97% (2005 - 8.19%) and in YTL 20.16% (2005 - 20.31%).

As at 31 December 2006, finance lease receivables in the amount of YTL 20,558 (2005 - YTL 20,353) have floating interest rate, fixed for 6 months period and remaining YTL 17,525 (2005 - YTL 28,706) have fixed interest rates.

(Currency - In thousands of New Turkish Lira)

9. PROPERTY AND EQUIPMENT

31 December 2006	Land and buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
At 1 January 2006, net of accumulated depreciation and impairment	**605**	**967**	**748**	**137**	**2,457**
Additions	-	2,888	1,343	-	4,231
Disposals	-	(34)	-	-	(34)
Depreciation charge for the year	(13)	(438)	(353)	(51)	(855)
At 31 December 2006, net of accumulated depreciation and impairment	**592**	**3,383**	**1,738**	**86**	**5,799**
At 1 January 2006					
Cost	645	2,636	924	252	4,457
Accumulated depreciation	(40)	(1,669)	(176)	(115)	(2,000)
Net carrying amount	**605**	**967**	**748**	**137**	**2,457**
At 31 December 2006					
Cost	645	5,470	2,267	252	8,634
Accumulated depreciation	(53)	(2,087)	(529)	(166)	(2,835)
Net carrying amount	**592**	**3,383**	**1,738**	**86**	**5,799**

31 December 2005	Land and buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
At 1 January 2005, net of accumulated depreciation and impairment	**618**	**795**	**280**	**505**	**2,198**
Additions	-	398	573	-	971
Disposals	-	(5)	-	(307)	(312)
Depreciation charge for the year	(13)	(221)	(105)	(61)	(400)
At 31 December 2005, net of accumulated depreciation and impairment	**605**	**967**	**748**	**137**	**2,457**
At 1 January 2005					
Cost	645	2,260	351	718	3,974
Accumulated depreciation	(27)	(1,465)	(71)	(213)	(1,776)
Net carrying amount	**618**	**795**	**280**	**505**	**2,198**
At 31 December 2005					
Cost	645	2,636	924	252	4,457
Accumulated depreciation	(40)	(1,669)	(176)	(115)	(2,000)
Net carrying amount	**605**	**967**	**748**	**137**	**2,457**

As at 31 December 2006, cost of fully depreciated items is amounting to YTL 1,311.

(Currency - In thousands of New Turkish Lira)

10. INTANGIBLE ASSETS

31 December 2006	Goodwill	Software Licenses and Other	Development Costs	Total
At 1 January 2006 net of accumulated amortization and impairment	**275**	**607**	**1,041**	**1,923**
Additions	-	2,205	986	3,191
Disposals	-	(6)	-	(6)
Amortization charge for the year	-	(354)	(316)	(670)
At 31 December 2006 net of accumulated amortization	**275**	**2,452**	**1,711**	**4,438**
At 1 January 2006				
Cost (gross carrying amount) as previously stated	275	940	1,370	2,585
Elimination of accumulated amortization	-	(333)	(329)	(662)
Net carrying amount	**275**	**607**	**1,041**	**1,923**
At 31 December 2006	**-**	**-**	**-**	**-**
Cost (gross carrying amount)	275	3,141	2,316	5,732
Accumulated amortization and impairment	-	(689)	(605)	(1,294)
Net carrying amount	**275**	**2,452**	**1,711**	**4,438**

As from 1 January 2006, the date of adoption of IFRS 3, goodwill was no longer amortized but is now subject to annual impairment testing. The Group reviewed the goodwill on acquisition of C Menkul for impairment through an estimation of the value in use of the cash generating unit to which the goodwill is allocated.

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

(Currency - In thousands of New Turkish Lira)

10. INTANGIBLE ASSETS (continued)

31 December 2005	Goodwill	Software Licenses and Other	Development Costs	Total
At 1 January 2005 net of accumulated amortization and impairment	**275**	**760**	**1,330**	**2,365**
Additions-	-	374	-	374
Transfers	-	(410)	-	(410)
Amortization charge for the year	-	(117)	(289)	(406)
At 31 December 2005 net of accumulated amortization	**275**	**607**	**1,041**	**1,923**
At 1 January 2005				
Cost (gross carrying amount)	275	1,010	1,352	2,637
Accumulated amortization and impairment		(250)	(22)	(272)
Net carrying amount	**275**	**760**	**1,330**	**2,365**
At 31 December 2005			-	
Cost (gross carrying amount)	275	940	1370	2,585
Accumulated amortization and impairment	-	(333)	(329)	(662)
Net carrying amount	**275**	**607**	**1,041**	**1,923**

As at 31 December 2006, cost of fully amortized items is amounting to YTL 119.

11. OTHER ASSETS

	2006	**2005**
Prepaid expenses	1,443	1,189
Prepayments for leasing agreements	1,087	392
Advances given	531	84
Prepaid taxes	82	570
-income taxes	66	318
-other taxes	16	252
Others	391	-
	3,534	**2,235**

As at 31 December 2006 and 2005, prepaid taxes of YTL 1,817 and YTL 1,969 have been offset against current taxes payable, respectively.

(Currency - In thousands of New Turkish Lira)

12. 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	17,097	-	18.01%		-	-	-	-
	17,097	-			-	-		
Other money market deposits	6,427	-	18.86%		5,509	-	13.5%	-
Total	**23,524**	**-**			**5,509**	**-**		

As at 31 December 2006, other money market deposits of YTL 23,524 (2005 - YTL 5,509) have fixed interest rates.

13. 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	13,559	16,081	19.18%	EUR-4.62% USD-5.94% JPY-1.10%	503	58,151	18%	EUR-3.96% USD-6.61%
Floating interest	-	71,296	-	USD-6.19%	-	-	-	
Medium/long term								
Fixed interest	-	5,976	-	USD-6.43%	-	-	-	
Floating interest	-	50,032	-	EUR-4.22% USD-7.33%	-	16,668	-	EUR-3.36% USD-6.20%
Total	**13,559**	**143,385**			**503**	**74,819**		

Repayments of medium/long term borrowing are as follows:

	2006		**2005**	
	Floating rate	**Fixed rate**	**Floating rate**	**Fixed rate**
2006	-	-	7,812	-
2007	12,338	5,648	5,909	-
2008	18,927	164	1,481	-
2009	17,741	164	545	-
2010	865	-	-	-
Thereafter	161	-	921	-
Total	**50,032**	**5,976**	**16,668**	**16,668**

(Currency - In thousands of New Turkish Lira)

13. FUNDS BORROWED (continued)

As at 31 December 2006, the Bank's foreign currency funds borrowed includes USD 40 million of syndicated loan obtained at 28 April 2006 with a maturity of 1 year (Interest rate - Libor + 0.75%).

Floating rate borrowings bear interest at rates fixed in advance for periods of 3 to 6 months.

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

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2006 (2005 - nil).

14. OTHER LIABILITIES AND PROVISIONS

	2006	2005
Other liabilities		
Current accounts of loan customers	56,128	37,975
Taxes and funds payable	1,876	1,220
Payables due to suppliers of equipment acquired for leasing	85	6,491
Leasing payables	1,466	-
Others	3,427	4,220
	62,982	**49,906**
Provisions		
Employee termination benefits	125	161
Vacation pay liability	297	-
Other	20	-
	442	**161**
Total	**63,424**	**50,067**

As at 31 December 2006, YTL 53,330 (2005 - YTL 30,127) of YTL 56,128 (2005 - YTL 37,975) of current accounts of loan customers bears interest. The effective interest rate for current accounts of loan customers denominated in USD is between 3.0% and 8.77% (2005 - 3.0% and 7.2%), in EUR between 3.0% and 3.3% (2005 - 2.5% and 4.0%) and in YTL between 11.25% and 20% (2005 - 11.5%). Current accounts of loan customers have fixed interest rates.

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

	2006	2005
At 1 January 2006	161	152
Increase during the year	13	16
Utilized / paid	(49)	-
Monetary gain	-	(7)
At 31 December 2006	**125**	**161**

(Currency - In thousands of New Turkish Lira)

14. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its affiliates 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 at 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%	12%
Expected rates of salary/limit increases	5.45%	6.175%

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.

15. 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)

15. INCOME TAXES (continued)

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to 24 April 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from 24 April 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to 24 April 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from 1 January 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to 31 December 2005 will be able to deduct such amounts from corporate income until the end of 31 December 2008; however, the corporate tax rate will be 30% for them. As at 31 October 2006, the Bank has chosen not to deduct such amounts from corporate income. Furthermore, qualifying capital investments to be made until the end of 31 December 2008 within the scope of the investment projects started before 31 December 2005 will be subject to investment incentive until the end of 31 December 2008.

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

As at 31 December 2006 and 2005, prepaid income taxes are netted off with the current income tax liability as stated below:

	2006	**2005**
Income tax liability	2,338	2,007
Prepaid income tax (Note 11)	(1,817)	(1,969)
Income taxes payable	**521**	**38**

(Currency - In thousands of New Turkish Lira)

15. INCOME TAXES (continued)

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

	2006	2005
Consolidated income statement		
Current income tax		
Current income tax charge	2,406	1,952
Deferred income tax		
Relating to origination and reversal of temporary differences	313	(68)
Income tax expense reported in consolidated income statement	**2,719**	**1,884**
Consolidated statement of changes in equity		
Current income tax		
Unrealized gain/(loss) on available-for-sale financial assets	13	(55)
Income tax charge/(credit) reported in consolidated statement of changes in equity	**13**	**(55)**

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	**12,042**	**13,863**
At Turkish statutory income tax rate of 20% (2005 - 30%)	2,409	4,159
Non-deductible expenses	481	345
Effect of change in tax rate	220	-
Tax exempt income	(323)	
Tax incentives	-	(3,720)
Others, net	(68)	1,100
Income tax expense	**2,719**	**1,884**

(Currency - In thousands of New Turkish Lira)

15. INCOME TAXES (continued)

Deferred Tax

Deferred tax at 31 December relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2006	**2005**	**2006**	**2005**
Deferred tax liabilities				
Property and equipment	(68)	(275)	(342)	(96)
Derivative financial instruments	(206)	(27)	(179)	87
Gross deferred income liabilities	**(274)**	**(302)**	**(521)**	**(9)**
Deferred tax assets				
Liability for defined benefit plans	89	48	53	4
Reserve for loan losses	523	390	133	151
Accounting for financial leases	(1)	521	12	248
Tax benefit of investment incentives	-	-	-	(283)
Others	10	3	10	(43)
Deferred tax assets	**621**	**962**	**208**	**77**
Deferred tax asset	**347**	**660**	**-**	**-**
Deferred tax income / (expense)	**-**	**-**	**(313)**	**68**

Reflected as:

Deferred tax asset	**365**	-
Deferred tax liability	**(18)**	-

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

	2006	**2005**
Deferred tax asset, net at 1 January	660	620
Deferred income tax recognized in the consolidated income statement	(313)	68
Monetary loss	-	(28)
Deferred tax asset, net at 31 December	**347**	**660**

(Currency - In thousands of New Turkish Lira)

16. SHARE CAPITAL

	2006	2005
Number of common shares, YTL 0.1 (in full YTL), par value (Authorized and issued)	1,118,963,480	475,000,000

As at 31 December 2006, the Bank's subscribed and issued share capital in historical terms is YTL 111,896 (2005- YTL 47,500).

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

	2006		2005	
	Amount	**%**	**Amount**	**%**
Tarshish Hapoalim and Investments Ltd.	64,396	57.55	-	
C Faktoring A.Ş.	47,499	42.45	47,499	99.99
Others	1	-	1	0.01
	111,896	**100.00**	**47,500**	**100.00**
Share premium	70,701		-	
Restatement effect	23,311		23,311	
	205,908		**70,811**	

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalized and a final agreement was signed on 13 December 2005. Under this agreement, the Bank Hapoalim B.M. ("Bank Hapoalim"), Israel's leading financial group and the largest bank, was to acquire a 57.55% stake in Bankpozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim. As at 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş. Necessary legal approvals have been obtained from Israeli and Turkish authorities in 2006 and Extraordinary General Assembly of the Bank was convened at 31 October 2006 concerning the new partnership. At the Extraordinary General Assembly meeting, the Bank's share capital was increased by YTL 64,396,348 (full YTL) to YTL 111,896,348 (full YTL) and the share premium amount for the new issued shares paid by Tarshish was decided to be equal to YTL 70,701,000 (full YTL). Tarshish deposited YTL 135,097,348 (full YTL) in the Bank's account at 2 November 2006. Banking Regulatory and Supervision Agency ("BRSA") approved the transfer of capital payment amount by Tarshish on 16 November 2006 and the share capital increase was finalized.

(Currency - In thousands of New Turkish Lira)

17. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings are as follows:

	2006			2005		
	Legal Reserves	**Retained Earnings**	**Total**	**Legal Reserves**	**Retained Earnings**	**Total**
At 1 January	876	19,656	20,532	46	11,555	11,601
Transfer from retained earnings	19,656	(19,656)	-	830	(830)	-
Dividends paid	-			-	(3,048)	(3,048)
Net profit for the year	-	9,323	9,323	-	11,979	11,979
At 31 December	**20,532**	**9,323**	**29,855**	**876**	**19,656**	**20,532**

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.

18. DIVIDENDS PAID AND PROPOSED

Dividends declared and paid during the year:

	2006	**2005**
Common shares		
0.0064 (full YTL) per share in 2005	-	3,048

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

In their annual general meeting held on 25 April 2005 the shareholders resolved to distribute dividends in respect of 2004 of YTL 0.0064 /share, amounting to a total of YTL 3,048 which was not recognized as a liability as at 31 December 2004.

The Group did not declare or pay dividends out of the profits for 2005.

The Group did not declare or pay dividends out of the profits for 2006 as of the date of preparation of these financial statements.

19. EARNINGS PER SHARE

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

(Currency - In thousands of New Turkish Lira)

20. 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 Bank Hapoalim and C Faktoring which owns 57.55% and 42.45% of ordinary shares, respectively (2005 - nil and 99.9%, respectively). The ultimate owner of the group is Bank Hapoalim. For the purpose of these consolidated financial statements, unconsolidated affiliates, shareholders, and companies controlled by Bank Hapoalim and C Faktoring 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. These include loans, customer accounts, funds borrowed, non-cash transactions, and derivative transactions. These are all commercial transactions and realized on an arms-length basis. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the year are as follows:

	Shareholders		**Directors and key management personnel**		**Others**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Loans						
Loans outstanding at 1 January	-	-	-	-	22	2,218
Loans issued during the year	-	89,377	-	-	53	2,077
Loan repayments during the year	-	(89,377)	-	-	-	(4,273)
Loans outstanding at 31 December	-	-	-	-	75	22
Interest income earned	**-**	**248**	**-**	**-**	**10**	**231**

As at 31 December 2006, no provisions have been recognized in respect of loans given to related parties (2005 - none).

	Shareholders		**Directors and key management personnel**		**Others**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Funds borrowed						
Funds borrowed outstanding at 1 January	-	-	-	-	45,955	32,404
Funds borrowed issued during the year	35,328	-	-	-	42,408	169,878
Funds borrowed repayments during the year	-	-	-	-	(68,528)	(156,327)
Funds borrowed outstanding at 31 December	35,328	-	-	-	19,835	45,955
Interest expense given	**(684)**	**-**	**-**	**-**	**(1,965)**	**2,029**

(Currency - In thousands of New Turkish Lira)

20. RELATED PARTY DISCLOSURES (continued)

Other balances and transactions with related parties:

Related party		Placements with banks	Receivables from customers due to brokerage activities	Minimum lease payments receivable	Other liabilities	Non-cash loans	Notional amount of derivative transactions	Foreign exchange trading gain(loss)	Other interest income	Interest expense	Other operating income	Other operating expense
Shareholders	2006				93	109	9,585	(675)	-	(4)	3	-
	2005	-	-	-	32	51	12,935	3,294	248	-	2	-
Others	2006	16	-	7	286	469	-	(521)	59	(243)	3	-
	2005	1	-	20	12,214	408	-	(659)	971	282	94	200
Directors and key management personnel	2006	-	424	-	9	-	-	(1)	-	-	-	-
	2005	-	-	-	-	-	-	-	-	-	-	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to YTL 3,630 (2005 - YTL 2,432) comprising salaries and other short-term benefits.

21. NET TRADING INCOME / (EXPENSE)

	2006	2005
Equities	(147)	302
Fixed income	-	27
Mutual funds	5	-
Total	**(142)**	**329**

22. FEE AND COMMISSION INCOME AND EXPENSE

	2006	2005
Fee and commission income		
Letters of guarantee	3,520	4,092
Loans	2,882	569
Letters of credit	604	1,174
Other fees	251	245
Total	**7,257**	**6,080**
Fees and commission expense		
Corresponding bank fees	659	381
Other fees and commission expense	396	-
Total	**1,055**	**381**

(Currency - In thousands of New Turkish Lira)

23. SALARIES AND EMPLOYEE BENEFITS

	2006	2005
Staff costs		
Wages and salaries	7,929	4,911
Bonuses	2,347	1,491
Cost of defined contribution plan (employers' share of social security premiums)	1,130	530
Other fringe benefits	1,104	519
Provision for employee termination benefits	13	16
Total	**12,523**	**7,467**

The number of employees for the years is:

	2006	2005
The Bank	179	77
Affiliates	61	50
Total	**240**	**127**

24. OTHER INCOME

	2006	2005
Income from underwriting activities	753	-
Consultancy income	439	432
Software sales and rental income	154	381
Technology support income	43	669
Other	175	-
Total	**1,564**	**1,482**

25. ADMINISTRATIVE EXPENSES

	2006	2005
Operational leasing expenses	2,687	719
Communication expense	914	630
Computers and technology	791	1,145
Advertising expense	731	220
Representation expenses	624	203
Consultancy expense	598	246
Transportation expenses	551	322
Gasoline expenses	447	224
Subscription and membership fees	215	159
Others	1,537	806
Total	**9,095**	**4,674**

(Currency - In thousands of New Turkish Lira)

26. COMMITMENTS AND CONTINGENCIES

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

	2006	**2005**
Letters of Guarantee	214,754	376,735
Letters of Credit	41,233	45,347
Other Guarantees	5,551	795
Total Non Cash Loans	**261,538**	**422,877**
Letter of guarantee obtained by consolidated affiliates from other banks	3,672	2,071
	265,210	**424,948**

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises and vehicles. These leases have an average life of between 1 and 5 years and with renewal option for branch premises and no renewal option for vehicles included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. As at 31 December 2006, the Group has non cancelable operating lease agreements for YTL 1,818.

Litigation

There were a number of legal proceedings outstanding against the Group as at 31 December 2006 totaling YTL 136. This mainly includes matters relating to claimed interest losses. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

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 consolidated financial statements.

The Group also manages 3 open-ended investment funds (2005 - 3 open-ended investment funds) which were established under the regulations of the Capital Market Board of Turkey. 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 52 (2005 - YTL 34).

As at 31 December 2006, the Group had investment custody accounts amounting to YTL 26,841 (2005 - YTL 22,628)

27. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Through its normal operations, the Group is exposed to a number of risks. The primary risk within the Group's activities is credit risk. Other than the credit risk, the Group is exposed to low level of interest rate, currency, liquidity and operational risk. The main principle of the Group is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate subcommittees.

One of the risk management policy of the Group is to protect from the effects created by the interest rate volatility. All types of sensitivity analysis performed within this context is calculated by the risk management and reported to the Asset and Liability Committee. The Group manages its exposure to market risk through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder (Board member nominated by Bank Hapoalim) and also through limits on the positions which can be taken by the Bank's treasury and securities trading division.

The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group's general strategy is described as not to take any speculative actions on currency, interest rate and maturity positions that might create any liquidity or market risk to the Bank.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at Board level or at appropriate levels of management depending on the size of the proposed commitment and in accordance with the banking regulations in Turkey. The Group places emphasis on obtaining sufficient collateral from borrowers including, wherever possible, cash collaterals, mortgages or security over other assets.

The day–to-day management of credit risk is developed to individual business units, which perform regular appraisals of counter party credit quantitative information.

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

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

As at 31 December 2006, the share of the Group's receivables from its top 20 cash credit customers in its total cash loan portfolio is 43% (2005 - 63.44%).

(Currency - In thousands of New Turkish Lira)

27. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2006, the share of the Group's receivables from its top 20 non-cash customers in its total non-cash loan portfolio is 65% (2005 - 59.45%).

Segment information for cash loans, minimum lease payment receivable and non-cash loans is as follows:

	2006			
	Cash	**Min. lease payment receivable**	**Non-cash**	**Total**
Construction	19,033	5,901	76,620	101,554
Tourism and entertainment	39,409	2,759	50,365	92,533
Financial sector	20,590	-	34,423(*)	55,013
Energy	8,819	295	14,291	23,405
Transportation	4,552	3,276	7,667	15,495
Automotive	13,854	5,357	7,331	26,542
Textile	32,467	2,595	7,133	42,195
Machinery	9,298	-	14,826	24,124
Food	2,246	1,476	3,088	6,810
Metal	18,915	651	4,436	24,002
Computer	235	2,656	5,786	8,677
Plastic	3,405	-	1,095	4,500
Others	24,623	11,119	24,409	60,151
Corporate	**197,446**	**36,085**	**251,470**	**485,001**
Consumer & staff loans	40,150	1,096	13,740	54,986
Loans in arrears	2,141	-	-	2,141
Interest accruals	2,497	902	-	3,399
Provision for possible loan losses	(3,514)	-		(3,514)
Total	**238,720**	**38,083**	**265,210**	**542,013**

(*) YTL 20,672 of this non-cash exposure has been counter guaranteed by the Export Import Bank of Korea.

(Currency - In thousands of New Turkish Lira)

27. FINANCIAL RISK MANAGEMENT (continued)

	2005			
	Cash	**Min. lease payment receivable**	**Non-cash**	**Total**
Automotive	33	3,326	19,188	22,547
Computer	-	-	5,937	5,937
Construction	8,063	6,731	126,594	141,388
Energy	-	-	41,847	41,847
Financial sector	5,052	-	55,324(*)	60,376
Food and tobacco	10,742	76	4,525	15,343
Machinery	494	2,481	16,224	19,199
Metal	7,388	2,722	3,133	13,243
Mining	8,327	499	-	8,826
Plastic	783	-	1,041	1,824
Textile	2,114	5,688	14,571	22,373
Transportation	9,407	5,481	10,288	25,176
Tourism and entertainment	24,186	6,954	87,305	118,445
Others	9,298	13,617	38,693	61,608
Corporate	85,887	47,575	424,670	558,132
Consumer & staff loans	9,555	1,111	278	10,944
Loans in arrears	2,657	-	-	2,657
Interest accruals	301	373	-	674
Provision for possible loan losses	(3,957)	-	-	(3,957)
Total	**94,443**	**49,059**	**424,948**	**568,450**

(*) YTL 28,251 of this non-cash exposure has been counter guaranteed by the Export- Import Bank of Korea.

Liquidity Risk

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

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk management and treasury departments monitor daily liquidity gaps in all currencies.

The Bank is not allowed to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the upper management of the Bank.

Generally, the Bank does not prefer to utilize liquidity from Interbank money markets and is in a net lender position in Interbank money markets.

(Currency - In thousands of New Turkish Lira)

27. FINANCIAL RISK MANAGEMENT (continued)

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 Bank	63	-	-	-	-	-	-	63
Deposits with other banks and financial institutions	1,930	111,781	-	-	-	-	-	113,711
Other money market placements	-	2,329	-	-	-	-	-	2,329
Reserve deposits at Central Bank	-	23,577	-	-	-	-	-	23,577
Trading assets	-	919	315	46	144	-	349	1,773
Receivables from customers due to brokerage activities	-	12,442	-	-	-	-	-	12,442
Loans and advances	-	53,887	30,568	18,996	28,807	106,462	-	238,720
Minimum lease payments receivable	-	2,555	2,875	4,900	7,215	20,538	-	38,083
Investment securities	-	272	335	46	-	15,725	60	16,438
Loaned securities	-	371	549	-	-	18,285	-	19,205
Property and equipment	-	-	-	-	-	-	5,799	5,799
Intangible assets	-	-	-	-	-	-	4,438	4,438
Deferred tax assets	-	-	-	-	-	-	365	365
Other assets	-	2,784	77	-	-	-	673	3,534
Total assets	**1,993**	**210,917**	**34,719**	**23,988**	**36,166**	**161,010**	**11,684**	**480,477**
Liabilities								
Other money market deposits	-	23,524	-	-	-	-	-	23,524
Trading liabilities	-	-	53	196	92	-	-	341
Funds borrowed	-	15,956	25,458	61,245	16,024	38,261	-	156,944
Other liabilities	2,904	36,194	8,016	6,337	8,844	687	-	62,982
Provisions	-	-	20	-	-	-	422	442
Income taxes payable	-	-	-	521	-	-	-	521
Deferred tax liabilities	-	-	-	-	-	-	18	18
Total liabilities	**2,904**	**75,674**	**33,547**	**68,299**	**24,960**	**38,948**	**440**	**244,772**
Net liquidity gap	**(911)**	**135,243**	**1,172**	**(44,311)**	**11,206**	**122,062**	**11,244**	**235,705**
As at 31 December 2005								
Total assets	1,326	68,834	36,206	11,274	22,249	78,136	4,380	222,405
Total liabilities	**8,639**	**55,896**	**37,929**	**8,263**	**11,181**	**8,869**	**161**	**130,938**
Net liquidity gap	**(7,313)**	**12,938**	**(1,723)**	**3,011**	**11,068**	**69,267**	**4,219**	**91,467**

27. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to Value at Risk (VAR) is taken into consideration by the standard method.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralize the loans and manage liquidity.

Currency Risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market.

The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group manages foreign currency risk by weekly Asset and Liability Committee meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

(Currency - In thousands of New Turkish Lira)

27. FINANCIAL RISK MANAGEMENT (continued)

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

	YTL	US Dollars	Euro	Others	Total
As at 31 December 2006					
Assets					
Cash and balances with Central Bank	18	34	11	-	63
Deposits with other banks and financial institutions	68,992	39,786	4,869	64	113,711
Other money market placements	2,329	-	-	-	2,329
Reserve deposits at Central Bank	1,533	22,044	-	-	23,577
Trading assets	1,773	-	-	-	1,773
Receivables from customers due to brokerage activities	12,442	-	-	-	12,442
Loans and advances	111,507	96,065	31,148	-	238,720
Minimum lease payments receivable	885	13,001	24,197	-	38,083
Investment securities	16,438	-	-	-	16,438
Loaned securities	19,205	-	-	-	19,205
Property and equipment	5,799	-	-	-	5,799
Intangible assets	4,438	-	-	-	4,438
Deferred tax assets	365	-	-	-	365
Other assets	1,922	1,141	467	4	3,534
Total assets	**247,646**	**172,071**	**60,692**	**68**	**480,477**
Liabilities					
Other money market deposits	23,524	-	-	-	23,524
Trading liabilities	341	-	-	-	341
Funds borrowed	13,559	124,546	11,685	7,154	156,944
Other liabilities	9,231	48,560	5,165	26	62,982
Provisions	442	-	-	-	442
Income taxes payable	521	-	-	-	521
Deferred tax liabilities	18	-	-	-	18
Total liabilities	**47,636**	**173,106**	**16,850**	**7,180**	**244,772**
Net balance sheet position	**200,010**	**(1,035)**	**43,842**	**(7,112)**	**235,705**
Off-balance sheet position	**37,707**	**586**	**(43,909)**	**7,123**	**1,507**
Net notional amount of derivatives	37,707	586	(43,909)	7,123	1,507
Net Position	**237,717**	**(449)**	**(67)**	**11**	
At 31 December 2005					
Total assets	98,153	81,495	42,676	81	222,405
Total liabilities	18,316	79,028	33,591	3	130,938
Net balance sheet position	79,837	2,467	9,085	78	91,467
Off-balance sheet position	11,300	(1,478)	(9,542)	-	280
Net Position	**91,137**	**989**	**(457)**	**78**	

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

(Currency - In thousands of New Turkish Lira)

The Group funds its YTL assets through its shareholders' equity and is not exposed to interest rate risk in YTL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period.

The Bank prefers to protect itself from the effects created by the interest rate volatility and prefers to have a perfect match in interest rate risk. Also the Bank does not prefer to generate income from interest rate mismatch.

The Group manages interest rate risk by the Asset and Liability Committee and Risk Management Committee, comprising members of senior management of the Bank, and through utilizing interest rate cap agreement and setting limits on the positions, which can be taken by the Bank's credit and treasury divisions.

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 reprising 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 Bank	-	-	-	-	-	-	63	63
Deposits with other banks and financial institutions	111,781	-	-	-	-	-	1,930	113,711
Other money market placements	2,329	-	-	-	-	-	-	2,329
Reserve deposits at Central Bank	23,577	-	-	-	-	-	-	23,577
Trading assets	919	315	46	144	-	-	349	1,773
Receivables from customers due to brokerage activities	12,442	-	-	-	-	-	-	12,442
Loans and advances	89,838	69,067	31,527	15,577	30,061	1,407	1,243	238,720
Minimum lease payments receivable	3,317	15,002	8,455	4,862	6,447	-	-	38,083
Investment securities	10,619	5,713	46	-	-	-	60	16,438
Loaned securities	8,656	10,549	-	-	-	-	-	19,205
Property and equipment	-	-	-	-	-	-	5,799	5,799
Intangible assets	-	-	-	-	-	-	4,438	4,438
Deferred tax assets	-	-	-	-	-	-	365	365
Other assets	293	390	-	-	-	-	2,851	3,534
Total assets	**263,771**	**101,036**	**40,074**	**20,583**	**36,508**	**1,407**	**17,098**	**480,477**
Liabilities								
Other money market deposits	23,524	-	-	-	-	-	-	23,524
Trading liabilities	-	53	196	92		-	-	341
Funds borrowed	22,333	27,480	70,259	36,382	490	-	-	156,944
Other liabilities	31,454	8,102	6,148	8,565	687	-	8,026	62,982
Provisions	-	-	-	-	-	-	442	442
Income taxes payable	-	-	-	-	-	-	521	521
Deferred tax liabilities	-	-	-	-	-	-	18	18
Total liabilities	**77,311**	**35,635**	**76,603**	**45,039**	**1,177**	**-**	**9,007**	**244,772**
Balance sheet interest sensitivity gap	**186,460**	**65,401**	**(36,529)**	**(24,456)**	**35,331**	**1,407**	**8,091**	**235,705**

(Currency - In thousands of New Turkish Lira)

27. FINANCIAL RISK MANAGEMENT (continued)

	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								
Assets								
Cash and balances with Central Bank	-	-	-	-	-	-	51	51
Deposits with other banks and financial institutions	19,158	-	-	-	-	-	701	19,859
Other money market placements	8,185	-	-	-	-	-	-	8,185
Reserve deposits at Central Bank	11,415	-	-	-	-	-	-	11,415
Trading assets	8	1,711	2	11	-	-	164	1,896
Receivables from customers due to brokerage activities	10,003	-	-	-	-	-	120	10,123
Loans and advances	48,561	18,377	23,163	320	4,022	-	-	94,443
Minimum lease payments receivable	2,048	3,397	5,440	9,005	29,033	136	-	49,059
Investment securities and loan securities	2,449	17,118	-	-	-	-	532	20,099
Property and equipment	-	-	-	-	-	-	2,457	2,457
Intangible assets	-	-	-	-	-	-	1,923	1,923
Deferred tax assets	-	-	-	-	-	-	660	660
Other assets	-	-	-	-	-	-	2,235	2,235
Total assets	**101,827**	**40,603**	**28,605**	**9,336**	**33,055**	**136**	**8,843**	**222,405**
Liabilities								
Other money market deposits	5,509	-	-	-	-	-	-	5,509
Trading liabilities	-	-	-	-	-	-	2	2
Funds borrowed	31,648	28,736	9,035	531	5,372	-	-	75,322
Other liabilities	17,907	5,371	512	6,475	13		19,628	49,906
Provisions	-	-	-	-	-	-	161	161
Income taxes payable	-	-	-	-	-	-	38	38
Total liabilities	**55,064**	**34,107**	**9,547**	**7,006**	**5,385**	**-**	**19,829**	**130,938**
Balance sheet interest sensitivity gap	**46,763**	**6,496**	**19,058**	**2,330**	**27,670**	**136**	**(10,986)**	**91,467**

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 Banking Law) 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 at 31 December 2006, the Group's capital adequacy ratio on an unconsolidated basis is 71.8%.

(Currency - In thousands of New Turkish Lira)

28. 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	238,720	94,443	238,583	94,464
Minimum lease payments receivable	38,083	49,059	37,947	49,921
	276,803	**143,502**	**276,530**	**144,385**
Financial liabilities				
Current accounts of credit customers (*)	56,128	37,975	56,139	37,975
Funds borrowed	156,944	75,322	157,224	75,322
	213,072	**113,297**	**213,363**	**113,297**

(*) Included in other liabilities.

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.

Minimum Lease Payments Receivable

Estimated fair value of lease contracts receivables 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.

Current Accounts of Credit Customers

The estimated fair value of fixed interest bearing current accounts of credit customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at cost, including cash and balances with central banks, deposits with other banks and financial institutions, other money market placements, receivables from customers due to brokerage activities, reserve deposits at central banks, other money market deposits and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

29. SUBSEQUENT EVENTS

a) The share capital of the Bank was increased by YTL 2 (full YTL) nominal value to YTL 111,896,350 (full YTL) at the Extraordinary General Assembly of the Bank convened on 25 January 2007. Based on the other shareholders' waiver of their pre-emption rights, Tarshish committed to pay YTL 2 (full YTL) nominal value and the premiums to the share capital of the Bank on a fully diluted basis. The share premium amount to be paid by Tarshish for the additional 20 shares was decided as YTL 9,099,998 (full YTL).

Total amount of YTL 9,100,000 (full YTL) was deposited to the Bank's account on 25 January 2007 by Tarshish in remuneration for capital and share premium payments. Necessary approvals of BRSA regarding above mentioned amounts' transfer to capital and share premium accounts are finalized and related amounts are transferred to related equity accounts

b) The Bank has signed a syndicated loan agreement with private commercial banks on 14 February 2007 to receive a financing facility amounting to USD 125 million. The facility consists of two tranches. The first tranche is a USD 59.25 million, 1-year term, bearing an interest rate of Libor + 0.45%. The second tranche is a USD 65.75 million long-term loan facility with 2-years, maturity bearing an interest rate of Libor + 0.85%.