TÜRK EKONOMI BANKASI ANONIM SIRKETI

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

To the Board of Directors of
Türk Ekonomi Bankasi A.S.
Istanbul

INDEPENDENT AUDITOR'S OPINION

1. We have audited the accompanying consolidated balance sheet of Türk Ekonomi Bankasi A.S. (the "Bank") and its subsidiaries (together the "Group") as of December 31, 2006 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes prepared in accordance with International Financial Reporting Standards ("IFRS") as of December 31, 2006 and for the year then ended.

Management's Responsibility for the Financial Statements

2. The Group's management is responsible for the preparation and fair presentation of these financial statements and the related disclosures in accordance with IFRS. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The consolidated financial statements of the Group for the year ended December 31, 2005 were audited by other auditors whose report, dated February 13, 2006, expressed a qualified opinion with respect to not applying inflation accounting as detailed in note 2. The other auditors' report has been furnished to us, and our report, insofar as it relates to the opening balances for the current period is based solely on the report of such other auditors.

Opinion

4. As detailed in note 2, the Group has ceased to apply inflation accounting effective from January 1, 2005. Therefore, the accompanying financial statements for the year ended December 31, 2005 have not been prepared in accordance with International Accounting Standard No:29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Had the Group continued the application of IAS 29, the accompanying consolidated equity for the year ended December 31, 2005 would be lower by approximately TRY 1 million.

5. In our opinion, except for the effects of the matter set out in paragraph 4 above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2006 and the consolidated results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

DRT BAGIMSIZ DENETIM VE SERBEST MUHASEBECI MALI MUSAVIRLIK A.S.
Member of **DELOITTE TOUCHE TOHMATSU**

Istanbul, March 9, 2007

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TÜRK EKONOMI BANKASI ANONIM SIRKETI
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Notes	December 31, 2006	December 31, 2005
ASSETS			
Cash and balances with central banks	4	**419,909**	270,503
Deposits with banks and other financial institutions	4	**1,041,575**	964,911
Other money market placements	4	**1,194**	156,538
Reserve deposits at central banks	5	**568,168**	316,924
Financial assets at fair value through profit and loss	6	**84,729**	47,383
Derivative financial instruments	18	**22,280**	6,228
Loans and advances	7	**5,749,833**	3,481,671
Factoring receivables	8	**293,321**	166,309
Minimum lease payments receivable	9	**323,486**	211,556
Investment securities:			
- Available-for-sale	6	**699,145**	302,238
- Held-to-maturity	6	**11,057**	11,809
Loaned securities	6	**861,624**	859,820
Investment in associates	10	**-**	1,536
Premises and equipment	11	**97,194**	61,245
Intangible assets	12	**7,881**	5,625
Deferred tax asset	17	**18,259**	15,552
Other assets	13	**50,170**	27,857
Total assets		**10,249,825**	**6,907,705**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	14	**188,200**	119,302
Customers' deposits	14	**6,537,503**	4,201,181
Other money market deposits	14	**771,004**	755,092
Derivative financial instruments	18	**69,121**	21,970
Factoring payables	8	**111,072**	60,927
Funds borrowed:			
- Subordinated debt	15	**297,490**	89,740
- Other funds borrowed	15	**1,450,948**	1,001,852
Other liabilities	16	**163,056**	127,637
Provisions	16	**9,888**	8,699
Income taxes payable	17	**19,702**	12,720
Deferred tax liability	17	**-**	14
Total liabilities		**9,617,984**	**6,399,134**
EQUITY			
Equity attributable to equity holders of the parent		**631,841**	508,571
Share capital issued	19	**76,500**	57,800
Premium in Excess of Par		**1,592**	-
Adjustment to share capital	19	**252,676**	252,676
Unrealized gains/(losses) on available-for-sale investments, net of tax		**(10,123)**	9,354
Other reserves and retained earnings	20	**311,196**	188,741
Minority interest		**-**	-
Total equity		**631,841**	**508,571**

Total liabilities and equity	**10,249,825**	**6,907,705**

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

TÜRK EKONOMI BANKASI ANONIM SIRKETI
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2006

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Notes	December 31, 2006	December 31. 2005
Interest income			
Interest on loans and advances		**657,460**	359,959
Interest on securities		**166,492**	110,174
Interest on deposits with banks and other financial institutions		**100,562**	77,797
Interest on other money market placements		**28,736**	18,503
Interest on financial leases		**31,810**	20,917
Other interest income		**51**	86
Total interest income		**985,111**	587,436
Interest expense			
Interest on customer deposits		**(402,948)**	(199,551)
Interest on other money market deposits		**(83,560)**	(49,001)
Interest on funds borrowed and deposits from other banks		**(127,392)**	(73,893)
Other interest expense		**-**	-
Total interest expense		**(613,900)**	(322,445)
Net interest income		**371,211**	264,991
Fees and commissions and other operating income			
Fees and commissions income	26	**152,604**	110,360
Fees and commissions expenses	26	**(29,297)**	(16,356)
Foreign exchange gain		**7,452**	18,654
Gains less losses on trading securities	25	**(1,198)**	(4,846)
Gains less losses on investment securities		**4,984**	13,737
Other income		**592**	(2,878)
Net banking income		**506,348**	383,662
Operating expenses			
Salaries and employee benefits	23	**(180,843)**	(123,592)
Other expenses	24	**(105,135)**	(68,070)
Depreciation and amortization	11,12	**(19,166)**	(14,908)
Taxes other than on income		**(9,753)**	(7,312)
Gross operating income		**191,451**	169,780
(Provisions for) / recoveries from impairment of loan, lease, factoring receivables		**(19,262)**	(15,207)
Net operating income		**172,189**	154,573
Income from associates		**-**	-
Gain/(loss) on sale of fixed assets and investments		**97**	482
Profit from operating activities before income tax		**172,286**	155,055
Income tax – current	17	**(35,345)**	(51,408)
Income tax – deferred	17	**(3,820)**	7,665
Net profit for the year		**133,121**	111,312
Attributable to :			
Equity holders of the parent		**133,121**	111,214
Minority interest		**-**	98
Net profit		**133,121**	111,312

Earnings per share (full TRY)	21	**1.7651**	1.4966

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

TÜRK EKONOMI BANKASI ANONIM SIRKETI
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

									Minority interest	Total equity
	Attributable to equity holders of the parent									
	Notes	Share Capital	Premium in excess of Par	Adjustment to share capital	Unrealized gains/(losses) on available-for-sale investments, net of deferred tax	Currency translation differences	Legal reserves and retained earnings	Total		
At January 1, 2005		57,800	-	252,676	3,996	(13,852)	113,247	413,867	1,628	415,495
Currency translation differences		-	-	-	-	(12,547)	-	(12,547)	-	(12,547)
Net change in unrealized gain on available-for-sale investments		-	-	-	5,358	-	-	5,358	-	5,358
Total income and expense for the year recognized directly in equity		-	-	-	5,358	(12,547)	-	(7,189)	-	(7,189)
Net profit for the year		-	-	-	-	-	111,214	111,214	98	111,312
Total income / expense for the year		-	-	-	5,358	(12,547)	111,214	104,025	98	104,123
Premium in excess of par		-	-	-	-	-	-	-	-	-
Dividends paid		-	-	-	-	-	(9,414)	(9,414)	-	(9,414)
Acquisition of minority interests in a subsidiary		-	-	-	-	-	93	93	(1,726)	(1,633)
At December 31, 2005/January 1, 2006		**57,800**	**-**	**252,676**	**9,354**	**(26,399)**	**215,140**	**508,571**	**-**	**508,571**
Currency translation differences		-	-	-	-	**8,076**	-	**8,076**	-	**8,076**
Net change in unrealized gain on available-for-sale investments		-	-	-	**(19,477)**	-	-	**(19,477)**	-	**(19,477)**
Exchange differences arising on transaction of foreign operations		-	-	-	-	**7,920**	-	**7,920**	-	**7,920**
Gain/(loss) on hedge of net investment in a foreign operation		-	-	-	-	**(7,920)**	-	**(7,920)**	-	**(7,920)**
Total income and expense for the year recognized directly in equity		-	-	-	**(19,477)**	**8,076**	-	**(11,401)**	-	**(11,401)**
Net profit for the year		-	-	-	-	-	**133,121**	**133,121**	-	**133,121**
Total income / expense for the year		-	-	-	**(19,477)**	**8,076**	**133,121**	**121,720**	-	**121,720**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

Dividends paid	-	-	-	-	-	(18,742)	(18,742)	-	(18,742)
Capital increase	18,700	1,592	-	-	-	-	20,292	-	20,292
At December 31, 2006	**76,500**	**1,592**	**252,676**	**(10,123)**	**(18,323)**	**329,519**	**631,841**	**-**	**631,841**

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

TÜRK EKONOMI BANKASI ANONIM SIRKETI
CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

	Notes	December 31 , 2006	December 31, 2005
Cash flows from operating activities			
Interest received		**907,318**	560,837
Interest paid		**(537,690)**	(318,551)
Fees and commissions received		**152,604**	68,043
Trading income		**3,786**	(4,846)
Recoveries of impairment of loan, lease and factoring receivables		**4,173**	7,513
Fees and commissions paid		**(29,297)**	(14,177)
Cash payments to employees and other parties		**(179,817)**	(121,504)
Cash received from other operating activities		**587**	53,790
Other operating activities		**(139,112)**	(95,796)
Income taxes paid		**(11,555)**	(47,844)
Cash flows from operating activities before changes in operating assets and liabilities		**170,997**	87,465
Changes in operating assets and liabilities			
Net (increase) / decrease in trading securities		**(788)**	(93,004)
Net (increase) / decrease in reserve deposits at central banks		**(248,087)**	(103,952)
Net (increase) / decrease in due from banks and other financial institutions		**158,102**	(136,970)
Net (increase) / decrease in loans and advances		**(2,240,338)**	(1,391,245)
Net (increase) / decrease in factoring receivables		**(126,971)**	(42,427)
Net (increase) / decrease in minimum lease payments receivable		**(111,304)**	(22,803)
Net (increase) / decrease in other assets		**(36,684)**	(11,601)
Net increase / (decrease) in deposits from other banks		**68,898**	9,911
Net increase / (decrease) in customers' deposits		**2,320,595**	1,034,695
Net increase / (decrease) in other money market deposits		**15,912**	598,762
Net increase / (decrease) in factoring payables		**50,145**	4,906
Net increase / (decrease) in other liabilities		**(47,650)**	27,442
Net cash (used in) provided by operating activities		**(198,170)**	(126,286)
Cash flows from investing activities			
Purchases of available for sale securities		**(1,547,044)**	(1,635,394)
Proceeds from sale and redemption of available for sale securities		**1,126,318**	920,957
Purchases of held to maturity securities		**-**	(12,441)
Proceeds from redemption of held to maturity securities		**898**	72,859
Acquisition of subsidiaries, net of cash disposed		**-**	(660)
Purchases of property and equipment	11	**(52,447)**	(26,652)
Proceeds from the sale of premises and equipment		**988**	456
Purchases of intangible assets	12	**(4,763)**	(3,627)
Proceeds from the sale of intangible assets		**-**	-
Net cash provided by (used in) investing activities		**(476,050)**	(684,502)
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		**5,869,389**	206,753
Repayment of funds borrowed and debt securities		**(5,146,275)**	-
Issue of share capital	19	**18,700**	-
Premium in excess of par		**1,592**	-
Dividends paid to equity holders of the parent	20	**(18,742)**	(9,414)
Net cash provided by (used in) financing activities		**724,664**	197,339
Effect of net foreign exchange difference		**7,387**	5,118
Net increase/ (decrease) in cash and cash equivalents		**228,828**	(520,866)
Cash and cash equivalents at beginning of year	4	**1,230,570**	1,751,436
Cash and cash equivalents at end of year	4	**1,459,398**	1,230,570

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

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankasi A.S. (the Bank) was incorporated in Turkey in 1927 under the name of Kocaeli Halk Bankasi T.A.S. and in 1982 was acquired by the Çolakoglu Group. Its name was changed as Türk Ekonomi Bankasi A.S. and its headquarters moved to Istanbul. Certain shares of the Bank, representing 20% of the total, were listed on the Istanbul Stock Exchange in February 2000. Currently the publicly traded shares are 15.63%. TEB's shares are also listed and traded on the London Stock Exchange as GDR's since 2000. The registered office address of TEB is at Meclis-i Mebusan Caddesi, No: 57, Findikli-Istanbul/Turkey.

TEB Mali Yatirimlar A.S., the ultimate shareholder of the Group by 84.25% shares, sold shares representing 50% of its capital to BNP Paribas on February 10, 2005.

The consolidated financial statements of the Bank were authorized for issue by the management on March 9, 2007. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Group

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

The operations of the Group consist of banking, leasing, factoring, securities brokerage and portfolio management, which are conducted mainly with local customers.

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

	Place of Incorporation	**Effective Shareholding And Voting Rights %**	
		December 31, 2006	**December 31, 2005**
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
TEB Yatirim Menkul Degerler A.S. (TEB Yatirim)	Turkey	100.0	100.0
TEB Factoring A.S. (TEB Factoring)	Turkey	100.0	100.0
TEB Finansal Kiralama A.S. (TEB Leasing)	Turkey	100.0	100.0
TEB Portföy Yönetimi A.S. (TEB Portföy)	Turkey	100.0	100.0
Stichting Custody Services TEB	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0
Petek International Holdings B.V.(Petek International) (*)	Netherlands	-	100.0

(*) Liquidation process of Petek International was completed in 2006.

1. CORPORATE INFORMATION (continued)

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank - Commercial bank, which deals mainly in foreign trade finance, corporate banking, private banking and correspondent banking services.

TEB Yatirim - Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Factoring - Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Leasing – Providing financial leasing services to corporate customers, investing in industrial machinery and equipment, various equipment and transport vehicles.

TEB Portföy – Managing mutual funds, which are made up of capital market instruments. It also manages individual customer portfolios.

Stichting Custody Services TEB - Holding securities of customers, located in the Netherlands.

Kronenburg Vastgoed B.V. - Real estate company founded with the purpose of the ownership of property possessed by Economy Bank in the Netherlands.

Petek International (liquidated) - Private holding company. The Group completed the liquidation of its investment in Petek International in 2006 (total assets, equity and net income included in the 2005 financial statements for this subsidiary amounted to TRY 53, TRY 52 and TRY 27, respectively).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira (TRY) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise the effects of consolidation of subsidiaries, deferred taxation and reserve for impairment of loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates

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 expenses in the profit and loss 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. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

Functional and Presentation Currency

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

Functional currency of the Company and its subsidiaries, which operate in Turkey, is New Turkish Lira (TRY). Until December 31, 2004, the restatement for the changes in the general purchasing power of TRY 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 periods 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 July 2004. As of December 31, 2005, the three-year cumulative inflation rate has been 33.17% based on the indices published by the Turkish Statistical Institute. Besides, other non-quantitative factors have consistently proven that the economy ceased to be hyperinflationary. This could be observed in the continuous increase in the proportion of TRY denominated bank deposits to the total deposits to 65% at December 31, 2005, the existence of longer payment terms exceeding 12 months and decreasing implicit interest embedded into the prices in the economy and the introduction of long-term mortgage financing products by the banks with maturities up to 30 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Banking Regulation and Supervision Agency (BRSA), the accounting standard setting body for the Turkish banks, has announced on April 28, 2005 in the BRSA's Circular No. 2005/5 that the indicators of hyperinflation are no longer valid for similar reasons outlined above and required banks to discontinue the use of hyperinflationary accounting effective from January 1, 2005. The Turkish Capital Markets Board (CMB), the accounting standard setting body for publicly quoted Turkish companies, has also terminated the use of inflation accounting by the CMB's Resolution dated March 17, 2005 and numbered 11/367. The Ministry of Finance has also abolished inflation accounting with the Tax Procedural Law Circular/No. 18, dated April 19, 2005. Also, the response letter of the International Accounting Standards Board (IASB) to the question of Banks Association of Turkey stated that "whether an economy is operating under conditions of hyperinflation must be determined by reference to the characteristics set out in IAS 29 and such determination is best made by those with direct experience of the economy concerned". Accordingly, the BRSA, in its letter to the Banks Association of Turkey indicated that the Turkish Capital Markets Board, the Ministry of Finance and the BRSA are the institutions with direct experience of Turkish economy and all announced that the indicators of hyperinflation are no longer valid and terminated the use of inflation accounting.

Based on all of the above factors, management of the Group believes that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 were not applicable in Turkey in 2005 and therefore decided to discontinue the inflation accounting application effective from January 1, 2005.

The annual inflation rate for 2005 has been 2.66% based on the Producers' Price Index announced by the State Institute of Statistics.

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

As of December 31, 2006, Economy Bank adopted the Euro (EUR) as its functional currency.

Basis of Consolidation and Goodwill

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

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The 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. 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 subsidiaries is included in "intangible assets". Following initial recognition goodwill is measured at cost less any accumulated 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. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. The carrying amount of goodwill at December 31, 2006 and 2005 was TRY 1,205 (see Note 12) and there is no impairment recorded related to goodwill. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to that entity sold. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement. There is no negative goodwill recognized by the Group.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The financial statements of the subsidiaries are prepared for the same reporting period 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.

Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. The investments in associates are carried on the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. When there is a change recognized directly in the equity of an associate, the Group recognizes its share of any changes and discloses this when applicable, in the statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

Foreign Currency Translation

The consolidated financial statements are presented in TRY, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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

	EUR / TRY	USD / TRY
December 31, 2004	1.82	1.34
December 31, 2005	1.59	1.34
December 31, 2006	1.85	1.41

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (TRY) at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are also translated at average exchange rates for the period. On consolidation exchange differences arising from the translation of the net investment in foreign entities are included in equity as currency translation differences until the disposal of the net investment.

As of January 1, 2006 the Group designated a hedging relationship amounting to EUR 30 million to hedge its investment in TEB NV. All exchange differences arising from this hedging activity were recognized under equity during the year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and Equipment

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

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

Buildings and land improvements	50 years
Machinery and equipment	5 years
Office equipment	5 years
Furniture, fixtures and vehicles	5 years
Leasehold improvements	Lease period
Land	Not depreciated

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

The carrying values of premises 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 of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

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

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. 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. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Other Financial Assets

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

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

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 as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by TRY 570 before tax effect, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during 2006 or 2005.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees 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. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held to maturity securities is reported as interest income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

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 three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

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 and other valuation techniques commonly used.

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement (‘repos’), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements (‘repos’) are reclassified in the financial statements as 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 the effective interest method.

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

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

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

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

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

Cash and Cash Equivalents

For the purposes of the consolidated cash flows 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

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. 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 obliger;
(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.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans, advances and receivables as of December 31, 2006 is TRY 6,366,640 (December 31, 2005 - TRY 3,859,536) net of impairment allowance of TRY 54,892 (December 31, 2005 - TRY 37,644).

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 its recoverable amount. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

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.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest - Bearing Deposits and Borrowings

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Bank and its subsidiaries in Turkey are 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. Economy Bank does not carry any obligation with regards to the retirement pay liability.

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 16 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2006 is TRY 7,516 (December 31, 2005 - TRY 6,490).

(b) Defined Contribution Plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group also pays contributions on a contractual basis to TEB'liler Vakfi ("TEB'liler Foundation"), which is a privately administrated pension plan, the members of which are the employees of the Group. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefits. For the employees of the Group that are the members of Tebliler Foundation, the Parent Bank and subsidiaries do not have any other liability to this foundation other than paying 20% of the first monthly contribution fee of the employee only for one time.

The pension plan for Economy Bank is based on a fixed contribution as a percentage of the annual salary, whereby the terms and conditions of the plan are based on each individual's requirements, within a fixed framework, also allowing the individual staff member to contribute for his / her own account.

Provisions

Provisions are recognized when the Group has a present obligation 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. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

(a) The Group as Lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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

(b) The Group as Lessor

Finance leases

The Group classifies 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.

Factoring Receivables and Factoring Payables

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment. Factoring payables are recognized at original factored amount less advances extended against factoring receivables, interest and factoring commissions charged, and then carried at amortized cost.

Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the 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, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees 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. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Group is subject to income taxes in various jurisdictions. Where there are matters the final tax outcome 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 of December 31, 2006, the Group carry TRY 19,702 of income taxes payable (December 31, 2005 - TRY 12,720), TRY 18,259 of deferred tax asset (2005 - TRY 15,552) and TRY 0 (nil) of deferred tax liability (2005 - TRY 14).

Current tax

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

Deferred tax

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management’s judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

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 the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and 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. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. As of December 31, 2006, the carrying amount of derivative financial assets TRY 22,280 (December 31, 2005 - TRY 6,228) and the carrying amount of derivative financial liabilities is TRY 69,121 (December 31, 2005 - TRY 21,970).

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the balance sheet date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and repricing date are used. Fair value of option transactions are determined by comparing the option rates discounted to the balance sheet date with the period end foreign exchange rates and the resulting gain or loss is reflected to the income statement taking into account exercizability of the option. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Hedges of a Net Investment

The Group hedges its net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, and is accounted similarly to cash flow hedges:

(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity through the statement of changes in equity; and

(b) the ineffective portion is recognized in profit or loss.

As of January 1, 2006 the Group designated a hedging relationship amounting to EUR 30 million to hedge its investment in TEB NV. All exchange differences arising from this hedging activity were recognized under equity during the year.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in equity is recognized in profit or loss on disposal of the foreign operation.

Fiduciary Assets

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

Segment Reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

In summary:

The amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 4 "Insurance Contracts", IAS 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 39 "Financial Instruments: Recognition and Measurement" had no material effect on the Group's accounting policies. IFRS 6 "Exploration for and Evaluation of Mineral Resources" is not relevant to the Group's operations.

IFRS and IFRIC Interpretations not yet effective

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective:

IAS 1 "Presentation of Financial Statements added disclosures about an entity's capital."- This Standard will be effective for annual periods beginning on or after January 1, 2007.

IFRS 7 "Financial Instruments-Disclosures"- This Standard supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after January 1, 2007.

IFRS 8 "Operating Segments" – This Standard is effective for periods beginning on or after January 1, 2009.

IFRIC 7 "First-time Adoption of IAS 29" – This Interpretation is effective for annual periods beginning on or after March 1, 2006.

IFRIC 8 "Scope of IFRS 2" – This Interpretation is effective for annual periods beginning on or after May 1, 2006.

IFRIC 9 "Financial Instruments; Reassessment of embedded derivatives" – This Interpretation is effective for annual periods beginning on or after June 1, 2006

IFRIC 10 "Interim Financial Reporting and Impairment" – This Interpretation is effective for annual periods beginning on or after November 1, 2006.

IFRIC 11 "Interim Financial Reporting and Impairment" – This Interpretation is effective for periods beginning on or after March 1, 2007.

IFRIC 12 "Service Concession Arrangements" – This Interpretation is effective for periods beginning on or after January 1, 2008.

The Group expects that adoption of the pronouncements listed above will have no material impact on the Group's financial statements in the period of initial application other than presentation of additional disclosures on financial instruments as required by IFRS 7.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification of Comparative Information

The Group has made certain reclassifications in the consolidated financial statements as of December 31, 2005 to be consistent with the current year presentation. Major reclassifications are as follows:

- TRY 2,209 of provisions for guarantees given has been classified from loans to provisions.
- TRY 225 of assets held for resale have been classified from tangible assets to other assets.
- TRY 13,129 of commission income have been classified from fees and commission income to interest on loans and advances.
- TRY 3,589 of net income from other activities has been classified from other operating expense to net income from other activities.
- TRY 332 of commission expenses have been classified from other operating expenses to fees and commission expense.

3. SEGMENT INFORMATION

Business segments

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

Year ended December 31, 2006

	Retail Banking	Corporate Banking	Other	Eliminations	Group
External revenues	292,407	496,162	336,354	(4,675)	1,120,248
Revenues from other segments	-	-	-	-	-
Total revenues	**292,407**	**496,162**	**336,354**	**(4,675)**	**1,120,248**
Segment result (A)	(2,392)	232,658	(57,382)	(598)	172,286
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**(2,392)**	**232,658**	**(57,382)**	**(598)**	**172,286**
Dividend Income	-	-	22,661	(22,661)	-
Profit before income tax	(2,392)	232,658	(34,721)	(23,259)	172,286
Income tax	-	-	(39,165)	-	(39,165)
Net profit	**(2,392)**	**232,658**	**(73,886)**	**(23,259)**	**133,121**
Assets and Liabilities					
Segment assets	776,735	5,266,420	4,033,166	-	10,076,321
Investment in associates	-	-	-	-	-
Unallocated assets	-	-	173,504	-	173,504
Total assets	**776,735**	**5,266,420**	**4,206,670**	**-**	**10,249,825**
Segment liabilities	3,508,830	3,103,493	2,813,015	-	9,425,338
Unallocated liabilities	-	-	192,646	-	192,646
Total liabilities	**3,508,830**	**3,103,493**	**3,005,661**	**-**	**9,617,984**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	52,447

Intangible fixed assets	-	-	-	-	4,763
Depreciation	-	-	-	-	16,615
Amortization	-	-	-	-	2,551

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

3. SEGMENT INFORMATION (continued)

Year ended December 31, 2005

	Retail Banking	Corporate Banking	Other	Eliminations	Group
External revenues	70,989	385,165	287,070	(11,844)	731,380
Revenues from other segments	-	-	-	-	-
Total revenues	**70,989**	**385,165**	**287,070**	**(11,844)**	**731,380**
Segment result (A)	21,515	119,805	16,688	(2,953)	155,055
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**21,515**	**119,805**	**16,688**	**(2,953)**	**155,055**
Income from associates	-	-	-	-	-
Profit before income tax	21,515	119,805	16,688	(2,953)	155,055
Income tax	-	-	(43,743)	-	(43,743)
Net profit	**21,515**	**119,805**	**(27,055)**	**(2,953)**	**111,312**
Assets and Liabilities					
Segment assets	390,134	2,997,158	3,448,311	(39,713)	6,795,890
Investment in associates	-	-	1,536	-	1,536
Unallocated assets	-	-	110,279	-	110,279
Total assets	**390,134**	**2,997,158**	**3,560,126**	**(39,713)**	**6,907,705**
Segment liabilities	1,566,964	2,759,462	2,022,595	(38,029)	6,310,992
Unallocated liabilities	-	-	90,200	(2,058)	88,142
Total liabilities	**1,566,964**	**2,759,462**	**2,112,795**	**(40,087)**	**6,399,134**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	26,427
Intangible fixed assets	-	-	-	-	3,627
Depreciation	-	-	-	-	13,022
Amortization	-	-	-	-	1,886

Geographical segments

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

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

3. SEGMENT INFORMATION (continued)

Year ended December 31, 2006

	Turkey	European Union	Total
Other segment information			
Segment assets	8,651,498	1,424,823	10,076,321
Investment in associates	-	-	-
Unallocated assets	164,684	8,820	173,504
Total assets	**8,816,182**	**1,433,643**	**10,249,825**
Capital expenditures			
Tangible fixed assets	52,383	64	52,447
Intangible fixed assets	4,763	-	4,763

Year ended December 31, 2005

	Turkey	European Union	Total
Other segment information			
Segment assets	5,598,992	1,196,898	6,795,890
Investment in associates	1,536	-	1,536
Unallocated assets	106,332	3,947	110,279
Total assets	**5,706,860**	**1,200,845**	**6,907,705**
Capital expenditures			
Tangible fixed assets	26,257	170	26,427
Intangible fixed assets	3,430	197	3,627

4. CASH AND CASH EQUIVALENTS

	December 31, 2006	December 31, 2005
Cash on hand	129,424	87,372
Balances with central banks	290,485	183,131
Cash and balances with central banks	**419,909**	**270,503**
Deposits with banks and other financial institutions	**1,041,575**	**964,911**
Funds lent under reverse repurchase agreements	1,194	6,538
Interbank placements	-	150,000
Other money market placements	**1,194**	**156,538**
Less: Time deposits with original maturities of more than three months	(3,280)	(161,382)
Cash and cash equivalents in the cash flow statement	**1,459,398**	**1,230,570**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

4. CASH AND CASH EQUIVALENTS (continued)

The effective interest rates on deposits and placements are as follows:

	December 31, 2006		December 31, 2005	
	Effective interest rate		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with central banks	-	1.73%-3.30%	-	1.14%-2.03%
Deposits with banks and other financial institutions	13.65%-20.80%	5.15%-12.00%	15.75%-19.00%	2.47%-4.31%
Funds lent under reverse repurchase agreements	18.15%-18.30%	-	15.00%-15.30%	-
Interbank placements	-	-	14.98%	-

5. RESERVE DEPOSITS AT CENTRAL BANKS

As of December 31, 2006 and 2005, the amounts of reserve deposits at central banks are TRY 568,168 and TRY 316,924, respectively.

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit 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. Reserves deposited with the Central Bank of Turkish Republic amounted to TRY 545,614 (December 31, 2005 - TRY 297,846).

As of December 31, 2006 and 2005, the reserve deposit requirements applicable in Turkey for New Turkish Lira and foreign currency deposits were 6% and 11%, respectively.

As of December 31, 2006, the interest rates applied for New Turkish Lira and foreign currency reserve deposits are 13.12% and 1.73% - 2.52% (December 31, 2005 – 10.25% and 1.14% - 2.03%), respectively.

Banks in the Netherlands are required to maintain a certain amount of funds and/or reserves on an account at the Dutch Central Bank and receive interest on their reserve requirement deposits at rates in line with open-market facilities. The reserve deposit requirements applicable in Netherlands for all deposits were 2% less EUR 100,000 (in full).

6. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss:

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Financial assets at fair value through profit and loss						
Debt instruments						
Turkish government bonds	75,628	20.90%-21.40%	5.30%-7.20%	38,107	14.05%-14.21%	3.84%-6.02%
Turkish treasury bills	1,725	15.00%-23.06%	9.00%-12.38%	9,275	14.45%-14.68%	-
Eurobonds issued by the Turkish government	5,052	-	5.00%-5.20%	1	-	10.00%
Equity instruments –listed	2,324	-	-	-	-	-
Total financial assets at fair value	**84,729**			**47,383**		

through profit and loss

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

6. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Investment Securities:

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	632,965	14.14%-22.20%	6.40%-6.60%	231,639	15.33%-20.00%	2.72%-3.12%
Turkish treasury bills	-	-	-	2,517	14.94%-18.23%	-
Eurobonds issued by the Turkish government	65,618	-	5.65%-5.85%	68,073	-	7.25%-11.88%
Total available for sale securities at fair value	**698,583**			**302,229**		
Available-for-sale securities at cost						
Equity instruments –listed	482			-		
Equity instruments –unlisted	80			9		
Total available for sale securities	**699,145**			**302,238**		
Debt instruments						
Turkish treasury bills	1,657	23.06%	-	2,094	18.23%	-
Eurobonds issued by the Turkish government	9,400	-	5.80%	9,715	-	5.62%
Total held-to-maturity securities	**11,057**			**11,809**		
Total investment securities	**710,202**			**314,047**		

Unlisted equity securities 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.

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements which are classified as loaned securities and related liabilities are:

	December 31, 2006	December 31, 2005
Financial assets at fair value through profit and loss	4,865	62,863
Available-for-sale securities	856,759	796,957
Held-to-maturity securities	-	-
Carrying value of securities given as collateral under repos	**861,624**	**859,820**
Related liability	**771,004**	**755,092**

Repurchase agreements mature within 1 month.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

6. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

In addition, as of December 31, 2006, government securities with carrying values of TRY 181,748 (December 31, 2005 - TRY 226,210) are pledged to the Central Bank and the IMKB Takas ve Saklama Bankasi Anonim Sirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli Islem Opsiyon Borsasi (Turkish Derivatives Exchange) for regulatory requirements and as a guarantee for stock exchange and money market operations.

TRY 1,088,609 (December 31, 2005 - TRY 722,297) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year (2005 - nil).

Gains and losses from investment securities arise from derecognition of available for sales securities.

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

	December 31, 2006			December 31, 2005		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At January 1	1,099,195	11,809	1,111,004	362,270	75,373	437,643
Exchange differences	-	(55)	(55)	-	-	-
Additions	1,560,149	-	1,560,149	1,648,879	12,606	1,661,485
Disposals (sale and redemption)	(1,126,318)	(898)	(1,127,216)	(908,658)	(76,170)	(984,828)
Changes in fair value	22,878	201	23,079	(3,296)	-	(3,296)
At December 31 2006	**1,555,904**	**11,057**	**1,566,961**	**1,099,195**	**11,809**	**1,111,004**

7. LOANS AND ADVANCES

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Corporate loans	4,974,460	17.50%-35.00%	3.00%-42.06%	3,070,900	14.00%-38.00%	2.75%-10.20%
Consumer loans	700,456	12.60%-59.40%	3.00%-13.20%	378,977	13.08%-71.40%	4.00%-13.20%
Credit cards	50,281	47.40%-75.48%	-	25,028	54.00%-78.00%	-
Other	28,738	19.60%-33.25%	-	6,027	17.80%-28.05%	-
Total performing loans	**5,753,935**			**3,480,932**		
Loans in arrears	44,792			33,679		
Less: Specific reserve for impairment	(27,746)			(16,849)		
Less: Portfolio reserve for impairment	(21,148)			(16,091)		
Total	**5,749,833**			**3,481,671**		

Loans and advances amounting to TRY 2,396,179 have floating interest rates and the rest have fixed interest. (December 31, 2005 – TRY 90,387)

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.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

7. LOANS AND ADVANCES (continued)

Movements in the reserve for impairment on loans and advances:

	December 31, 2006	December 31, 2005
Reserve at beginning of year	32,940	21,479
Provision for impairment	21,633	13,729
Recoveries	(3,665)	(1,911)
Provision net of recoveries	17,968	11,818
Loans written off during the year	(2,014)	(357)
Reserve at the end of the year	**48,894**	**32,940**

Loans in arrears represent impaired loans and advances on which interest is not being accrued and loans overdue generally for more than 90 days for which interest is suspended.

8. FACTORING RECEIVABLES AND PAYABLES

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Factoring receivables	298,884	14.08 %-47.02%	3.13%-10.06%	168,572	10.35%-40.12%	2.54%-6.53%
Receivables in arrears	1,977			1,554		
Less: Reserve for impairment	(2,562)			(1,704)		
Less: Deferred income	(4,978)			(2,113)		
Net factoring receivables	293,321			166,309		
Factoring payables	(111,072)			(60,927)		
Funds in use, net	**182,249**			**105,382**		

Factoring receivables amounting to TRY 64,847 have floating interest rates and the rest have fixed interest rates. (December 31, 2005-nil)

Movements in the reserve for impairment:

	December 31, 2006	December 31, 2005
Reserve at beginning of year	1,704	1,540
Provision for impairment	1,036	376
Recoveries	(178)	(212)
Provision net of recoveries	858	164
Reserve at end of the period (year)	**2,562**	**1,704**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

9. MINIMUM LEASE PAYMENTS RECEIVABLE

	December 31, 2006	December 31, 2005
Not later than 1 year	183,073	132,163
Later than 1 year but not later than 5 years	187,877	108,307
Later than 5 years	1,113	-
Minimum lease payments receivable, gross	372,063	240,470
Less: Unearned interest income	(49,766)	(28,208)
Net investment in finance leases	322,297	212,262
Lease receivables in arrears	4,625	2,294
Less : Reserve for impairment	(3,436)	(3,000)
Minimum lease payments receivable, net	**323,486**	**211,556**

Net investment in finance leases are analyzed as follows:

	December 31, 2006	December 31, 2005
Not later than 1 year	154,487	115,080
Later than 1 year but not later than 5 years	166,729	97,182
Later than 5 years	1,081	-
Total	**322,297**	**212,262**

As of December 31, 2006 and 2005, TRY 309,212 and TRY 216,502 of gross lease receivables are denominated in foreign currencies (mainly USD and EUR), respectively. The average interest rates are between 13.66% and 14.20% (December 31, 2005 - 9.26% to 10.33%) for foreign currency and average of 24.16% (December 31, 2005 - 22.04%) for TRY denominated receivables. Finance lease receivables have fixed interest rates.

Movements in the reserve for impairment:

	December 31, 2006	December 31, 2005
Reserve at beginning of year	3,000	2,069
Provision for impairment	766	1,016
Recoveries	(330)	-
Provision net of recoveries	436	1,016
Minimum lease payments receivable written off during the year	-	(85)
Reserve at end of the year	**3,436**	**3,000**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

10. INVESTMENT IN ASSOCIATES

	December 31, 2006		December 31, 2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investment in associate				
Varlik Yatirim Ortakligi A.S.	-	-	1,536	34%
Total	**-**		**1,536**	

As of August 25, 2006 the Group has completed transferring all of its shares in Varlik Yatirim Ortakligi A.S. A type shares (TRY 22,500 nominal) have been sold for a value found by adding TRY 13.33 to the unit par value to be calculated for the work day before the transfer and B type shares (TRY 1,252,500 nominal) have been sold in the stock exchange.

11. PREMISES AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office Equipment, Leasehold Improvements	Total
At January 1, 2005, net of accumulated depreciation	20,223	560	28,527	49,310
Additions	-	86	26,341	26,427
Disposals	-	(247)	(209)	(456)
Depreciation charge for the year	(335)	(126)	(12,561)	(13,022)
Exchange adjustment	(966)	(37)	(11)	(1,014)
At December 31, 2005/January 1, 2006, net of accumulated depreciation	**18,922**	**236**	**42,087**	**61,245**
Additions	39	-	52,408	52,447
Disposals	-	-	(988)	(988)
Depreciation charge for the year	(384)	(76)	(16,155)	(16,615)
Exchange adjustment	1,036	18	51	1,105
At December 31, 2006, net of accumulated depreciation	**19,613**	**178**	**77,403**	**97,194**
At December 31, 2005				
Cost	21,932	556	129,517	152,005
Accumulated depreciation	(3,010)	(320)	(87,430)	(90,760)
Net carrying amount	**18,922**	**236**	**42,087**	**61,245**
At December 31, 2006				
Cost	23,060	586	180,416	204,062
Accumulated depreciation	(3,447)	(408)	(103,013)	(106,868)
Net carrying amount	**19,613**	**178**	**77,403**	**97,194**

As of December 31, 2006 the cost of fully depreciated items is amounting to TRY 65,371 (December 31, 2005 - TRY 59,520).

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

12. INTANGIBLE ASSETS

	Goodwill	Software Licenses and Other	Total
At January 1, 2005, net of accumulated amortization	-	3,913	3,913
Additions	1,205	2,422	3,627
Disposals	-	(4)	(4)
Amortization charge for the year	-	(1,886)	(1,886)
Exchange adjustment	-	(25)	(25)
At December 31, 2005, net of accumulated amortization	**1,205**	**4,420**	**5,625**
Additions	-	4,763	4,763
Disposals	-	-	-
Amortization charge for the year	-	(2,551)	(2,551)
Exchange adjustment	-	44	44
At December 31, 2006, net of accumulated amortization	**1,205**	**6,676**	**7,881**
At December 31, 2005			
Cost (gross carrying amount)	1,205	16,387	17,592
Accumulated amortization	-	(11,967)	(11,967)
Net carrying amount	**1,205**	**4,420**	**5,625**
At December 31, 2006			
Cost (gross carrying amount)	1,205	20,816	22,021
Accumulated amortization and impairment	-	(14,140)	(14,140)
Net carrying amount	**1,205**	**6,676**	**7,881**

Goodwill relates to the acquisition of the minority (17.5%) shares of TEB Portföy by TEB Yatirim from ABN Amro Bank N.V. in the year 2005.

The cost of fully amortized items is amounting to TRY 6,777 as of December 31, 2006 (December 31, 2005 - TRY 6,405).

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

13. OTHER ASSETS

	December 31, 2006	December 31, 2005
Transitory accounts	11,418	11,344
Advances given to suppliers	8,826	2,788
Equipment to be leased	6,552	4,755
Prepaid income and other taxes	1,834	675
Assets held for resale	1,161	947
Others	20,379	7,348
Total	**50,170**	**27,857**

The Group purchases machinery and equipment from foreign and domestic vendors in relation to the financial lease agreements signed in the current year for projects in progress of its customers, which will be completed in the subsequent period. As of December 31, 2006 and 2005, the equipment to be leased balance includes cost of the equipment to be leased as described above together with the related expenses.

Assets held for resale comprise of land, building and vehicles that are acquired from defaulted loan customers and are held for disposal through sale. These are stated at cost less reserve for impairment based on the valuations made by independent appraisal firms (Impairment recorded as of December 31, 2006 and 2005 is nil).

14. DEPOSITS

Deposits from other banks

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Demand	48,338	-	-	16,561	-	-
Time	139,862	15.00%-21.00%	2.00%-5.30%	102,741	15.28%-18.50%	2.55%-4.75%
Total	**188,200**			**119,302**		

Customers' deposits

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign currency		New Turkish Lira	Foreign Currency
Saving						
Demand	271,270	1.00%-5.00%	1.50%-2.50%	233,803	12.80%-14.30%	0.75%-4.13%
Time	3,273,863	9.00%-22.00%	2.00%-12.00%	1,713,035	12.50%-17.92%	2.20%-6.00%
	3,545,133			**1,946,838**		
Commercial and other						
Demand	821,096	1.00%-7.00%	1.00%-2.50%	574,873	13.65%-17.25%	0.75%-4.72%
Time	2,171,274	10.00%-22.00%	1.00%-6.18%	1,679,470	13.41%-15.96%	2.58%-4.26%

	2,992,370	**2,254,343**
Total	**6,537,503**	**4,201,181**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

14. DEPOSITS (continued)

Included in customer accounts were deposits of TRY 406,191 (December 31, 2005 - TRY 314,039) held as collateral for cash and non-cash loans given.

Other money market deposits

	December 31, 2006			December 31, 2005		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Obligations under repurchase agreements:						
-Due to customers	223,681	17.95%-18.55%	-	417,310	6.12% - 13.46%	-
-Due to banks and other financial institutions	547,323	17.95%-18.60%	-	337,782	15.30%	-
	771,004			**,092**		

15. FUNDS BORROWED

	December 31, 2006		
		Effective interest rate	
	Amount	New Turkish Lira	Foreign currency
Short-term			
Fixed interest	559,418	10.00%-20.05%	3.64%-6.31%
Floating interest	592,041	-	4.03%-8.90%
Medium/long-term			
Fixed interest	90,754	-	2.19%-7.95%
Floating interest	208,735	-	4.15%-8.36%
Fixed interest subordinated loan	205,251	-	6.10%
Floating interest subordinated loan	92,239	-	8.67%
Total	**1,748,438**		

	December 31, 2005		
		Effective interest rate	
	Amount	New Turkish Lira	Foreign currency
Short-term			
Fixed interest	355,012	9.00%-18.00%	1.00%-6.80%
Floating interest	335,534	-	2.80%-5.40%
Medium/long-term			
Fixed interest	27,261	-	3.77%-6.16%
Floating interest	284,045	-	3.69%-7.84%
Floating interest subordinated loan	89,740	-	7.00%-7.19%
Total	**1,091,592**		

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

15. FUNDS BORROWED (continued)

Repayment plan of medium and long-term borrowings is as follows:

	December 31, 2006		December 31, 2005	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**
2006	-	-	9,653	70,368
2007	-	6,247	5,134	110,016
2008	47,854	53,223	3,374	33,289
2009	15,043	52,771	1,763	60,447
2010 and thereafter	233,108	188,733	7,337	99,665
Total	**296,005**	**300,974**	**27,261**	**373,785**

In addition to the subordinated loans obtained from IFC (International Finance Corporation) amounting to USD 15 million maturing on October 14, 2011 and USD 50 million maturing on June 29, 2015, the Bank has obtained a subordinated loan from Economy Luxembourg S.A. amounting to EUR 110 million maturing on October 31, 2016.

As of December 31, 2006, the Bank has replaced its EUR 210,000,000 syndication loan under foreign borrowings with maturity of one year contracted on November 18, 2005 with the loan of EUR 205,000,000 maturing on November 13, 2007 for two years.

Funds borrowed are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

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

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

16. OTHER LIABILITIES AND PROVISIONS

	December 31, 2006	December 31, 2005
Other liabilities		
Transitory accounts (mainly cheques clearance account)	31,839	40,469
Payables to credit card member firms	31,471	19,936
Taxes and compulsory contributions other than on income	25,533	17,208
Trade and other payables	24,415	7,309
Blocked bank cheques	16,027	17,535
Advances taken	8,808	4,616
Unused vacation pay liability	6,460	3,900
Payment orders	1,451	3,875
Others	17,052	12,789
	163,056	**127,637**
Provisions		
Employee termination benefits	7,516	6,490
Portfolio reserve for non-cash loans	2,372	2,209
	9,888	**8,699**
Total	**172,944**	**136,336**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TRY 1.857 and TRY 1.727 at December 31, 2006 and 2005 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 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 TRY 1.961 effective January 1, 2007.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	December 31, 2006	December 31, 2005
Discount rate	11 %	12 %
Expected rates of salary/limit increases	5 %	6.175 %

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

16. OTHER LIABILITIES AND PROVISIONS (continued)

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

	December 31, 2006	December 31, 2005
Provision at the beginning of the year	6,490	4,752
Utilized / paid	(945)	(411)
Arising during the year	1,971	2,149
At the end of the year	**7,516**	**6,490**

17. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rates of tax are as follows: In 2006 20%, in 2005 30%.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was decreased to 20% for 2006 (2005: 30%). The excess advance tax paid of corporate income that was calculated at the rate of 30% during the taxation of the corporate income in advance taxation periods after January 2006 over 20% will be deducted from future temporary tax returns.

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between April 1 and April 25 following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from April 24, 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from July 23, 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to April 24, 2003. Subsequent to this date, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the Group. The investments without investment incentive certificates do not qualify for tax allowance.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

17. INCOME TAXES (continued)

Investment incentive certificates are revoked commencing from January 1, 2006. If companies cannot use investment incentive due to inadequate profit, such outstanding investment incentive can be carried forward to following years as of December 31, 2005 so as to be deducted from taxable income of subsequent profitable years. However companies can deduct carried forward outstanding allowance from 2006, 2007 and 2008 taxable income. The investment incentive amount that cannot be deducted from 2008 taxable income will not be carried forward to following years.

The tax rate that companies can use in case of deducting tax investment incentive amount in 2006, 2007 and 2008 is 30%. If the Group chooses not to use the investment incentive carried forward, the effective tax rate will be 20% and the unused investment incentive will be cancelled.

As the management of the Group does not plan to use the investment incentive, the corporate tax rate was used as 20% as of December 31, 2006.

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

	December 31, 2006	**December 31, 2005**
Income tax liability	31,257	52,934
Advance income taxes	(11,555)	(40,214)
	19,702	**12,720**

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

	December 31, 2006	**December 31, 2005**
Consolidated income statement		
Current income tax		
Current income tax charge	35,345	51,408
Deferred income tax		
Relating to origination and reversal of temporary differences	3,820	(7,665)
Income tax expense reported in consolidated income statement	**39,165**	**43,743**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

17. INCOME TAXES (continued)

Reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the parent for the year ended December 31, 2006 and 2005 are as follows:

	December 31, 2006	December 31, 2005
Profit before income tax	172,286	155,055
At Turkish statutory income tax rate of 20% (2005 – 30%)	34,457	46,517
Income not subject to tax	(10,825)	(5,399)
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	15,533	2,625
Income tax	**39,165**	**43,743**

Deferred income tax

Deferred income tax at December 31, 2006 and 2005 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2006	**2005**	**2006**	**2005**
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	2,633	2,624	9	459
Others	29	34	(5)	(80)
Gross deferred income tax liabilities	**2,662**	**2,658**	**4**	**379**
Deferred income tax assets				
Impairment provisions	4,620	6,168	(1,548)	3,820
Deferred gains and losses on foreign exchange contracts	9,590	4,923	4,667	3,535
Valuation differences of trading and investment securities	501	246	255	(687)
Employee termination benefits and vacation pay liability	2,795	2,914	(119)	207
Others	3,415	3,945	(530)	380
Gross deferred income tax assets	**20,921**	**18,196**	**2,725**	**7,255**
Deferred income tax asset, net	**18,259**	**15,538**	**2,721**	**6,876**
Deferred income tax credit (charge) recognized in equity			**6,541**	**(789)**
Deferred income tax credit (charge) recognized in income statement, net			**(3,820)**	**7,665**

Reflected as:

	December 31, 2006	December 31, 2005
Deferred tax asset	18,259	15,552
Deferred tax liability	-	(14)

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

17. INCOME TAXES (continued)

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

	December 31, 2006	December 31, 2005
Balance at January 1	15,538	8,662
Deferred income tax credit (charge) recognized in income statement	2,721	6,876
Balance at period-end	**18,259**	**15,538**

Deferred income tax liabilities have not been established for the withholding and other taxes that would be payable on the unremitted earnings of subsidiaries operating outside of Turkey as it is not certain whether such amounts will be permanently reinvested or received in cash. If such amounts are collected in cash in the form of dividends, they will be subject to corporation tax in Turkey. On the other hand, if double tax treaty is signed between Turkey and the country where the subsidiary is resident, the provisions of double tax treaty will be considered.

18. DERIVATIVES

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

The table below shows the 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.

	December 31, 2006			December 31, 2005		
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent
Derivatives held-for-trading						
Forward contracts	9,990	9,511	937,364	4,836	8,766	1,754,167
Currency swap contracts	8,536	37,824	1,616,585	1,235	12,923	530,482
Interest swap contracts	2,839	21,102	16,920	-	80	139,995
Call & put option contracts	862	457	874,373	157	201	548,101
Other	53	227	105,235	-	-	57,171
	22,280	**69,121**	**3,550,477**	**6,228**	**21,970**	**3,029,916**

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

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

19. SHARE CAPITAL

	December 31, 2006	December 31, 2005
Total number of shares, TRY 0.001 par value (December 31, 2005: TRY 0.0005)	76,500 Million	115,600 Million

Shares traded on the Istanbul Stock Exchange are in the form of units of two shares with a combined nominal value of TRY 0.001 each.

As of December 31, 2006 and 2005, the Bank's historical subscribed and issued share capital was TRY 76,500 and TRY 57,800, respectively.

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

	December 31, 2006		December 31, 2005	
	Amount	**%**	**Amount**	**%**
TEB Mali Yatirimlar A.S.	64,454	84.25	48,699	84.25
Publicly traded	11,956	15.63	8,766	15.17
Other shareholders	90	0.12	335	0.58
	76,500	100.00	57,800	100.00
Restatement effect	252,676		252,676	
Total	**329,176**		**310,476**	

7% of the Bank's remaining net profit corresponding to 60,000 shares of TRY 30 is to be allocated to the holders of founder shares. In accordance with the Board of Directors' decision numbered 3702/11 and dated February 10, 2005; 6 units of founder shares have been transferred to the Bank's major shareholder, TEB Mali Yatirimlar A.S.

Based on the resolution of the Board of Directors no. 3840/28 on March 31, 2006, the Parent Bank has increased its paid in capital of TRY 57,800 within the registered capital ceiling of TRY 100,000 by TRY 18,700, to TRY 76,500. TRY 18,700 that constitutes the capital increase has been decided to be used as pre-emptive rights to the shareholders and the non-used preemptive rights amounting to TRY 138 be traded on the Stock Exchange, and the whole amount to be paid in cash. The increase of TRY 18,700 was registered with Istanbul Trade Registry Office on September 20, 2006 and capital increase procedures were completed.

According to Bank's Board of Directors decision of its capital increase, the Bank has received TRY 1,592 of "Share Premiums" as a result of the sale of unused pre-emptive rights amounting to TRY 138 nominal shares on the Istanbul Stock Exchange.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement in legal reserves and retained earnings are as follows:

	December 31, 2006			December 31, 2005		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At January 1	19,955	195,185	215,140	16,515	96,732	113,247
Change in consolidation structure	-	-	-	-	93	93
Issue of share capital	-	-	-	-	-	-
Transfer from retained earnings	8,812	(8,812)	-	3,440	(3,440)	-
Dividends paid	-	(18,742)	(18,742)	-	(9,414)	(9,414)
Net profit for the period (year)	-	133,121	133,121	-	111,214	111,214
At December 31	**28,767**	**300,752**	**329,519**	**19,955**	**195,185**	**215,140**

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.

Dividends Paid and Proposed

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

In the General Assembly meeting of the Parent Bank, dated March 23, 2006, it was decided to distribute the profit on the financial statements dated December 31, 2005. The amounts that were distributed to the shareholders who are subject to and not subject to withholding tax were TRY 0.3242670 and TRY 0.2918403 (Nominal full TRY) respectively. Dividends amounting to TRY 18,742 were paid to the shareholders commencing on April 6, 2006.

21. 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.

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

21. EARNINGS PER SHARE (continued)

Number of Shares (in millions) Issued Attributable to							
	Opening	**Cash**	**Transfers from Retained Earnings**	**Transfers From Revaluation Surplus**	**Reinvestment of Dividend Payments**	**Total**	**Closing**
1995 and before		150	3,000	250	-	3,400	3,400
1996	3,400	-	-	330	1,270	1,600	5,000
1997	5,000	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	529	682	7,277	14,000	25,000
1999	25,000	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	110,250
2003	110,250	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	115,600
2006(*)	57,800	18,700	-	-	-	18,700	76,500

(*)In the Extraordinary General Assembly Meeting dated May 31, 2006, the shares with nominal value of TRY 0.0005 has been decided to be changed to nominal value of TRY 0.001, based on the amendment in the Turkish Commercial Law No: 5274. Thus, the total number of shares has been declined and 115,600 million number of shares each of which is equivalent to TRY 0.0005 has been replaced with 57,800 million number of shares each of which are equivalent to TRY 0.001. Related with this replacement, rights of the shareholders arising from the shares owned are reserved. After the capital increases in June 30, 2006 and the sale of unused pre-emptive rights in August 11, 2006, total number of shares have become 76,500 million, each of which are equivalent to TRY 0.001.

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

The following reflects the income (in full TRY) and share data (in thousand) used in the basic earnings per share computations:

	December 31, 2006	**December 31, 2005**
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	1.7651	1.4966
Weighted average number of ordinary shares (in millions) for basic earnings per share	75,420	74,312

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

22. 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 the Çolakoglu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of Parent of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Çolakoglu Group companies, TEB'liler Foundation and BNP Paribas Group entities 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 business, the Group conducted various business transactions with related parties. These include primarily loans, deposits and borrowing transactions. The significant outstanding balances with related parties at year-ends and relating expense and income for the years are as follows:

December 31, 2006:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Other current assets	Other liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	1,409	2,765	131,404	377,579	2,697	-	5,768	173,855	3,646	32,409	1,702	5,395
Others	12,901	53,964	221,115	815,971	2,166	3	751	10,279	2,775	66,244	257	369

December 31, 2005:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Other current assets	Other liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	-	16,179	-	580,396	144,289	855	208	177,256	2,008	24,269	2,146	251
Others	29,353	78,444	149,900	715,008	-	1,258	60	2,867	1,262	27,303	15,042	524

No provisions have been recognized in respect of loans given to related parties (2005 - nil).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TRY 16,140 as of December 31, 2006. (December 31, 2005 – TRY 12,467) comprising mainly salaries and other short-term benefits.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

23. SALARIES AND EMPLOYEE BENEFITS

	December 31, 2006	December 31, 2005
Wages and salaries	127,463	86,808
Cost of defined contribution plan (employers' share of social security premiums)	17,714	13,183
Bonuses	11,780	9,883
Provision for employee termination benefits	1,971	2,149
Other fringe benefits	21,915	11,569
Total	**180,843**	**123,592**

24. OTHER EXPENSES

	December 31, 2006	December 31, 2005
Maintenance and various administrative expenses	38,711	24,256
Rent expenses	28,332	18,668
Advertisement expenses	20,819	13,818
Communication expenses	13,205	8,919
Saving Deposit Insurance Fund (SDIF) premiums	4,068	2,409
Total	**105,135**	**68,070**

25. GAINS LESS LOSSES ON TRADING SECURITIES

Gains less losses on trading securities arise primarily from fixed income securities.

26. FEES AND COMMISSIONS INCOME AND EXPENSES

	December 31, 2006	December 31, 2005
Fees and commissions income		
Banking	103,661	64,716
Fund management	31,343	32,682
Brokerage	17,600	12,962
Total	**152,604**	**110,360**
Fees and commissions expenses		
Banking	28,009	13,635
Other	1,288	2,721
Total	**29,297**	**16,356**

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

27. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	December 31, 2006	December 31, 2005
Letters of guarantee issued	1,732,145	1,167,614
Letters of credit	889,026	681,843
Acceptance credits	50,146	52,685
Total non-cash loans	2,671,317	1,902,142
Other commitments	660,554	417,646
Credit card limit commitments	260,614	162,050
Letters of guarantee obtained	114,579	58,868
Total	**3,707,064**	**2,540,706**

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 the accompanying financial statements.

The nominal values of the assets (excluding investment funds) held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TRY 896,625 at December 31, 2006 (December 31, 2005 - TRY 844,300). As of December 31, 2006, securities at custody include investment funds with market value of TRY 718,070. (December 31, 2005 - TRY 1,200,610)

The Group also manages sixteen investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable 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.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of December 31, 2006, in line with the requirements of IGM, letters of guarantee amounting to USD 1,410,000 (December 31, 2005 - USD 1,892,000) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of December 31, 2006, according to the general requirements of the ISE, letters of guarantee amounting to TRY 4,429 and USD 12,500,000 (December 31, 2005 - TRY 4,089 and USD 16,790,000) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as of December 31, 2006 according to the general requirements, letters of guarantee amounting to TRY 1,213 (December 31, 2005 - TRY 1,213), were given to the Capital Markets Board.

27. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

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

Other

Except for the Head-Office-Istanbul and Izmir-Konak Branch buildings, all branch premises of TEB are leased under operational leases. The lease periods vary between 1 and 10 years and lease agreements are cancelable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

28. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The mission of Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

Each operating company is required to implement the Group's risk management policies and procedures. There is a designated Risk Officer in every operating company to ensure effective reporting and monitoring.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

Credit risk is the risk that one party to a contract will fail to discharge an obligation and cause the other party to incur a financial loss. It arises primarily from lending, trade finance, treasury and leasing activities but may arise in other circumstances.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the operating companies.

Account officers visit customers, collect and review financial information and business plans. If the Branch Credit Committee decides to proceed, a credit proposal is submitted to the related Credit Allocation Division/Regional Departments. The Credit Allocation Departments apply number of standard financial ratios and tests to the relevant company's audited financial statements if available and make other appropriate enquiries in conjunction with the Financial Analysis Department, including taking references from other banks, obtaining information about owners, shareholders and/or senior managers and analyzing the customer's business sector. A report is then prepared on the potential customer by the Credit Allocation Departments for submission to the Credit Committee, setting out their assessment of the customer's credit worthiness.

The credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporates and also the guarantees. This system aids in making decisions of allocating credit limits and accepted guarantees. Counterparty limits are monitored daily on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored. The credibility of the debtors of the Group is also assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves."

In order to control the exposure to different industries, sectoral limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to individual customers, customer groups and other risk concentrations in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, large non-performing accounts and impairment allowances as well as default and recovery rates.

The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored daily.

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolios and controlling all credit risks.

There is a separate department responsible for recoveries in the Bank. The Credit Monitoring and Legal Action Department consists of two sections, Credit Monitoring and Legal Action Units. The department is responsible for all loans, personal and corporate, and reports directly to the General Manager, while providing reporting for the Credit Committee.

After issuing a loan, Credit Monitoring Unit constantly monitors the customer's debt servicing, credit solvency and the fair value of the collateral. The department has set up its credit monitoring process in a way, which quickly helps to identify deviations in the customer's performance from the agreed forecasts, or possible non-compliance by the customer with the agreed terms and conditions of the loan.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

A systematic bottom-up credit monitoring approach enables the Bank to measure and identify possible problematic loans at an early stage. The monitoring division prepares at least monthly a review of the loan servicing history and gives an assessment of the future credit solvency for each large exposure. Through the monitoring process, which is based on the assessment of the loan recovery and the correlation of the counterpart; the Credit Monitoring and Legal Action Department calculates the amount of risk capital required to cover expected losses and risk for each loan.

Assessing the customer's recent performance there may be early signs of delinquency or other irregular symptoms detected in an account, warranting a more detailed review of the credit-worthiness and the repayment ability of the customer concerned. If there is a doubt about a customer's loans, the customer is included in a precautionary watch list. It is advised to request additional collateral. Credit Monitoring Unit has the authority of blocking/unblocking credit lines if there is a defectiveness or insufficient situation.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

Since the volume of the restructured loans is not material to the financial statements, no additional follow up methodology is developed, except as stated in the regulations.

Netting is a technique used by the Bank to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

Sectoral breakdown of cash and non-cash loans is as follows:

	December 31, 2006	
	Cash	**Non-cash**
Finance	511,044	208,445
Food	588,528	262,081
Private individuals	767,072	10
Transportation	347,581	101,635
Chemical	237,875	144,823
Wholesaler	327,149	173,300
Automotive	234,292	97,442
Construction & public works	273,747	416,254
Equipment materials	153,239	82,792
Technology	97,828	77,259
Energy	54,834	67,468
Others (*)	2,114,061	1,039,808
Total loans	**5,707,250**	**2,671,317**
Interest accruals	46,685	-
Receivables in arrears	44,792	-
Provision for impairment	(48,894)	-
Total	**5,749,833**	**2,671,317**

(*) Ores and materials, manufacturing, business services and retail sectors are included in others line.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

	December 31, 2005	
	Cash	**Non-cash**
Finance	438,354	209,538
Transportation	400,389	-
Food	338,721	171,801
Chemical	224,462	76,796
Wholesaler	177,014	111,617
Private individuals	153,642	107,380
Equipment materials	134,377	67,584
Construction & public works	72,928	60,594
Mining	69,468	71,859
Energy	41,296	47,781
Technology	1,697	-
Others (*)	1,399,772	977,192
Total loans	**3,452,120**	**1,902,142**
Interest accruals	28,812	-
Receivables in arrears	33,679	-
Provision for impairment	(32,940)	-
Total	**3,481,671**	**1,902,142**

(*) Ores and materials, manufacturing, business services and retail sectors are included in others line.

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflows to fulfill the cash outflows completely on time.

The Group's policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self sufficient with regards to funding its own operations. The Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Asset Liability Management (ALM) has the responsibility for obtaining finance on money markets and financial markets for the Bank from short to medium and long term financing and also provide finance to core business lines at the Bank to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

Main source of funding to cover the liquidity need is deposits and in addition to this source, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Bank is generally a net lender in interbank money markets.

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

	Up to 1 Month	1 to 3 Months	3 months to 1 year	Over 1 year	Unallocated	Total
As at December 31, 2006						
Assets:						
Cash and balances with central banks	419,909	-	-	-	-	419,909
Deposits with banks and other financial institutions and other money market placements	1,039,478	1	3,290	-	-	1,042,769
Reserve deposits at central banks	568,168	-	-	-	-	568,168
Financial assets at fair value through profit and loss (*)	2,910	7,247	2,565	76,872	-	89,594
Investment securities (*)	297	1,906	115,139	1,449,057	562	1,566,961
Loans, advances and factoring receivables	2,508,972	776,285	1,412,641	1,328,141	17,115	6,043,154
Minimum lease payments receivable	18,770	27,756	107,127	166,821	3,012	323,486
Derivative financial instruments	6,696	4,882	3,591	7,111	-	22,280
Premises and equipment	-	-	-	-	97,194	97,194
Intangible assets	-	-	-	-	7,881	7,881
Investment in associates	-	-	-	-	-	-
Deferred tax asset	-	-	-	18,259	-	18,259
Other assets	22,573	7,884	906	116	18,691	50,170
Total assets	**4,587,773**	**825,961**	**1,645,259**	**3,046,377**	**144,455**	**10,249,825**
Liabilities:						
Deposits from other banks, customers' deposits, Funds borrowed and other money market deposits	6,952,053	839,899	819,161	634,032	-	9,245,145
Factoring payables	87,002	17,086	6,984	-	-	111,072
Derivative financial instruments	17,020	10,013	16,396	25,692	-	69,121
Other liabilities and provisions	132,484	4,196	7,494	267	28,503	172,944
Income taxes payable	-	-	19,702	-	-	19,702
Deferred tax liability	-	-	-	-	-	-
Total liabilities	**7,188,559**	**871,194**	**869,737**	**659,991**	**28,503**	**9,617,984**
Net liquidity gap	**(2,600,786)**	**(45,233)**	**775,522**	**2,386,386**	**115,952**	**631,841**
As at December 31, 2005						
Total assets	2,782,272	724,426	1,443,350	1,843,505	114,152	6,907,705
Total liabilities	4,394,798	872,890	661,613	444,445	25,388	6,399,134
Net liquidity gap	**(1,612,526)**	**(148,464)**	**781,737**	**1,399,060**	**88,764**	**508,571**

(*) Loaned securities are shown in related securities portfolios.

28. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

The Group takes on exposure to market risks. Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

The Board of Directors evaluates the risks that can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. The Group Risk Management calculates and follows the VaR amount of portfolios as well as nominal stop loss and position limits set for each product.

Market risk is calculated for TEB using variance/covariance method with using one year observation period (250 work days), 0.99 confidence interval and one day holding period. Regular stress tests and scenario analysis are applied to portfolios.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by BRSA, CMB and other authorities. Only securities held to maturity are valued at amortized cost using Internal Rate of Return (IRR).

The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

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 possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market.

The Board of Directors sets limits for the positions, which are followed up daily. Also any possible changes in positions are monitored.

Generally Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	New Turkish Lira	Euro	US Dollars	Other	Total
As at December 31, 2006					
Assets:					
Cash and balances with and reserve deposits at central banks	251,974	296,165	434,566	5,372	988,077
Deposits with banks and other financial institutions and other money market placements	5,622	194,183	816,590	26,374	1,042,769
Financial assets at fair value through profit and loss (*)	84,203	255	5,136	-	89,594
Investment securities (*)	1,291,650	541	274,770	-	1,566,961
Loans and advances, factoring and minimum lease payments receivable and other assets	3,345,850	1,401,709	1,521,915	147,336	6,416,810
Derivative financial instruments	17,683	6	4,244	347	22,280
Investment in associates	-	-	-	-	-
Premises and equipment	89,831	7,363	-	-	97,194
Intangible assets	7,700	181	-	-	7,881
Deferred tax asset	18,259	-	-	-	18,259
Total assets	**5,112,772**	**1,900,403**	**3,057,221**	**179,429**	**10,249,825**
Liabilities:					
Deposits from other banks, funds borrowed (except subordinated debt) and other money market deposits	1,223,162	737,000	392,802	57,188	2,410,152
Customers' deposits	2,446,884	873,067	3,131,285	86,267	6,537,503
Subordinated debt	-	205,337	92,153	-	297,490
Factoring payables	67,213	27,930	7,906	8,023	111,072
Derivative financial instruments	67,381	8	1,624	108	69,121
Other liabilities and provisions	144,382	21,628	5,927	1,007	172,944
Income taxes payable	19,702	-	-	-	19,702
Deferred tax liability	-	-	-	-	-
Total liabilities	**3,968,724**	**1,864,970**	**3,631,697**	**152,593**	**9,617,984**
Net balance sheet position	**1,144,048**	**35,433**	**(574,476)**	**26,836**	**631,841**
Off-balance sheet position					
Net notional amount of derivatives	(586,941)	28,567	553,954	(26,369)	(30,789)
Non-cash loans (**)	870,029	614,057	1,110,693	76,538	2,671,317
At December 31, 2005					
Total assets	3,243,140	1,037,053	2,530,097	97,415	6,907,705
Total liabilities	2,437,267	1,053,894	2,789,441	118,532	6,399,134
Net balance sheet position	**805,873**	**(16,841)**	**(259,344)**	**(21,117)**	**508,571**
Off-balance sheet position					
Net notional amount of derivatives	(317,811)	59,815	216,285	18,122	(23,589)
Non-cash loans (**)	606,990	419,270	828,502	47,380	1,902,142

(*) Loaned securities are shown in related securities portfolios.
(**) There are no effects on the net off balance sheet position.

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. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position. Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The Asset-Liability Committee of the Bank is responsible to manage interest rate risk at the bank. The Group Risk Management calculates and monitors the interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk by using the standard method in the calculation of overall market risk.

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

The first priority of the Group's risk management is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board and the Audit Committee. Maturities of outstanding assets are based on the contractual characteristics of the transactions.

The table below summarizes the Group’s exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at December 31, 2006						
Assets :						
Cash and balances with central banks	100,073	-	-	-	319,836	419,909
Deposits with banks and other financial institutions and other money market placements	1,039,478	1	3,290	-	-	1,042,769
Reserve deposits at central banks	568,168	-	-	-	-	568,168
Financial assets at fair value through profit and loss(*)	38,353	8,727	7,556	32,636	2,322	89,594
Investment securities (*)	296,339	666,699	160,415	442,945	563	1,566,961
Loans, advances and factoring receivables	3,071,697	624,419	1,066,048	1,263,875	17,115	6,043,154
Minimum lease payments receivable	18,771	27,756	107,127	166,821	3,011	323,486
Derivative financial instruments	-	-	-	-	22,280	22,280
Premises and equipment	-	-	-	-	97,194	97,194
Intangible assets	-	-	-	-	7,881	7,881
Investment in associates	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	18,259	18,259
Other assets	2,058	7,884	906	116	39,206	50,170
Total Assets	**5,134,937**	**1,335,486**	**1,345,342**	**1,906,393**	**527,667**	**10,249,825**
Liabilities:						
Deposits from other banks, customers' deposits, funds borrowed and other money market deposits	7,150,690	936,906	1,011,695	145,854	-	9,245,145
Factoring payables	87,002	17,086	6,984	-	-	111,072
Derivative financial instruments	-	-	-	-	69,121	69,121
Other liabilities and provisions	-	-	-	-	172,944	172,944
Income taxes payable	-	-	-	-	19,702	19,702
Total liabilities	**7,237,692**	**953,992**	**1,018,679**	**145,854**	**261,767**	**9,617,984**
Balance sheet interest sensitivity gap	**(2,102,755)**	**381,494**	**326,663**	**1,760,539**	**265,900**	**631,841**
As at December 31, 2005						
Total assets	2,725,654	1,396,364	1,319,814	1,223,007	242,866	6,907,705
Total liabilities	4,746,803	673,697	740,609	66,985	171,040	6,399,134
Net interest sensitivity gap	**(2,021,149)**	**722,667**	**579,205**	**1,156,022**	**71,826**	**508,571**

(*) Loaned securities are shown in related securities portfolios.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if banks operates in offshore markets). These ratios measure capital adequacy by comparing the Group’s eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank operates in offshore markets. As of December 31, 2006, its capital adequacy ratio on an unconsolidated basis is 14.27% (December 31, 2005 – 12.33%)

Amounts expressed in thousands of New Turkish Lira (TRY) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

29. 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 major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	December 31, 2006	**December 31, 2005**	**December 31, 2006**	**December 31, 2005**
Financial assets				
Loans and advances	5,749,833	3,481,671	5,623,037	3,481,671
Investment securities held-to-maturity	11,057	11,809	11,627	11,809
Minimum lease payments receivable	323,486	211,556	327,334	211,556
Financial liabilities				
Deposits from other banks and funds borrowed	1,936,638	1,210,894	1,930,549	1,311,205
Customers' deposits	6,537,503	4,201,181	6,528,201	4,265,939
Other money market deposits	771,004	755,092	771,004	755,092

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.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Minimum Lease Payments Receivable

Estimated fair value of lease contracts receivable represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and Borrowings

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

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

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

30. SUBSEQUENT EVENTS

None.