**Türkiye Garanti Bankası Anonim Şirketi**
**And Its Affiliates**

Consolidated Financial Statements

31 December 2006

With Independent Auditors’ Report Thereon

27 February 2007

This report contains the “Independent Auditors’ Report” comprising 2 pages and; the “Consolidated financial statements and their explanatory notes” comprising 71 pages.

# Türkiye Garanti Bankası Anonim Şirketi

## And Its Affiliates

**Table of contents**

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

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

# Independent auditors' report

To the Board of Directors of
Türkiye Garanti Bankası Anonim Şirketi

## Report on the consolidated financial statements

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

## Management's responsibility for the financial statements

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

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

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

İstanbul, KPMG Akis Bağımsız Denetim

27 February 2007 ve SMMM A.Ş.

# Türkiye Garanti Bankası AŞ And Its Affiliates

## Consolidated Balance Sheet
## At 31 December 2006

*(Currency: Thousands of New Turkish Lira (YTL))*

| | Notes | 31 December 2006 | 31 December 2005 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Banks | *4* | 2,456,165 | 2,223,431 |
| Financial assets at fair value through profit or loss | *5* | 1,019,421 | 982,316 |
| Loans and advances to banks | *6* | 2,532,498 | 2,177,017 |
| Loans and advances to customers | *7* | 30,803,752 | 19,141,520 |
| Other assets | *9* | 4,110,474 | 3,309,419 |
| Security investments | *10,21* | 14,967,591 | 11,909,044 |
| Investments in equity participations | *11* | 19,495 | 55,362 |
| Tangible assets, net | *12* | 1,079,249 | 1,219,413 |
| Goodwill, net | *13* | 34,051 | 34,566 |
| Deferred tax asset | *19* | 70,095 | 81,746 |
| **Total assets** | | **57,092,791** | **41,133,834** |
| **Liabilities** | | | |
| Deposits from banks | *14* | 1,573,730 | 1,059,709 |
| Deposits from customers | *15* | 32,294,557 | 24,525,284 |
| Obligations under repurchase agreements | *16* | 5,295,542 | 2,340,129 |
| Loans and advances from banks | *17* | 9,649,770 | 6,673,546 |
| Bonds payable | *18* | 55,155 | - |
| Current tax liability | *19* | 128,022 | 67,938 |
| Deferred tax liability | *19* | 1,108 | 596 |
| Other liabilities and accrued expenses | *20* | 3,154,503 | 2,434,657 |
| **Total liabilities** | | **52,152,387** | **37,101,859** |
| **Shareholders' equity and minority interest** | | | |
| Share capital | *21* | 3,046,371 | 3,046,371 |
| Minority interest | *21* | 7,845 | 43,134 |
| Revaluation of available-for-sale assets | *10,21* | 122,562 | 162,522 |
| Hedging reserve | *21* | 3,148 | 3,553 |
| Translation reserve | *21* | 14,405 | - |
| Legal reserves | *21* | 113,053 | 78,600 |
| Retained earnings | *21* | 1,633,020 | 697,795 |
| **Total shareholders' equity and minority interest** | | **4,940,404** | **4,031,975** |
| **Total liabilities, shareholders' equity and minority interest** | | **57,092,791** | **41,133,834** |
| **Commitments and contingencies** | *23* | | |

The notes on pages 5 to 71 are an integral part of these consolidated financial statements.

# Türkiye Garanti Bankası AŞ And Its Affiliates

## Consolidated Income Statement
## For The Year Ended 31 December 2006

*(Currency: Thousands of New Turkish Lira (YTL))*

| | Notes | 2006 | 2005 |
|---|---|---|---|
| Interest income:- | | | |
| *Interest on loans* | | 3,217,992 | 2,076,363 |
| *Interest on securities* | | 1,792,006 | 1,432,760 |
| *Interest on deposits at banks* | | 369,943 | 202,253 |
| *Interest on lease business* | | 129,303 | 73,069 |
| *Others* | | 46,212 | 51,354 |
| | | 5,555,456 | 3,835,799 |
| Interest expense:- | | | |
| *Interest on saving, commercial and public deposits* | | (2,301,741) | (1,445,688) |
| *Interest on borrowings and obligations under repurchase agreements* | | (968,821) | (389,510) |
| *Interest on bank deposits* | | (153,349) | (103,114) |
| *Others* | | (62,771) | (53,477) |
| | | (3,486,682) | (1,991,789) |
| **Net interest income** | | **2,068,774** | **1,844,010** |
| Fee and commission income | | 1,471,974 | 1,123,113 |
| Fee and commission expense | | (360,689) | (318,688) |
| **Net fee and commission income** | | **1,111,285** | **804,425** |
| *Premium income from insurance business* | | 242,653 | 162,736 |
| *Income on sale of equity participations and consolidated affiliates* | | 26,268 | 60,708 |
| *Trading income, net* | | 20,626 | 4,506 |
| *Gross profit from retail business* | | - | 258,902 |
| *Foreign exchange gain, net* | | - | 71,714 |
| *Others* | | 52,719 | 60,589 |
| **Other operating income** | | **342,266** | **619,155** |
| **Total operating Income** | | **3,522,325** | **3,267,590** |
| *Salaries and wages* | | (535,402) | (504,544) |
| *Impairment losses* | *7,8,9,11,12,13,20* | (218,548) | (455,985) |
| *Depreciation and amortization* | *12* | (168,238) | (192,140) |
| *Employee benefits* | | (149,594) | (155,332) |
| *Claim loss from insurance business* | | (122,999) | (91,340) |
| *Communication expenses* | | (104,209) | (88,782) |
| *Advertising expenses* | | (83,561) | (92,953) |
| *Foreign exchange loss, net* | | (70,254) | - |
| *EDP expenses* | | (68,444) | (62,124) |
| *Rent expenses* | | (58,490) | (73,523) |
| *Taxes and duties other than on income* | | (55,870) | (50,861) |
| *Saving deposits insurance fund* | | (41,890) | (30,468) |
| *Utility expenses* | | (26,705) | (34,204) |
| *Stationary expenses* | | (16,683) | (16,805) |
| *Repair and maintenance expenses* | | (16,160) | (21,222) |
| *Other operating expenses* | | (351,833) | (396,861) |
| **Total operating expenses** | | **(2,088,880)** | **(2,267,144)** |
| **Income from operations** | | **1,433,445** | **1,000,446** |
| Loss on monetary position, net | | - | (52,871) |
| **Income before tax** | | **1,433,445** | **947,575** |
| Taxation charge | *19* | (283,945) | (249,662) |
| **Net income for the period** | | **1,149,500** | **697,913** |
| **Net income for the period attributable to:** | | | |
| *Equity holders of the Bank* | | 1,148,256 | 695,921 |
| *Minority interest* | | 1,244 | 1,992 |
| | | **1,149,500** | **697,913** |
| **Weighted average number of shares with a face value of YTL 1,000 each** | *21* | **2,100 billion** | **2,100 billion** |
| **Earnings per share (full YTL amount per YTL'000 face value each)** | | **546.8** | **331.4** |

The notes on pages 5 to 71 are integral part of these consolidated financial statements

**Türkiye Garanti Bankası AŞ And Its Affiliates**

## Consolidated Statement of Changes in Shareholders' Equity
## For The Year Ended 31 December 2006

*(Currency: Thousands of New Turkish Lira (YTL))*

| | Notes | Share Capital | Minority Interest | Revaluation of Available-for-Sale Assets | Hedging Reserve | Translation Reserve | Legal Reserves | Retained Earnings | Total Shareholders' Equity and Minority Interest |
|---|---|---|---|---|---|---|---|---|---|
| **Balances at 31 December 2004** | | **2,679,668** | **249,534** | **127,762** | **5,467** | **-** | **54,943** | **392,234** | **3,509,608** |
| Transfer from unappropriated earnings | *21* | 366,703 | - | - | - | - | 25,531 | (392,234) | - |
| Reversal of restatement effects of inflation | | - | (569) | - | - | - | (1,874) | 1,874 | (569) |
| Net market value gains from available-for-sale portfolio | *21* | - | - | 85,758 | - | - | - | - | 85,758 |
| Net gains on available-for-sale assets transferred to the | | - | - | - | - | - | - | - | - |
| income statement on disposal | *21* | - | - | (50,998) | - | - | - | - | (50,998) |
| Release of minority interest due to sale of consolidated affiliates | | - | (207,823) | - | - | - | - | - | (207,823) |
| Net fair value gains from cash flow hedges | *21* | - | - | - | (1,914) | - | - | - | (1,914) |
| Net income for the year | | - | 1,992 | - | - | - | - | 695,921 | 697,913 |
| **Balances at 31 December 2005** | | **3,046,371** | **43,134** | **162,522** | **3,553** | **-** | **78,600** | **697,795** | **4,031,975** |
| Transfer from unappropriated earnings | *21* | - | - | - | - | - | 35,990 | (35,990) | - |
| Dividends paid | | - | - | - | - | - | - | (178,578) | (178,578) |
| Net market value gains from available-for-sale portfolio | *21* | - | - | 2,550 | - | - | - | - | 2,550 |
| Net gains on available-for-sale assets transferred to the | | - | - | - | - | - | - | - | - |
| income statement on disposal | *21* | - | - | (42,510) | - | - | - | - | (42,510) |
| Foreign currency translation differences for foreign operations | | - | - | - | - | 36,923 | - | - | 36,923 |
| Net loss on hedge of net investment in foreign operations | *21* | - | - | - | - | (22,518) | - | - | (22,518) |
| Release of minority interest due to sale of a consolidated affiliate | | - | (36,533) | - | - | - | - | - | (36,533) |
| Release of reserves due to sale of a consolidated affiliate | | - | - | - | - | - | (1,537) | 1,537 | - |
| Net fair value gains from cash flow hedges | *21* | - | - | - | (405) | - | - | - | (405) |
| Net income for the year | | - | 1,244 | - | - | - | - | 1,148,256 | 1,149,500 |
| **Balances at 31 December 2006** | | **3,046,371** | **7,845** | **122,562** | **3,148** | **14,405** | **113,053** | **1,633,020** | **4,940,404** |

The notes on pages 5 to 71 are an integral part of these consolidated financial statements.

# Türkiye Garanti Bankası AŞ And Its Affiliates

## Consolidated Statement of Cash Flows
## For The Year Ended 31 December 2006

*(Currency: Thousands of New Turkish Lira (YTL))*

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **Cash flows from operating activities:-** | | | |
| Interest and commission received | | 4,636,202 | 3,445,944 |
| Interest expense paid | | (3,111,070) | (1,796,693) |
| Other operating activities, net | | (411,032) | (239,502) |
| Cash payments to employees and suppliers | | (812,988) | (794,231) |
| Loss on monetary position, net | | - | (52,871) |
| | | 301,112 | 562,647 |
| ***(Increase)/decrease in operating assets:-*** | | | |
| Loans and advances to banks | | (411,387) | 408,193 |
| Balances with Central Banks | | (805,492) | (614,049) |
| Financial assets at fair value through profit or loss | | (36,458) | (335,193) |
| Loans and advances to customers | | (8,440,244) | (3,988,578) |
| Consumer loans | | (3,104,695) | (2,979,214) |
| Other assets | | (255,900) | (382,503) |
| ***Increase/(decrease) in operating liabilities:-*** | | | |
| Deposits from banks | | 513,811 | (131,963) |
| Deposits from customers | | 7,741,495 | 3,676,582 |
| Obligations under repurchase agreements | | 2,895,874 | 1,374,031 |
| Other liabilities | | 442,414 | 1,291,348 |
| **Net cash used in operating activities before income taxes paid** | | **(1,159,470)** | **(1,118,699)** |
| **Income taxes paid** | | **(198,287)** | **(176,967)** |
| **Net cash used in operating activities** | | **(1,357,757)** | **(1,295,666)** |
| **Cash flows from investing activities:-** | | | |
| Net increase in security investments | | (2,781,731) | (1,162,148) |
| Interest received | | 1,436,053 | 969,315 |
| Decrease in investments in equity participations, net | | 36,852 | 68,677 |
| Dividends received | | 2,787 | 1,179 |
| Decrease in tangible assets and softwares, net | | 140,968 | 716,889 |
| **Net cash (used in)/from investing activities** | | **(1,165,071)** | **593,912** |
| **Cash flows from financing activities:-** | | | |
| Increase in loans and advances from banks, net | | 2,930,747 | 2,442,581 |
| Disposal of minorities due to sale of consolidated affiliates | | (36,533) | (207,823) |
| Increase in bonds payable | | 55,131 | - |
| Dividends paid | | (178,578) | - |
| **Net cash from financing activities** | | **2,770,767** | **2,234,758** |
| **Effect of exchange rate changes** | | **(69,748)** | **71,714** |
| **Net increase in cash and cash equivalents** | | **178,191** | **1,604,718** |
| Cash and cash equivalents at the beginning of the period | *2* | 4,026,025 | 2,421,307 |
| **Cash and cash equivalents at the end of the period** | *2* | **4,204,216** | **4,026,025** |

The notes on pages 5 to 71 are an integral part of these consolidated financial statements.

# Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the year ended 31 December 2006 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

## (a) Brief History

Foundation of the Bank was approved by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 424 domestic branches, five foreign branches, four representative offices abroad and 54 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Moscow. The Bank and its affiliates in total have 13,463 employees. The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 İstanbul.

## (b) Ownership

The Companies owned by Doğuş Holding AŞ, called as Doğuş Group, currently holds 25.87% of the issued capital. On 22 December 2005, Doğuş Holding AŞ has completed the sale of 53,550,000,000 shares representing 25.50% of the Bank's issued share capital to "GE Araştırma ve Müşavirlik Limited Şti." of the General Electric (GE) Group as explained in Note 20. Accordingly, GE acquired a joint control in the Bank's management.

Subsequent to this sale in December 2005, a call was made to the Bank's minority shareholders by GE according to the paragraph 17 of the Article IV no.8 "Principles on Voting by Proxy at General Assembly and Gathering Proxy or Common Stock through Calls for Quoted Companies" of the Turkish Capital Market Board, starting from 27 March 2006 to purchase the shares with a total face value of YTL 1,564,500 at a price of YTL 3.90 per share from the minority shareholders. The call period ended on 10 April 2006 and the minority shareholders responded to this call by selling 6,249.49 shares with a face value of YTL 1 each. Accordingly, the shares owned by GE Araştırma ve Müşavirlik Limited Şti. increased to YTL 535,506 thousands.

In 2004 and 2005, Doğuş Holding AŞ had two separate agreements with a foreign portfolio investor for issuing options to purchase a portion of the shares of the Bank owned by Doğuş Holding AŞ. In accordance with the related Security's Lending Agreements, the investor exercised the entire call option and took over the ownership rights including sale of 24,161,797,524 shares representing 11.50% of the Bank's capital (per 1 New Kuruş) throughout the option period agreed.

## Significant accounting policies

### *(a) Statement of compliance*

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in New Turkish Lira (YTL) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 27 February 2007.

### *(b) Basis of preparation*

The accompanying consolidated financial statements are presented in thousands of YTL, which is the Bank's functional currency.

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

The accounting policies set out below have been applied consistently by the Bank and its affiliates to all periods presented in these consolidated financial statements.

### *(c) Basis of consolidation*

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

## **Significant accounting policies** (continued)

### *Affiliates*

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*Associates*

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

*Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

*Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

## **Significant accounting policies** (continued)

### *(d) Accounting in hyperinflationary economies*

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 "*Financial Reporting in Hyperinflationary Economies*" as of 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Institute of Statistics (TIS). By taking this into consideration together with the sustained positive trend in quantitative factors, such as the stabilization in financial and monetary markets, decrease in interest rates and the appreciation of Turkish Lira against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006. Therefore IAS 29 has not been applied to the accompanying consolidated financial statements as of and for the year ended 31 December 2006.

For the years ended 31 December 2005 and 2004, such indices and conversion factors used to restate the accompanying consolidated financial statements presented for comparative purposes are as follows:

| ***Date*** | ***Index*** | ***Conversion factor*** |
|---|---|---|
| 31 December 2005 | 8,785.74 | 1.000 |
| 31 December 2004 | 8,403.80 | 1.045 |

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

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

## **Significant accounting policies** (continued)

### *(e) Foreign currency*

*Foreign currency transactions*

Transactions are recorded in YTL, which represents its functional currency. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into YTL at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the income statement as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the income statement as realized during the year.

*Financial statements of foreign operations*

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to YTL at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to YTL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

*Hedge of net investment in a foreign operation* see accounting policy *(i)*.

### *(f) Tangible assets and related depreciation*

*Owned assets*

The costs of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (q)).

*Leased assets*

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy (q)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income statement.

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

## **Significant accounting policies** (continued)

*Subsequent Expenditure*

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the income statement as incurred.

*Depreciation*

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method, one of the accelerated depreciation methods.

The estimated useful lives are as follows:

| **Tangible assets** | **Estimated useful lives (years)** | **Depreciation rates (%) for the year 2005 and after** | **Depreciation rates (%) for the years before 2005** |
|---|---|---|---|
| Buildings | 50 | 4 | 2 |
| Furniture, fixture and equipments | 4-20 | 10-50 | 5-25 |
| Leasehold improvements | 5-10 | 10-20 | 5 |

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

### *(g) Goodwill*

Goodwill represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative (negative goodwill), it is recognized immediately in the income statement. Goodwill is assessed annually by using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments, carrying value of net assets, whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the income statement.

## **Significant accounting policies** (continued)

### *(h) Financial instruments*

*Classification*

*Financial instruments at fair value through profit or loss* are those that are principally held for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

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

*Available-for-sale assets* are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

*Recognition*

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the transaction date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized on the date they are originated.

*Measurement*

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

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at amortized cost.

## **Significant accounting policies** (continued)

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

*Fair value measurement principles*

The fair values of financial instruments are based on their quoted market prices at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

*Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair values of financial instruments at fair value are recognized in the income statement. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity.

*Specific instruments*

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

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

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

## **Significant accounting policies** (continued)

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

*Bonds payable:* Bonds issued by the Bank and its affiliates are classified as non-trading liabilities.

*Derecognition*

A financial asset is derecognised when the control over the contractual rights that comprise that asset, is lost. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the day they are transferred by the Bank and its affiliates.

### ***(i) Derivatives held for risk management purposes***

Derivatives held for risk management purposes are measured at fair value in the balance sheet. The treatment for the changes in their fair value depends on their classification into the following categories:

*Cash flow hedge*

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the result of income statement, the effective portion of changes in the fair value of the derivative are recognised directly in the shareholders' equity. The amount recognised in the shareholders' equity is removed and included in the income statement in the same period as the hedged cash flows affect the income statement under the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the income statement.

## **Significant accounting policies** (continued)

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in the shareholders' equity remains there until the forecast transaction affects the income statement. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the shareholders' equity is recognized immediately in the income statement.

*Net investment hedge*

When a derivative or a non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the income statement. The amount recognized in the shareholders' equity is removed and included in the income statement on disposal of the foreign operation.

*Embedded derivatives*

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the balance sheet together with the host contract.

### ***(j) Securities borrowing and lending business***

Investments lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

## **Significant accounting policies** (continued)

### *(k) Repurchase and resale agreements over investments*

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

### *(l) Items held in trust*

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not under the ownership of the Bank.

### *(m) Employee benefits*

The Bank has a defined benefit plan for its employees as described below:

*Pension and other post-retirement obligations*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension plan benefits to all qualified Bank employees. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to the fixed contributions.

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

## **Significant accounting policies** (continued)

As per the temporary Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to the Social Security Foundation (SSF) within a period of three years. However, on 2 November 2005 the President has applied to the Constitution Court for the annulment of certain statements of this Article. As per this new Law, a commission established by the representatives from various organizations will calculate the commitment for each fund based on the actuarial calculations made taking into account the revenues and expenses of the funds. The commitment to be calculated will be paid maximum in 15 years in equal instalments. Subsequently, the commission established under the coordination of the Ministry of Labour and Social Security completed working on the methodology and parameters to be used for the calculation of such commitments and the related Decree was approved by the Board of Ministries on 30 November 2006 and published in the Official Gazette no. 26377 dated 15 December 2006.

As per the actuarial calculation made on the technical financial statements of the Fund as of 31 December 2006 in compliance with the Decree published on 15 December 2006, there is no technical or actual deficit that required to be provided against. Furthermore, the Bank management believes that the Fund is capable of meeting its liabilities to be calculated by the commission mentioned above during the transfer of the Fund without any burden to the Bank.

### *Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are YTL 1,857.44 and YTL 1,727.15 at 31 December 2006 and 2005, respectively.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2006 and 2005 are as follows:

| | **2006** | **2005** |
|---|---|---|
| | *%* | *%* |
| Discount rate | 5.7 | 5.5 |
| Expected rate of salary/limit increase | 5.0 | 6.2 |
| Turnover rate to estimate the probability of retirement | 5.3 | 5.0 |

The above rate for salary/limit increase was determined based on the government's future targets for annual inflation.

## **Significant accounting policies** (continued)

### *(n) Taxes on income*

Taxes on income for the period comprise current tax and deferred taxes. Current taxes on income comprises tax payable calculated on the basis of expected taxable income for the period using the tax rates enacted by the balance sheet date and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Permanent differences relating to goodwill and initial recognition of assets and liabilities which affect neither accounting nor taxable profit are not deductable for tax purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority.

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

### *(o) Offsetting*

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

### *(p) Earnings per share*

Earnings per share disclosed in the accompanying consolidated income statement are determined by dividing the net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

## **Significant accounting policies** (continued)

Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

### *(q) Impairment*

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

*Loans and receivables and held-to-maturity instruments*

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

*Financial assets remeasured to fair value*

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

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

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

## **Significant accounting policies** (continued)

### *(r) Income and expense recognition*

*Interest income and expense*

Except for the interest income on overdue loans, interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income on overdue loans that are under legal follow up is recognized on a cash basis. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

*Fee and commission*

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

*Net trading income*

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

*Dividend income*

Dividend income is recognized in the income statement when received.

*Insurance business*

*Earned premiums:* In respect of non-life branches, under the annual basis of accounting, written premiums comprise the premiums due on contracts, net of taxes and cancellations, entered into during a financial year. These premiums are adjusted by the reserve for unearned premiums. In respect of life branches, earned premiums represent premium accrued on policies issued and adjusted by the reserve for unearned policies during the year.

*Unearned premium reserve:* Reserve for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums arise from premiums written during the year, less reinsurance.

## **Significant accounting policies** (continued)

*Life assurance provision:* In aggregate, life assurance provision must be sufficient to provide for future guaranteed benefits as they become due in accordance with the Turkish insurance regulations. The life assurance provision is based on the level of premiums, as adjusted for commissions, and administrative expenses and risk premiums that are computed on the basis of worldwide actuarial mortality assumptions as approved by the Insurance Supervisory Office which are applicable for Turkish insurance companies. Life assurance provision also includes the net rate of return on investments.

*Claims and provision for claims:* Claims incurred include all claims (including claim estimates) and claims settlement payments made in respect of the financial period and the movement in provision for outstanding claims and settlement expenses. Provisions for outstanding claims and settlement expenses include claims incurred but not reported (IBNR), net of salvage and subrogation recoveries. Along with the provisions for IBNR claims; the Bank's affiliates in insurance business also make provisions for general business risks (equalization provision) at different rates determined separately for each insurance branch by the related legislation applicable to insurance business in Turkey.

*Retail business*

Revenues are recognized at the time the shipment or deliveries of related goods are made to customers. Revenues, net of costs of goods sold are reflected as "gross profit from retail business" in the accompanying consolidated income statement.

### *(s) Non-current assets held for sale*

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### *(t) Segment reporting*

A segment is a distinguishable component of the Bank and its affiliates that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## **Significant accounting policies** (continued)

### *(u) New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statement:

- IFRIC 8 *Scope of IFRS 2 Share-Based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Bank and its affiliates' 2007 financial statements, with retrospective application required. The Bank and its affiliates has not yet determined the potential effect of the interpretation.

- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's and its affiliates' 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Bank and its affiliates' 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank and its affiliates first applied the measurement criteria of IAS 36 and IAS 39 respectively.

- On 18 August 2005 the International Accounting Standards Board issued IFRS 7 "*Financial Instruments: Disclosures*". The standard supersedes IAS 30 "*Disclosures in the Financial Statements of Banks and Similar Financial Institutions*" and the disclosure requirements of IAS 32 "*Financial Instruments: Disclosure and Presentation*"; the presentation requirements of IAS 32 remain unchanged and many of the disclosure requirements of IAS 32 have been transferred to IFRS 7. IFRS 7 is effective for annual periods beginning on or after 1 January with earlier application encouraged. The Bank preferred not to early adopt IFRS 7 before its effective date of 1 January 2007.

## Index for the notes to the consolidated financial statements:

*Note description*

# 1 Segment reporting

Segment information is presented in respect of the Bank and its affiliates' geographical and business segments. The primary format, business segments, is based on the Bank and its affiliates.

Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

## *1.1 Geographical segments*

The Bank and its affiliates operate principally in Turkey, but also have operations in Netherlands, Russia, Ireland, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. As the operation results outside of Turkey are quite negligible in the consolidated results, geographical segment information is not presented.

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

# 1 **Segment reporting** (continued)

## *1.2 Business segments*

The main business segments are banking, leasing, insurance, factoring, other financial and non-financial sectors. Banking segment information is detailed further to retail banking and commercial, corporate and small and medium size enterprises (SME) banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis are as follows:

| *31 December 2006* | *Retail Banking* | *Commercial, Corporate & SME Banking* | *Other Operations* | *Eliminations* | *Total Banking* | *Leasing* | *Insurance* | *Factoring* | *Other Financial* | *Other Non-Financial* | *Combined* | *Eliminations* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating income | 1,471,029 | 1,099,122 | 637,973 | - | 3,208,124 | 75,507 | 259,847 | 21,057 | 40,330 | 25,945 | 3,630,810 | (108,485) | 3,522,325 |
| Operating expenses | (606,644) | (387,495) | (831,208) | - | (1,825,347) | (36,071) | (206,859) | (15,219) | (35,505) | (26,680) | (2,145,681) | 56,801 | (2,088,880) |
| **Income/(loss) from operations** | **864,385** | **711,627** | **(193,235)** | **-** | **1,382,777** | **39,436** | **52,988** | **5,838** | **4,825** | **(735)** | **1,485,129** | **(51,684)** | **1,433,445** |
| Taxation charge | - | - | (273,016) | - | (273,016) | 80 | (8,981) | (1,304) | (661) | (63) | (283,945) | - | (283,945) |
| **Net income for the year** | **864,385** | **711,627** | **(466,251)** | **-** | **1,109,761** | **39,516** | **44,007** | **4,534** | **4,164** | **(798)** | **1,201,184** | **(51,684)** | **1,149,500** |
| Segment assets | 10,426,782 | 19,133,900 | 24,114,995 | (72,009) | 53,603,668 | 1,351,525 | 682,431 | 718,988 | 37,194 | 9,979 | 56,403,785 | (513,884) | 55,889,901 |
| Investments in equity participations | - | - | 362,711 | - | 362,711 | - | 365 | 9,635 | 5,453 | 1,120 | 379,284 | (359,789) | 19,495 |
| Unallocated assets | - | - | 1,100,109 | - | 1,100,109 | 17,494 | 20,531 | 2,820 | 3,770 | 939 | 1,145,663 | 37,732 | 1,183,395 |
| **Total assets** | **10,426,782** | **19,133,900** | **25,577,815** | **(72,009)** | **55,066,488** | **1,369,019** | **703,327** | **731,443** | **46,417** | **12,038** | **57,928,732** | **(835,941)** | **57,092,791** |
| Segment liabilities | 17,580,830 | 12,786,322 | 19,881,423 | (72,009) | 50,176,566 | 1,212,552 | 564,868 | 697,398 | 2,439 | 4,964 | 52,658,787 | (506,400) | 52,152,387 |
| Shareholders' equity and minority interest | - | - | 4,889,922 | - | 4,889,922 | 156,467 | 138,459 | 34,045 | 43,978 | 7,074 | 5,269,945 | (329,541) | 4,940,404 |
| **Total liabilities, shareholders' equity and minority interest** | **17,580,830** | **12,786,322** | **24,771,345** | **(72,009)** | **55,066,488** | **1,369,019** | **703,327** | **731,443** | **46,417** | **12,038** | **57,928,732** | **(835,941)** | **57,092,791** |

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

# 1 Segment reporting (continued)

| *31 December 2005* | *Retail Banking* | *Commercial, Corporate & SME Banking* | *Other Operations* | *Eliminations* | *Total Banking* | *Leasing* | *Insurance* | *Factoring* | *Other Financial* | *Retail* | *Other Non-Financial* | *Combined* | *Eliminations* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating income | 1,345,389 | 744,465 | 644,592 | - | 2,734,446 | 51,856 | 172,643 | 8,627 | 39,707 | 246,001 | 30,265 | 3,283,545 | (15,955) | 3,267,590 |
| Operating expenses | (503,755) | (329,224) | (978,369) | - | (1,811,348) | (25,441) | (159,134) | (3,553) | (30,689) | (227,078) | (41,244) | (2,298,487) | 31,343 | (2,267,144) |
| **Income/(loss) from operations** | **841,634** | **415,241** | **(333,777)** | **-** | **923,098** | **26,415** | **13,509** | **5,074** | **9,018** | **18,923** | **(10,979)** | **985,058** | **15,388** | **1,000,446** |
| Gain/(loss) on monetary position, net | - | - | (44,200) | - | (44,200) | (1,679) | (2,071) | 66 | (2,284) | 6,790 | (4,757) | (48,135) | (4,736) | (52,871) |
| Taxation charge | - | - | (221,649) | - | (221,649) | (164) | (9,154) | (1,614) | (1,937) | (15,144) | - | (249,662) | - | (249,662) |
| **Net income for the year** | **841,634** | **415,241** | **(599,626)** | **-** | **657,249** | **24,572** | **2,284** | **3,526** | **4,797** | **10,569** | **(15,736)** | **687,261** | **10,652** | **697,913** |
| | | | | | | | | | | | | | | |
| Segment assets | 7,368,363 | 13,630,216 | 17,463,697 | (309,931) | 38,152,345 | 944,433 | 386,577 | 350,052 | 93,189 | - | 8,288 | 39,934,884 | (192,137) | 39,742,747 |
| Investments in equity participations | - | - | 446,965 | - | 446,965 | - | 370 | 9,635 | 7,202 | - | 1,140 | 465,312 | (409,950) | 55,362 |
| Unallocated assets | - | - | 1,215,858 | - | 1,215,858 | 18,910 | 23,888 | 1,949 | 79,511 | - | 927 | 1,341,043 | (5,318) | 1,335,725 |
| **Total assets** | **7,368,363** | **13,630,216** | **19,126,520** | **(309,931)** | **39,815,168** | **963,343** | **410,835** | **361,636** | **179,902** | **-** | **10,355** | **41,741,239** | **(607,405)** | **41,133,834** |
| | | | | | | | | | | | | | | |
| Segment liabilities | 14,471,980 | 12,677,680 | 8,933,717 | (309,931) | 35,773,446 | 846,392 | 331,071 | 332,124 | 52,900 | - | 2,483 | 37,338,416 | (236,557) | 37,101,859 |
| Shareholders' equity and minority interest | - | - | 4,041,722 | - | 4,041,722 | 116,951 | 79,764 | 29,512 | 127,002 | - | 7,872 | 4,402,823 | (370,848) | 4,031,975 |
| **Total liabilities, shareholders' equity and minority interest** | **14,471,980** | **12,677,680** | **12,975,439** | **(309,931)** | **39,815,168** | **963,343** | **410,835** | **361,636** | **179,902** | **-** | **10,355** | **41,741,239** | **(607,405)** | **41,133,834** |

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

## 2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as at 31 December 2006 and 2005, included in the accompanying consolidated statements of cash flows are as follows:

| | 2006 | 2005 |
|---|---|---|
| Cash at branches | 335,284 | 203,755 |
| Loans and advances to banks with original maturity periods of less than three months | 3,868,932 | 3,822,270 |
| | 4,204,216 | 4,026,025 |

## 3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğuş Holding AŞ and GE and all their subsidiaries, and their ultimate owners, directors and executive officers are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank has the following balances outstanding from and transactions with related parties:

### 3.1 *Outstanding balances*

| | 2006 | 2005 |
|---|---|---|
| *Balance sheet* | | |
| Loans and advances to customers | 82,620 | 154,475 |
| *Loans granted in YTL* | *49,929* | *5,445* |
| *Loans granted in foreign currencies:* | *US$ 22,369,176* | *US$ 110,762,303* |
| | *EUR 808,490* | *EUR 809,589* |
| Miscellaneous receivables | 223,823 | 222,555 |
| Deposits received | 645,328 | 1,547,268 |
| *Commitments and contingencies* | | |
| Non-cash loans | 51,302 | 306,862 |

### 3.2 *Transactions*

| | 2006 | 2005 |
|---|---|---|
| Interest income | 4,246 | 14,425 |
| Interest expense | 75,646 | 6,846 |

In 2006, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 4.0%-10.4% and 1.5%-7.4% (2005: 2.8%-9.7% and 1.5%-5.5%), respectively. The interest rates applied to YTL receivables from and payables to related parties vary within the ranges of 7%-21% and 10%-22% (2005: 9.75%-19%). Various commission rates are applied to transactions involving guarantees and commitments.

# 3 Related party disclosures (continued)

No impairment losses have been recorded against balances outstanding during the period with related parties and no specific allowance has been made for impairment losses on balances with the related parties at the year-end.

Key management personnel compensation for the year ended 31 December 2006 amounted YTL 49,981 thousands (2005: YTL 61,866 thousands including its retail affiliate) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted YTL 24,911 thousands (2005: YTL 31,880 thousands), of its financial affiliates amounted YTL 25,070 thousands (2005: YTL 26,872 thousands).

In 2005, the equity participation in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, a non-financial associate was sold to E Haber Ajansı Reklam ve Ticaret AŞ, a related party in two transactions at a total price of YTL 3,470 thousands.

Doğuş Holding AŞ, signed an agreement ("the Agreement") with General Electric (GE) on 24 August 2005 for the sale of 53.550.000.000 shares representing 25.5% of the Bank's issued share capital. According to the terms of the Agreement, certain affiliates, associates and real estates decided to be taken over by Doğuş Holding AŞ at a total price of YTL 958 millions calculated based on the consolidated financial statements as of 31 March 2005 of which 50% was paid at the closing date and the remaining to be paid in two equal instalments at the first and second anniversaries. Accordingly, the shares of Voyager Mediterranean Turizm End. ve Tic. AŞ, Sititur Turizm Taşımacılık Org. AŞ, Lasaş Lastik San. ve Tic. AŞ, Doğuş Hava Taşımacılığı AŞ and, Şahintur Şahinler Otelcilik Turizm Yatırım İşletmeleri AŞ as its consolidated affiliate and Doğuş Turizm Sağlık Yat. İşlt. Tic. AŞ. having a total book value of YTL 508,432 thousands were sold to Doğuş Holding AŞ at a total sale price of YTL 503,490 thousands in December 2005. Subsequent to the year end 2005, the assets that are categorized as the second group representing certain equity participations, namely Garanti Turizm Yatırım ve İşletmeleri AŞ and Doc Finance SA with a total book value of YTL 31,556 thousands and certain real estates either in use or held for sale having a total book value of YTL 242,261 thousands were altogether sold to Doğuş Holding AŞ on 17 April 2006. YTL 100,000 thousands of the total sale price amounting YTL 273,397 thousands was collected on the date of sale and the remaining are to be collected in two equal instalments, each amounting YTL 86,698.5 thousands, on 22 December 2006 and 24 December 2007. In December 2006, the first installments of the first and second group asset sales were fully collected by the Bank. As of 31 December 2006, the Bank's net receivable from Doğuş Holding AŞ on these sales amounted YTL 198,329 thousands (2005: YTL 220,857 thousands), which is reflected in "miscellaneous receivables" (Note 9), in the accompanying consolidated financial statements.

The Bank sold a real estate, a building in Maslak, acquired against its impaired assets to Doğuş Holding AŞ on 15 August 2006. US$ 20 millions of the sale price of US$ 32 millions was collected on the date of sale. The remaining US$ 12 millions will be collected on 31 December 2008. Accordingly, a gain of YTL 2,634 thousands on this sale is recorded in the accompanying consolidated income statement.

The Bank's two consolidated financial affiliates, having in total 76% ownership in Cappadocia Investments Ltd. with a share capital of GBP 4,700,000 sold their shares in this company before the end of November 2006 with a total book value of YTL 5,298 thousands to a related party. Accordingly, a total loss of YTL 670 thousands is recognized in the accompanying consolidated financial statements on this sale.

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

## 3 Related party disclosures (continued)

As further explained in Note 26, early in December 2006, the Bank sold its 50.98% participation in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, a consolidated affiliate, to certain related parties.

## 4 Cash and balances with Central Banks

| | 2006 | 2005 |
|---|---|---|
| Cash at branches | 335,284 | 203,755 |
| Balances with Central Banks excluding reserve deposits | 2,120,881 | 2,019,676 |
| | 2,456,165 | 2,223,431 |

## 5 Financial assets at fair value through profit or loss

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Face value | Carrying value | Interest rate range % | Latest maturity | Carrying value |
| *Debt and other instruments held at fair value:* | | | | | |
| Bonds issued by foreign institutions | 124,544 | 129,789 | 7-9 | 2009 | - |
| Eurobonds | 56,207 | 65,488 | 5-12 | 2036 | 155,996 |
| Government bonds in foreign currency | 61,695 | 63,123 | 5-8 | 2010 | 60,734 |
| Bonds issued by corporations | 48,270 | 50,513 | 8-21 | 2011 | 107,193 |
| Discounted government bonds in YTL | 59,831 | 46,357 | 18-21 | 2008 | 59,939 |
| Government bonds in YTL | 44,830 | 39,709 | 15-22 | 2011 | 40,878 |
| Gold | - | 16,601 | - | - | 13,995 |
| Government bonds at floating rates | 231 | 258 | 17-25 | 2011 | 32,405 |
| Bonds issued by foreign governments | | - | | | 37,535 |
| Others | | 8,642 | | | 9,766 |
| | | 420,480 | | | 518,441 |
| *Equity and other non-fixed income instruments:* | | | | | |
| Forfeiting receivables | | 598,928 | | | 463,870 |
| Listed shares | | 13 | | | 5 |
| Total financial assets at fair value through profit or loss | | 1,019,421 | | | 982,316 |

Income from debt and other instruments held at fair value is reflected in the consolidated income statement as interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges are reflected as a separate component of equity.

For the year ended 31 December 2006, net income from trading of financial assets amounting to YTL 20,626 thousands (2005: YTL 4,506 thousands) in total is included in "trading income, net".

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

## 5 Financial assets at fair value through profit or loss (continued)

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 133,500 thousands (2005: YTL 107,433 thousands).

As at 31 December 2006, financial assets at fair value through profit or loss amounting of YTL 8,017 thousands are blocked against insurance business related transactions.

## 6 Loans and advances to banks

| | *2006* | | | *2005* | | |
|---|---|---|---|---|---|---|
| | *YTL* | *Foreign Currency* | *Total* | *YTL* | *Foreign Currency* | *Total* |
| *Loans and advances-demand* | | | | | | |
| Domestic banks | 4,972 | 1,856 | 6,828 | 905 | 21,305 | 22,210 |
| Foreign banks | 19,391 | 130,339 | 149,730 | 11,117 | 126,406 | 137,523 |
| | 24,363 | 132,195 | 156,558 | 12,022 | 147,711 | 159,733 |
| *Loans and advances-time* | | | | | | |
| Domestic banks | 131,825 | 818,544 | 950,369 | 422,572 | 909,834 | 1,332,406 |
| Foreign banks | 96,910 | 1,320,241 | 1,417,151 | 75,301 | 599,788 | 675,089 |
| | 228,735 | 2,138,785 | 2,367,520 | 497,873 | 1,509,622 | 2,007,495 |
| Accrued interest on loans and advances | 3,252 | 5,168 | 8,420 | 6,649 | 3,140 | 9,789 |
| Total loans and advances to banks | 256,350 | 2,276,148 | 2,532,498 | 516,544 | 1,660,473 | 2,177,017 |
| Less: allowance for uncollectibility | - | - | - | - | - | - |
| Net loans and advances to banks | 256,350 | 2,276,148 | 2,532,498 | 516,544 | 1,660,473 | 2,177,017 |

As at 31 December 2006, loans and advances-time are almost all short-term, maturing within one year, with interest rates ranging between 3%-9% per annum for foreign currency time deposits and 16%-22% per annum for YTL time deposits (2005: 1%-9% and 15%-24%, respectively).

As at 31 December 2006, loans and advances-demand at foreign banks include blocked accounts of YTL 255,541 thousands (2005: YTL 106,353 thousands) held against the "Diversified Payment Rights" securitizations, the legal legislations for the branches operating in foreign countries and the insurance business.

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

# 7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

| | 2006 | 2005 |
|---|---|---|
| Consumer loans | 10,183,767 | 7,079,072 |
| Service sector | 2,394,690 | 1,284,516 |
| Financial institutions | 1,604,898 | 1,300,283 |
| Food | 1,459,621 | 792,135 |
| Energy | 1,456,498 | 618,923 |
| Textile | 1,285,261 | 931,661 |
| Transportation and logistics | 1,240,510 | 827,691 |
| Transportation vehicles and sub-industry | 1,123,609 | 451,432 |
| Construction | 1,102,000 | 769,243 |
| Metal and metal products | 1,058,125 | 698,580 |
| Data processing | 758,775 | 441,620 |
| Tourism | 747,431 | 374,290 |
| Durable consumption | 496,298 | 227,504 |
| Agriculture and stockbreeding | 485,835 | 384,373 |
| Chemistry and chemical product | 399,382 | 209,727 |
| Machinery and equipments | 379,768 | 204,226 |
| Electronic, optical and medical equipment | 359,050 | 226,477 |
| Stone, rock and related products | 231,364 | 139,049 |
| Paper and paper products | 225,405 | 112,977 |
| Mining | 216,172 | 93,855 |
| Plastic products | 166,803 | 84,575 |
| Others | 1,033,685 | 423,404 |
| Total performing loans | 28,408,947 | 17,675,613 |
| Non-performing loans and lease receivables | 657,722 | 729,460 |
| Total gross loans | 29,066,669 | 18,405,073 |
| Financial lease receivables, net of unearned income (Note 8) | 1,269,727 | 782,247 |
| Factoring receivables | 581,161 | 268,313 |
| Forfaiting receivables | - | 20,673 |
| Accrued interest income on loans and lease receivables | 481,219 | 234,355 |
| Allowance for possible losses from loans and lease receivables | (595,024) | (569,141) |
| Loans and advances to customers | 30,803,752 | 19,141,520 |

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

## 7 Loans and advances to customers (continued)

As at 31 December 2006, it was decided to reclassify the unearned income on project finance loans from "other liabilities and accrued expenses" to "loans and advances to customers" line on the balance sheet. Accordingly, to be consistent with this application comparative information in the prior year financial statements amounting to YTL 65,712 thousands included in "other liabilities and accrued expenses" has been reclassified as "loans and advances to customers" as of 31 December 2005 as also discussed in Note 20.

As at 31 December 2006, interest rates on loans granted to customers range between 3%-14% (2005: 2%-16%) per annum for the foreign currency loans and 14%-31% (2005: 7%-26%) per annum for the YTL loans.

The provision for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is YTL 85,178 thousands (2005: YTL 76,573 thousands).

Movements in the allowance for possible losses on loans and lease receivables are as follows:

| | ***2006*** | ***2005*** |
|---|---:|---:|
| Balance at the beginning of the year | 569,141 | 322,988 |
| The effect of inflation on the beginning balance and current year movements | - | (2,151) |
| Write-offs | (109,429) | (69,752) |
| Recoveries and reversals | (85,988) | (18,851) |
| Provision for the year *(*)* | 221,300 | 336,907 |
| Balance at the end of the year | 595,024 | 569,141 |

*(*) The loans previously classified as non-performing loans and receivables as of and for the year ended 31 December 2006 amounting YTL 95,365 thousands are either restructured or rescheduled during the period and classified as performing loans. Allowance for possible loan losses in the same amount are reversed from provision for the period.*

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

## 8 Financial lease receivables

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

The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

| | 2006 | 2005 |
|---|---|---|
| Financial lease receivables, net of unearned income (Note 7) | 1,269,727 | 782,247 |
| Add: non-performing lease receivables | 13,488 | 6,552 |
| Less: allowance for possible losses on lease receivables | (8,895) | (6,552) |
| | 1,274,320 | 782,247 |
| Accrued interest on lease receivables | 12,548 | 4,905 |
| *Analysis of net financial lease receivables* | | |
| Due within 1 year | 700,208 | 491,398 |
| Due between 1 and 5 years | 778,478 | 400,619 |
| Financial lease receivables, gross | 1,478,686 | 892,017 |
| Unearned income | (204,366) | (109,770) |
| Financial lease receivables, net | 1,274,320 | 782,247 |
| *Analysis of net financial lease receivables, net* | | |
| Due within 1 year | 589,234 | 424,464 |
| Due between 1 and 5 years | 685,086 | 357,783 |
| Financial lease receivables, net | 1,274,320 | 782,247 |

## 9 Other assets

| | 2006 | 2005 |
|---|---|---|
| Reserve deposits at the Central Bank of Turkey | 2,924,704 | 2,119,213 |
| Insurance premium receivables | 412,843 | 203,782 |
| Miscellaneous receivables (Note 3) | 356,575 | 340,202 |
| Prepaid expenses, insurance claims and similar items | 140,172 | 89,351 |
| Tangible assets held for sale | 115,196 | 426,889 |
| Accrued exchange gain on derivatives | 59,921 | 17,536 |
| Clearing house | 33,508 | - |
| Prepaid taxes and taxes and funds to be refunded | 16,000 | 15,803 |
| Advances given | - | 28,134 |
| Others | 51,555 | 68,509 |
| | 4,110,474 | 3,309,419 |

At 31 December 2006, reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for YTL and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. Interest rates applied for reserve requirements are 13.1% (2005: 10.25%) for YTL deposits and 1.7%-2.5% (2005: 1.1%-2.0%) for foreign currency deposits.

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

## 9 Other assets (continued)

YTL 99,443 thousands (2005: YTL 178,475 thousands) of the tangible assets held for sale is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real estates held for sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

The Bank sold a significant part of its tangible assets held for sale to Doğuş Holding AŞ on 17 April 2006 as explained in detail in Note 3.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 31 December 2006, real estates held for sale costing YTL 123,085 thousands (2005: YTL 457,421 thousands) have been impaired by YTL 8,100 thousands (2005: YTL 159,071 thousands).

As at 31 December 2006, it was decided to reclassify the prepaid expenses on securitisation fundings from “other assets” to “loans and advances from banks” line on the balance sheet. Accordingly, to be consistent with the application, comparative information in the prior year financial statements amounting to YTL 15,534 thousands included in “other assets” has been reclassified as “loans and advances from banks” as of 31 December 2005 as also discussed in Note 17.

As at 31 December 2006, it was decided to gross up the accrued exchange gain on derivatives both in “other assets” and “other liabilities and accrued expenses” line on balance sheet. Accordingly, to be consistent with the application, comparative information in the prior year financial statements have been reclassified to reflect the grossed up amount of YTL 17,536 thousands as discussed in Note 20.

## 10 Security investments

| | *2006* | | | | *2005* |
|---|---|---|---|---|---|
| | *Face value* | *Carrying value* | *Interest rate range %* | *Latest maturity* | *Carrying value* |
| *Debt and other instruments available-for-sale:* | | | | | |
| Government bonds at floating rates | 3,421,200 | 3,797,572 | 17-25 | 2011 | 4,464,658 |
| Discounted government bonds in YTL | 2,099,968 | 1,725,401 | 18-21 | 2008 | 1,466,601 |
| Government bonds in foreign currency | 1,544,724 | 1,587,007 | 5-8 | 2010 | 1,595,198 |
| Eurobonds | 1,276,513 | 1,417,448 | 5-12 | 2036 | 686,100 |
| Bonds issued by corporations ***(a)*** | 1,038,911 | 1,072,209 | 6-11 | 2016 | 420,665 |
| Government bonds in YTL | 57,166 | 54,067 | 15-21 | 2011 | 38,431 |
| Bonds issued by foreign governments | 31,951 | 50,465 | 6-13 | 2028 | 144,364 |
| Bonds issued by financial institutions | 45,001 | 46,221 | 8-12 | 2011 | - |
| Others ***(b)*** | | 44,576 | | | 28,390 |
| Total securities available-for-sale | | 9,794,966 | | | 8,844,407 |

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

## 10 Security investments (continued)

| | | | | | |
|---|---|---|---|---|---|
| Total securities available-for-sale | | 9,794,966 | | | 8,844,407 |
| *Debt and other instruments held-to-maturity:* | | | | | |
| Government bonds at floating rates | 2,646,074 | 2,782,304 | *(c)* | 2011 | 32,926 |
| Eurobonds | 857,991 | 941,289 | 8-13 | 2030 | 1,145,900 |
| Government bonds in YTL | 573,045 | 567,896 | 14-20 | 2011 | 114,609 |
| Discounted government bonds in YTL | 491,413 | 412,148 | 20 | 2007 | 28,397 |
| Bonds issued by foreign governments | 139,512 | 140,978 | 3-6 | 2008 | 136,916 |
| Bonds issued by corporations | 20,294 | 22,263 | 8-10 | 2014 | 85,478 |
| Government bonds indexed to foreign currency | | - | | | 1,417,716 |
| Other | | 46,143 | | | 25,733 |
| | | 4,913,021 | | | 2,987,675 |
| Accrued interest on held-to-maturity portfolio | | 259,604 | | | 76,962 |
| Total securities held-to-maturity | | 5,172,625 | | | 3,064,637 |
| Total security investments | | 14,967,591 | | | 11,909,044 |

*(a) Bonds issued by corporations include credit linked notes with face value amounting to YTL 871,875 thousands (2005: YTL 266,800 thousands) and carrying value amounting to YTL 897,013 thousands (2005: YTL 273,406 thousands) that are linked to the default risk of the Turkish Government. All bonds issued by corporations are valued at amortized cost since these financial assets are not quoted in an active market.*

*(b) In 2006, the Bank recorded 424,159 shares of MasterCard Incorporated at a total nominal value of US$ 42.42 acquired free of charge for its credit card marketing activities on MasterCard. As of 27 July 2006, the Bank sold 250,254 shares of MasterCard Incorporated at a total nominal value of US$ 25.03 amounting to US$ 7,698,964.21. As of 31 December 2006, the Bank recorded 173,905 shares of MasterCard Incorporated at a nominal value of US$ 17.39 and one share of Visa Europe Limited at a nominal value of EUR 10 acquired free of charge for its credit card marketing activities, in its investment securities available-for-sale portfolio.*

*(c) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

Interest income from debt and other fixed- or floating-income instruments is reflected in interest on securities. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity.

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 6,066,007 thousands (2005: YTL 2,587,269 thousands).

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

## 10 Security investments (continued)

The Bank reclassified certain security investments, previously classified in its securities available-for-sale portfolio, amounting YTL 2,993,773 thousands with total face value of YTL 2,936,112 thousands to its securities held-to-maturity portfolio. Such securities are included in the securities held-to-maturity portfolio above at their fair values of YTL 3,108,957 thousands as of their reclassification dates. The value increases of such securities amounting YTL 23,083 thousands are recorded under the shareholders' equity and amortized through the income statement up to their maturities as earned.

The following table summarizes securities that were deposited as collaterals with respect to various banking transactions:

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *Face Value* | *Carrying value* | *Face Value* | *Carrying value* |
| Deposited at Istanbul Stock Exchange | 3,537,350 | 3,397,441 | 1,260,773 | 1,404,110 |
| Collateralized to foreign banks | 2,429,763 | 2,653,676 | 1,188,743 | 1,235,272 |
| Deposited at Clearing Bank (Takasbank) | 599,145 | 653,885 | 383,000 | 435,510 |
| Deposited at CBT for interbank transactions | 594,050 | 610,800 | 353,510 | 362,072 |
| Deposited at CBT for repurchase transactions | 218,214 | 201,110 | 55,081 | 56,968 |
| Deposited at CBT for foreign currency money market transactions | 13,950 | 19,214 | 223,420 | 236,573 |
| Others | | 45,452 | | 67,546 |
| | | 7,581,578 | | 3,798,051 |

## 11 Investments in equity participations

| | *2006* | | *2005* | |
|---|---|---|---|---|
| | *Carrying Value* | *Ownership %* | *Carrying Value* | *Ownership %* |
| *Investments in associated companies* | | | | |
| İMKB Takasbank AŞ | 11,915 | 5.83 | 11,915 | 5.83 |
| Cappadocia Investments Ltd | - | | 5,663 | 76.00 |
| Others | 7,580 | | 6,105 | |
| | 19,495 | | 23,683 | |
| *Equity participations available-for-sale* | | | | |
| Garanti Turizm ve Yatırım İşletmeleri AŞ | - | | 27,056 | 44.89 |
| Doc Finance SA | - | | 4,623 | 29.00 |
| | - | | 31,679 | |
| | 19,495 | | 55,362 | |

The Bank's two consolidated financial affiliates, having in total 76% ownership in Cappadocia Investments Ltd. with a share capital of GBP 4,700,000, sold their shares in this company before the end of November 2006 with a total book value of YTL 5,298 thousands to a related party. Accordingly a total loss of YTL 670 thousands is recognized in the accompanying consolidated financial statemets on this sale.

## 11 Investments in equity participations (continued)

As discussed in more detail in Note 3, in accordance with the Agreement signed between Doğuş Holding AŞ and GE on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank's issued share capital, certain equity participations that are categorized in the second group of the agreement, namely Garanti Turizm Yatırım ve İşletmeleri AŞ and Doc Finance SA with a total book value of YTL 31,556 thousands were also sold to Doğuş Holding AŞ on 17 April 2006.

On 1 March 2006, the Bank participated in Gelişen İşletmeler Piyasaları AŞ by 5% for YTL 500 thousands of which YTL 250 thousands was paid.

On 23 March 2005, the Bank signed a Term Sale Agreement to sell its shares in Petrotrans Nakliyat Ticaret AŞ, classified in equity participations available-for-sale with a net book value of YTL 9,782 thousands as at 31 March 2005, at a total selling price of US$ 10 millions of which US$ 9 millions to be collected according to the payment periods agreed. In accordance with this Agreement, the transfer of the shares took place as of 30 June 2005 after the collection of the instalments.

The Bank sold its shares in Türkiye Sınai Kalkınma Bankası AŞ amounting YTL 6,081 thousands, at a price of YTL 7,989 thousands on 31 January 2005.

İMKB Takasbank AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in YTL units current at 31 December 2005.

Impairment losses are provided for decreases in the value of certain investments in equity participations amounting to YTL 19 thousands in the current period. Accordingly, the cumulative provisions for such impairment losses amounted to YTL 3,931 thousands as of 31 December 2006 (2005 : YTL 41,112 thousands).

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

## 12 Tangible assets

Movement in tangible assets from 1 January to 31 December 2006 is as follows:

| | *1 January* | *Additions* | *Adjustment for Currency Translation* | *Disposals* | *31 December* |
|---|---|---|---|---|---|
| *Costs* | | | | | |
| Land and buildings | 1,166,780 | 18,096 | 8,275 | (131,229) | 1,061,922 |
| Furniture, fixture and equipments | 1,097,093 | 82,927 | 2,171 | (76,815) | 1,105,376 |
| Leasehold improvements | 146,735 | 73,079 | 1,602 | (6,936) | 214,480 |
| | 2,410,608 | 174,102 | 12,048 | (214,980) | 2,381,778 |
| *Less: Accumulated depreciation* | | | | | |
| Buildings | 195,105 | 22,025 | 418 | (7,071) | 210,477 |
| Furniture, fixture and equipments | 796,939 | 100,861 | 1,138 | (55,184) | 843,754 |
| Leasehold improvements | 94,559 | 45,638 | 517 | (3,456) | 137,258 |
| | 1,086,603 | 168,524 | 2,073 | (65,711) | 1,191,489 |
| *Construction in progress* | 22,001 | | - | (14,666) ***(a)*** | 7,335 |
| | 1,346,006 | | 9,975 | (163,935) | 1,197,624 |
| *Impairment in value of tangible assets* | (126,593) | | | | (118,375) |
| | 1,219,413 | | | | 1,079,249 |

Movement in tangible assets from 1 January to 31 December 2005 is as follows:

| | *1 January* | *Additions* | *Adjustment for Currency Translation* | *Disposals* | *31 December* |
|---|---|---|---|---|---|
| *Costs* | | | | | |
| Land and buildings | 1,848,911 | 12,933 | (12,895) | (682,169) | 1,166,780 |
| Furniture, fixture and equipments | 1,146,369 | 188,759 | (2,343) | (235,692) | 1,097,093 |
| Leasehold improvements | 389,493 | 39,941 | (935) | (281,764) | 146,735 |
| | 3,384,773 | 241,633 | (16,173) | (1,199,625) | 2,410,608 |
| *Less: Accumulated depreciation* | | | | | |
| Buildings | 217,734 | 25,513 | (856) | (47,286) | 195,105 |
| Furniture, fixture and equipments | 829,931 | 131,245 | (1,518) | (162,719) | 796,939 |
| Leasehold improvements | 218,940 | 35,382 | (935) | (158,828) | 94,559 |
| | 1,266,605 | 192,140 | (3,309) | (368,833) | 1,086,603 |
| *Construction in progress* | 50,311 | | - | (28,310) ***(a)*** | 22,001 |
| | 2,168,479 | | (12,864) | (859,102) | 1,346,006 |
| *Impairment in value of tangible assets* | (147,628) | | | | (126,593) |
| | 2,020,851 | | | | 1,219,413 |

***(a)*** *Additions to and transfers from "construction in progress" are given as net.*

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

## 12 Tangible assets (continued)

A significant portion of the disposals during the year 2006 amounting to YTL 108,087 thousands mainly represented the tangible assets of a consolidated affiliate that was sold in December 2006 as explained in Note 26.

A significant portion of the disposals during the year 2005 amounting YTL 763,666 thousands mainly represented the tangible assets of the consolidated affiliates that were sold.

Depreciation expense for the year ended 31 December 2006 amounts to YTL 168,524 thousands (2005: YTL 192,140 thousands).

Assessment of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 31 December 2006, land and buildings at a total net book value before impairment of YTL 427,838 thousands (2005: YTL 481,675 thousands) have been impaired by YTL 118,375 thousands (2005: YTL 126,593 thousands).

## 13 Goodwill

As of 31 December 2006, goodwill arises from the direct acquisitions of 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Emeklilik ve Hayat AŞ, 98.94% ownership in Garanti Finansal Kiralama AŞ and 81.84% ownership in Garanti Faktoring Hizmetleri AŞ consisting of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of their acquisition as follows:

| | ***2006*** | ***2005*** |
|---|---:|---:|
| Garanti Yatırım Menkul Kıymetler AŞ | 20,984 | 20,984 |
| Garanti Finans Faktoring Hizmetleri AŞ | 6,697 | 6,697 |
| Garanti Finansal Kiralama AŞ | 5,233 | 5,233 |
| Garanti Sigorta AŞ | 1,099 | 1,099 |
| Garanti Emeklilik ve Hayat AŞ | 38 | 38 |
| Garanti Gayrimenkul Yatırım Ortaklığı AŞ | - | 515 |
| Doc Finance SA | - | 7,954 |
| | 34,051 | 42,520 |
| Impairment of goodwill | - | (7,954) |
| | 34,051 | 34,566 |

Impairment losses are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

As explained in Note 26, 50.98% participation in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, a consolidated affiliate, was sold on 1 December 2006 to GE Capital Corporation and Doğuş Holding AŞ, related parties, as per their joint offer dated 27 October 2006. Accordingly the related goodwill was written off.

In accordance with the terms of the Agreement referred in Note 3, the equity participation in Doc Finance SA was sold to Doğuş Holding AŞ on 17 April 2006. Accordingly, the related goodwill which was fully impaired was written off.

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

## 14 Deposits from banks

Deposits from banks comprise the following:

| | *2006* | *2005* |
|---|---|---|
| Payable on demand | 310,970 | 278,910 |
| Term deposits | 1,250,815 | 769,064 |
| | 1,561,785 | 1,047,974 |
| Accrued interest on deposits from banks | 11,945 | 11,735 |
| | 1,573,730 | 1,059,709 |

Deposits from banks include both YTL accounts amounting YTL 705,482 thousands (2005: YTL 572,110 thousands) and foreign currency accounts amounting YTL 856,303 thousands (2005: YTL 475,864 thousands) in total. As at 31 December 2006, interest rates applicable to YTL bank deposits and foreign currency bank deposits vary within ranges of 14%-23% and 2%-7% (2005: 14%-19% and 1%-7%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

| | *2006* | | | *2005* |
|---|---|---|---|---|
| | *Demand* | *Time* | *Total* | *Total* |
| Foreign currency | 5,306,342 | 13,261,607 | 18,567,949 | 13,142,032 |
| Saving | 858,537 | 8,203,509 | 9,062,046 | 6,579,440 |
| Commercial | 1,363,512 | 2,671,234 | 4,034,746 | 4,316,207 |
| Public and other | 224,565 | 237,025 | 461,590 | 347,157 |
| | 7,752,956 | 24,373,375 | 32,126,331 | 24,384,836 |
| Accrued interest expense on deposits from customers | 2 | 168,224 | 168,226 | 140,448 |
| | 7,752,958 | 24,541,599 | 32,294,557 | 24,525,284 |

As at 31 December 2006, interest rates applicable to YTL deposits and foreign currency deposits vary within ranges of 11%-22% and 1%-11% (2005: 11%-20% and 1%-10%), respectively.

As at 31 December 2006, subordinated deposits obtained by the consolidated banking affiliate in Netherlands amounting YTL 88,217 thousands (2005: YTL 60,205 thousands) are included in foreign currency time deposits.

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

## 15 Deposits from customers (continued)

As at 31 March 2006, it was decided to classify the accounts blocked against the expenditures of the credit card holders, either in instalment or in cash, from "deposits from customers" to "other liabilities and accrued expenses" line on the balance sheet. Accordingly, in order to provide consistent comparative information for the presentation of the financial statements as of 31 December 2006, the total blocked accounts amounting YTL 883,244 thousands included in "commercial deposits" has been reclassified as "blocked accounts against expenditures of card holders" as of 31 December 2005 as discussed in Note 20.

## 16 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

| | *Carrying value* | *Fair value of underlying assets* | *Carrying amount of corresponding liabilities* | *Range of repurchase dates* | *Repurchase price* |
|---|---|---|---|---|---|
| ***2006*** | | | | | |
| Financial assets at fair value through profit or loss | 133,500 | 133,500 | 120,815 | Jan'07-Dec'08 | 127,240 |
| Security investments | 6,066,007 | 6,065,690 | 5,174,727 | Jan'07-Feb'11 | 5,232,163 |
| | 6,199,507 | 6,199,190 | 5,295,542 | | 5,359,403 |
| ***2005*** | | | | | |
| Financial assets at fair value through profit or loss | 107,433 | 107,433 | 101,827 | Mar'06-Oct'07 | 105,827 |
| Security investments | 2,587,269 | 2,607,389 | 2,238,302 | Jan'06-Apr'08 | 2,310,575 |
| | 2,694,702 | 2,714,822 | 2,340,129 | | 2,416,402 |

Accrued interest on obligations under repurchase agreements amounting to YTL 75,536 thousands (2005: YTL 15,997 thousands) is included in the carrying amount of corresponding liabilities.

In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2006, the maturities of the obligations varied from one day to five years and interest rates varied between 3%-19% (2005: 2%-15%).

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

## 17 Loans and advances from banks

Loans and advances from banks comprise the following:

| | 2006 | 2005 |
|---|---|---|
| Short-term borrowings | | |
| Domestic banks | 583,132 | 458,904 |
| Foreign banks | 2,402,850 | 3,044,661 |
| | 2,985,982 | 3,503,565 |
| Long-term debts | | |
| Short-term portion | 838,385 | 457,825 |
| Medium and long-term portion | 5,720,056 | 2,652,286 |
| | 6,558,441 | 3,110,111 |
| Accrued interest on loans and advances from banks | 105,347 | 59,870 |
| | 9,649,770 | 6,673,546 |

As at 31 December 2006, loans and advances from banks included various promissory notes amounting to YTL 871,597 thousands in total with latest maturity of 2008 (2005: YTL 408,761 thousands with latest maturity of 2006), of which YTL 265,190 thousands (2005: nil) are classified under long-term debts.

As at 31 December 2006, short-term borrowings included one-year syndicated facility to finance pre-export contracts of the Bank's corporate customers with a total amount of EUR 600 millions (equivalent of YTL 1,102,620 thousands) as signed with the 31 mandated lead arrangers.

As at 31 December 2005, short-term borrowings from foreign banks also included a one-year syndicated term-loan facility amounting US$ 700 millions (equivalent of YTL 976,500 thousands) as signed with the 32 mandated lead arrangers.

Long-term debts comprise the following:

| | 2006 | | | | | 2005 |
|---|---|---|---|---|---|---|
| | *Interest rate%* | *Latest Maturity* | *Amount in original currency* | *Short term portion* | *Medium and long term portion* | *Medium and long term debts* |
| Sydicated club-term loan facility | 5.8 | 2008 | US$ 700 mio | - | 976,500 | - |
| DPR Securitisation-IV | 5.6-6.4 | 2013 | US$ 600 mio | - | 834,622 | 797,683 |
| DPR Securitisation-V | 5.6-6.4 | 2013 | US$ 525 mio | - | 730,784 | 697,836 |
| DPR Securitisation-VII | 6.3 | 2016 | US$ 400 mio | - | 557,487 | - |
| DPR Securitisation-VI | 3.6 | 2011 | EUR 300 mio | - | 550,463 | - |
| DPR Securitisation-VI | 6.2 | 2013 | US$ 300 mio | - | 417,674 | - |
| DPR Securitisation-III | 5.6 | 2013 | US$ 300 mio | - | 417,336 | 398,878 |
| Syndication | 5.8 | 2008 | US$ 250 mio | 232,561 | 116,281 | - |
| DPR Securitisation-VI | 5.6 | 2016 | US$ 225 mio | - | 313,182 | - |
| DPR Securitisation-VII | 6.2 | 2014 | US$ 100 mio | - | 139,358 | - |
| DPR Securitisation-II | | | | - | - | 391,674 |
| Others | | | | 605,824 | 666,369 | 366,215 |
| | | | | 838,385 | 5,720,056 | 2,652,286 |

## 17 Loans and advances from banks (continued)

In December 2006, the Bank completed a securitization (the "DPR Securitization-VII") transaction by issuance of certificates: US$ 400 millions with a maturity of 10 years and US$ 100 millions with a maturity of 8 years. Both of the series were issued on an unwrapped basis.

In November 2006, the Bank signed a two year syndicated club term-loan facility amounting to US$ 700 millions as signed with the 23 mandated lead arrangers.

In May 2006, the Bank completed a securitization (the "DPR Securitization-VI") transaction by issuance of certificates: Euro 300 millions with a guarentee issued by MBIA Insurance Corp. with maturity of 5 years, US$ 300 millions with no financial guarantee and a maturity of 7 years and US$ 225 millions with a guarantee issued by Ambac Assurance Corp. with maturity of 10 years.

One of the banking affiliates of the Bank obtained a two-year syndication loan amounting US$ 250 millions in March 2006 as signed with 25 banks.

In November 2005, the Bank completed a securitization (the "DPR Securitization-V") transaction by issuance of certificate: US$ 150 millions with a guarantee issued by CIFG Inc. with a maturity of 7 years, US$ 250 millions with a guarantee issued by XL Capital Assurance with a maturity of 8 years and US$ 125 millions with no financial guarantee and a maturity of 8 years.

In September 2005, the Bank completed a securitization (the "DPR Securitisation-IV") transaction by issuance of certificate: US$ 150 millions with a guarantee issued by Financial Guaranty Insurance Corp. with a final maturity of 7 years, US$ 150 millions with a guarantee issued by Financial Security Assurance with a final maturity of 8 years, US$ 165 millions with a financial guarantee issued by Assured Guaranty Corp. with a final maturity of 8 years, US$ 110 millions with a financial guarantee issued by Radian Asset Assurance Inc. with a final maturity of 7 years, US$ 25 millions with no financial guarantee and a final maturity of 7 years.

In May 2005, the Bank completed a securitization (the "DPR Securitisation-III") transaction by issuance of certificate: US$ 300 millions with a guarantee issued by MBIA Insurance Corp., a final maturity of 8 years.

In September 2004, the Bank completed a securitization (the "DPR Securitization-II") transaction by issuance of certificates: US$ 175 millions with a financial guarantee issued by MBIA Insurance Corp., with a final maturity of 5 years and US$ 150 millions with a financial guarantee issued by Ambac Assurance Corp. with a final maturity of 8 years. The amount has been fully paid back before maturity in December 2006.

The DPR securitizes the Bank's payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

As at 31 December 2006, it was decided to reclassify the prepaid expenses on securitisation fundings from "other assets" to "loans and advances from banks" line on balance sheet. Accordingly, in order to provide consistent comparative information for the presentation of the financial statements as of 31 December 2006, the total prepaid expenses on securitisation fundings amounting to YTL 15,534 thousands included in "other assets" has been reclassified as "loans and advances from banks" as of 31 December 2005 as discussed in Note 9.

## 18 Bonds payable

Bonds payable comprise of the following:

| | *2006* | | | | *2005* |
|---|---|---|---|---|---|
| | *Amount in original currency in millions* | *Maturity* | *Interest rates %* | *Carrying value* | *Carrying value* |
| Subordinated debt | EUR 30 | 2016 | Euribor+1.57 | 55,131 | - |
| Accrued interest on bonds payable | | | | 24 | - |
| | | | | 55,155 | - |

On 29 September 2006, one of the Bank's affiliates issued its first FRN for EUR 30 millions, Euro-denominated lower tier-2 capital, priced at 99.30, arranged by Deutsche Bank and traded on the alternative market in Frankfurt.

## 19 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2006. This rate was 30% for the year 2005. In accordance with Article No. 32 of the new Corporate Tax Law No. 5520 published in the Official Gazette No. 26205 dated 21 June 2006, corporate tax rate is reduced from 30% to 20%. Accordingly, effective from 1 January 2006, statutory income is subject to corporate tax at 20%.

There is also a withholding tax on the dividends paid and is accrued only at the time of such payments. According to the amendments in the tax legislations, which became effective from 24 April 2003, dividends that are paid to the shareholders from the profits of the years between 1999 and 2002 are immune from the withholding tax, if such profits are exempted from corporation tax bases of the companies. As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased to 15% from 10%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account.

## 19 **Taxation** (continued)

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Netherlands, corporate income tax is levied at the rate of 29.6% (2005: 31.5%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2006. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward to offset against future taxable income for an unlimited number of years. Tax losses can be carried back to three prior years. Companies must file their tax returns within six months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assesment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax has been calculated using the nominal tax rate of 29.6% over the Dutch taxable income, 40% over the local taxable income of Germany branch and 16% over the local taxable income of Romania branch.

The applicable tax rate for current and deferred tax for the Bank’s consolidated affiliate in Russia is 24%. The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

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

## 19 **Taxation** (continued)

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

| | 2006 | % | 2005 | % |
|---|---|---|---|---|
| Taxes on income per statutory tax rate | 286,689 | 20.00 | 284,273 | 30.00 |
| Reversal of valuation allowance | (79,384) | (5.53) | (137,098) | (14.47) |
| Effect of change in tax rates | 44,755 | 3.12 | - | - |
| Disallowable expenses | 31,671 | 2.21 | 91,108 | 9.62 |
| Permanent differences relating to restatement of various non-monetary items per IAS29 | - | - | 17,388 | 1.84 |
| Investment incentives | - | - | (8,971) | (0.95) |
| Income items exempt from tax | (14,568) | (1.02) | (6,558) | (0.69) |
| Others | 14,782 | 1.03 | 9,520 | 1.00 |
| Taxation charge | 283,945 | 19.81 | 249,662 | 26.35 |

The taxation charge is comprised of the following:

| | 2006 | 2005 |
|---|---|---|
| Current taxes | 289,794 | 176,646 |
| Deferred taxes | (5,849) | 73,016 |
| Taxation charge | 283,945 | 249,662 |

The current taxes payable on income are comprised of the following:

| | 2006 | 2005 |
|---|---|---|
| Provision for current taxes payable on income | 283,945 | 249,662 |
| Add: Taxes payable carried forward | - | 68,139 |
| Less: Prepaid corporate taxes | (161,772) | (174,206) |
| Add/(less): Deferred taxes | 5,849 | (73,016) |
| Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of YTL at the balance sheet date | - | (2,641) |
| Current tax liability | 128,022 | 67,938 |

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the year. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the balance sheet.

Income tax liability recognised directly in equity is as follows:

| | 2006 | 2005 |
|---|---|---|
| Revaluation of available-for-sale assets | 10,494 | 49,770 |
| Hedging reserve | 787 | 1,523 |
| | 11,281 | 51,293 |

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

## 19 **Taxation** (continued)

Deferred tax asset and liabilities are attributable to the items detailed in the table below:

| | 2006 | 2005 |
|---|---|---|
| *Deferred tax asset* | | |
| Impairment losses on loans | 27,472 | 27,040 |
| Impairment of investments in associated companies and tangible assets | 28,344 | 33,361 |
| Short-term employee benefits | 19,080 | 10,361 |
| Accruals on credit card rewards | 9,210 | 11,086 |
| Reserve for employee severance indemnity | 7,213 | 8,545 |
| Discount on miscellaneous receivables | 3,363 | 6,458 |
| Pro-rata basis depreciation expenses | (10,922) | (12,697) |
| Valuation difference on financial assets and liabilities | (9,447) | (1,632) |
| Others, net | (4,218) | (776) |
| Total deferred tax asset | 70,095 | 81,746 |
| *Deferred tax liability* | | |
| Total deferred tax liability | 1,108 | 596 |

As of 31 December 2006, there are not any deferred tax assets and liabilities that have not been recognized in the accompanying consolidated financial statements.

*Tax-related contingent asset*

The monetary losses amounting YTL 712,872 thousands incurred by the Bank in the 2001 financial year as a result of the inflation accounting applied in compliance with the Temporary article no.4 added to the Banks Law no.4389 through the Law no.4743, were net off with extraordinary reserves, legal reserves and capital reserves from inflation adjustments to equity items. As per the Temporary article no.4/13 of the same Law and the statements of the reiterated article 14/1a of the Corporate Tax Law no.5422, these losses have not been taking into account in the tax returns of the year 2001 and subsequent years, whereas such losses should have been deducted from the taxable income. Accordingly, the tax returns were submitted with a condition stating that such losses should have been deducted and the Bank may appeal to the tax court for the tax return. Following the rejection of this condition by the tax office, the Bank appealed to the tax court for the corporate tax return of the year 2004 and the temporary tax periods of the year 2005 and the tax court decided in favour of the Bank. However, as of the reporting date, the judgement process is not finalized yet and continues at the Council of State.

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

## 20 Other liabilities and accrued expenses

The principal components of other liabilities and accrued expenses are as follows:

| | 2006 | 2005 |
|---|---|---|
| Blocked accounts against expenditures of card holders | 1,212,143 | 883,244 |
| Transfer orders | 371,160 | 481,409 |
| Payables to insurance and reinsurance companies relating to insurance business | 344,532 | 156,990 |
| Accrued exchange losses on derivatives | 259,545 | 87,986 |
| Insurance business related provisions | 206,744 | 154,487 |
| Factoring payables | 178,561 | 51,298 |
| Expense accruals | 159,496 | 88,425 |
| Withholding taxes | 76,069 | 68,798 |
| Blocked accounts | 64,400 | 61,481 |
| Payables to suppliers relating to financial lease activities | 53,502 | 85,918 |
| Miscellaneous payables | 47,599 | 40,456 |
| Reserve for employee severance indemnity | 38,280 | 32,860 |
| General provision for non-cash loans | 21,038 | 16,587 |
| Unearned income | 10,017 | 8,607 |
| Advances received | - | 82,511 |
| Others | 111,417 | 133,600 |
| | 3,154,503 | 2,434,657 |

As further explained in Note 15, as of 31 March 2006 it was decided to classify the accounts blocked against the expenditures of the credit card holders from “deposits from customers” to “other liabilities and accrued expenses” line on the balance sheet. Accordingly, as of 31 December 2005 “blocked accounts against expenditures of card holders” amounting YTL 883,244 thousands were reclassified from “deposits from customers”.

As at 31 December 2006, it was decided to reclassify the unearned income on project finance loans from “other liabilities and accrued expenses” to “loans and advances to customers” line on balance sheet. Accordingly, in order to provide consistent comparative information for the presentation of the financial statements as of 31 December 2006, the total unearned income on project finance loans amounting to YTL 65,712 thousands included in “other liabilities and accrued expenses” has been reclassified as “loans and advances to customers” as of 31 December 2005 as discussed in Note 7.

As at 31 December 2006, it was decided to gross up the accrued exchange gain on derivatives both in “other assets” and “other liabilities and accrued expenses” line on balance sheet. Accordingly in order to provide consistent comparative information for the presentation of the financial statements as of 31 December 2006, the accrued exchange gain on derivatives grossed up amounting to YTL 17,536 thousands included in “other assets” and “other liabilities and and accrued expenses” as of 31 December 2005 as discussed in Note 9.

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

## 20 Other liabilities and accrued expenses (continued)

Insurance business related provisions are detailed in the table below:

| | *2006* | | | *2005* | | |
|---|---|---|---|---|---|---|
| | *Garanti Sigorta AŞ* | *Garanti Emeklilik AŞ* | *Total* | *Garanti Sigorta AŞ* | *Garanti Emeklilik AŞ* | *Total* |
| Reserve for unearned premiums, net | 83,254 | 17,837 | 101,091 | 45,505 | 10,872 | 56,377 |
| *Gross* | *180,045* | *19,205* | *199,250* | *115,645* | *11,936* | *127,581* |
| *Reinsurers' share* | *(94,291)* | *(1,368)* | *(95,659)* | *(70,140)* | *(1,064)* | *(71,204)* |
| *Deferred commission - net* | *(2,500)* | - | *(2,500)* | - | - | - |
| Provision for claims, net | 33,364 | 2,967 | 36,331 | 25,675 | 1,451 | 27,126 |
| *Gross* | *84,260* | *4,225* | *88,485* | *75,407* | *1,575* | *76,982* |
| *Reinsurers' share* | *(50,896)* | *(1,258)* | *(52,154)* | *(49,732)* | *(124)* | *(49,856)* |
| Provision for earthquake claims | - | - | - | 18,984 | - | 18,984 |
| Life mathematical reserves | - | 69,322 | 69,322 | - | 52,000 | 52,000 |
| | 116,618 | 90,126 | 206,744 | 90,164 | 64,323 | 154,487 |

Movement in the reserve for employee severance indemnity is as follows:

| | ***2006*** | ***2005*** |
|---|---|---|
| Balance, beginning of the year | 32,860 | 24,612 |
| Effects of inflation on the beginning balance | - | (831) |
| Effects of change in actuarial assumptions | (3,605) | (50) |
| Disposal due to sale of consolidated affiliates | (111) | (1,657) |
| Payments during the year | (7,173) | (176) |
| Provision for the year | 16,309 | 10,962 |
| Balance, end of the year | 38,280 | 32,860 |

Movement in the general provision for non-cash loans are as follows:

| | ***2006*** | ***2005*** |
|---|---|---|
| Balance, beginning of the year | 16,587 | 15,417 |
| Effects of inflation on the beginning balance | - | (670) |
| Reversals | - | (2,342) |
| Provision for the year | 4,451 | 4,182 |
| Balance, end of the year | 21,038 | 16,587 |

## 21 Shareholders' equity

The authorized nominal share capital of the Bank amounted to YTL 2,100,000 thousands as of 31 December 2006. As per the resolution of the Board of Directors on 8 April 2005, it was decided to increase the Bank's statutory share capital from YTL 1,200,000 thousands to YTL 2,100,000 thousands through appropriation of capital reserves from inflation adjustments to paid in capital of YTL 450,000 thousands, extraordinary reserves of YTL 442,917 thousands and income from sale of real estates of YTL 7,083 thousands, and the number of shares to 210 billions. The increase was registered on 27 June 2005.

As per the resolution of the Board of Directors on 7 March 2005, it was decided to increase the Bank's registered share capital ceiling from YTL 1,200,000 thousands to YTL 7,000,000 thousands. The decision was approved during the Annual General Assembly held on 4 April 2005.

According to the Articles of Association of the Bank, there are 370 founder shares. It is required in the Articles of Association to distribute 10% of the distributable profit to the holders of these founder shares after allocating 5% to legal reserves, distributing dividend at an amount equal to 5% of the capital and allocating 5% of the remaining to extraordinary reserves.

Doğuş Holding AŞ, signed an Agreement with GE on 24 August 2005 for the sale of 53.550.000.000 shares representing 25.5% of the Bank's issued share capital. Subsequent to receiving the necessary permission from BRSA, the transfer of the Bank's shares with nominal value of YTL 535,500 thousands representing 25.5% of the Bank's issued share capital and 182 of the founder shares from Doğuş Holding AŞ to GE Araştırma ve Müşavirlik Limited Şti., an investee company of GE Capital Corporation incorporated in Turkey, has been completed on 22 December 2005. Accordingly, on 22 December 2005 GE Araştırma ve Müşavirlik Limited Şti. made a total cash payment of US$ 1,805,500 thousands to Doğuş Holding AŞ to purchase the shares of the Bank (having a nominal value of YTL 535,500 thousands) for US$ 1,555,500 thousands and to purchase the Bank's 182 of the founder shares for US$ 250,000 thousands. Subsequent to this sale in December 2005, a call was made to the Bank's minority shareholders by GE according to the paragraph 17 of the Article IV no.8 "Principles on Voting by Proxy at General Assembly and Gathering Proxy or Common Stock through Calls for Quoted Companies" of the Turkish Capital Market Board, starting from 27 March 2006 to purchase the shares with a total face value of YTL 1,564,500 at a price of YTL 3.90 per share from the minority shareholders. The call period ended on 10 April 2006 and the minority shareholders responded to this call by selling 6,249.49 shares with a face value of YTL 1 each. Accordingly, the shares owned by GE Araştırma ve Müşavirlik Limited Şti. increased to YTL 535,506 thousands.

As per the resolution of the Board of Directors on 5 April 2006, the Bank started paying dividends amounting YTL 105,000 thousands to the ordinary share holders, YTL 49,052 thousands to the owners of the founder shares and YTL 24,526 thousands to the top management and employees as of 12 April 2006.

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

## 21 Shareholders' equity (continued)

The reserves include legal reserves amounting to YTL 113,053 thousands in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

As at 31 December 2006 net minority interest amounts to YTL 7,845 thousands (2005: YTL 43,134 thousands). *Minority interest* is detailed as follows:

| | 2006 | 2005 |
|---|---|---|
| Capital and other reserves | 5,642 | 38,506 |
| Retained earnings | 959 | 2,636 |
| Current period net income | 1,244 | 1,992 |
| | 7,845 | 43,134 |

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

| | 2006 | 2005 |
|---|---|---|
| Balance at the beginning of the period | 162,522 | 127,762 |
| Net gains/(losses) from changes in fair value | (13,907) | 127,584 |
| Related deferred and current income taxes | 16,457 | (41,826) |
| Net (gains)/losses transferred to the income statement on disposal and impairment | (59,074) | (59,773) |
| Related deferred and current income taxes | 16,564 | 8,775 |
| Balance at the end of the period | 122,562 | 162,522 |

*Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities amounting YTL 22,518 thousands that hedges the Bank's net investment in foreign operations.

*Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 24 for the details)

## 22 Fair value information

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

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

## 22 Fair value information (continued)

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and security investments. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is YTL 30,636,838 thousands (2005: YTL 19,172,151 thousands), whereas the carrying amount is YTL 30,803,752 thousands (2005: YTL 19,141,520 thousands) in the accompanying consolidated balance sheet as at 31 December 2006.

Fair value of security investments is YTL 14,904,559 thousands (2005: YTL 11,920,634 thousands), whereas the carrying amount is YTL 14,967,591 thousands (2005: YTL 11,909,044 thousands) in the accompanying consolidated balance sheet as at 31 December 2006.

## 23 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit.

Commitments and contingent liabilities comprise the following:

| | 2006 | 2005 |
|---|---|---|
| Letters of guarantee | 7,418,013 | 6,065,787 |
| Letters of credit | 2,485,822 | 2,109,524 |
| Acceptance credits | 143,541 | 286,255 |
| | 10,047,376 | 8,461,566 |

As at 31 December 2006, commitment for uncalled capital of affiliated companies amounts approximately to YTL 250 thousands (2005: -).

As at 31 December 2006, unused credit limits for credit cards, overdrafts, cheques and loans to customers amount approximately to YTL 9,894,609 thousands (2005: YTL 7,772,451 thousands).

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

## 23 Commitments and contingencies (continued)

As at 31 December 2006, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to YTL 8,451,719 thousands (2005: YTL 5,887,157 thousands), approximately 97% of which are due within a year.

The breakdown of outstanding commitments arising from derivatives is presented as follows:

| | ***2006*** | | ***2005*** | |
|---|---|---|---|---|
| | ***Purchases*** | ***Sales*** | ***Purchases*** | ***Sales*** |
| Forward agreements for customer dealing activities | 240,022 | 139,652 | 174,636 | 19,621 |
| Currency swap agreements for customer dealing activities | 184,544 | 63,134 | 64,501 | 51,361 |
| Options for customer dealing activities | 35,657 | 45,521 | 361,434 | 16,681 |
| Spot foreign currency transactions for customer dealing activities | - | - | 5,619 | 4,813 |
| Forward agreements for hedging purposes | 93,122 | 244,066 | 80,148 | 55,399 |
| Currency swap agreements for hedging purposes | 2,361,287 | 3,780,631 | 2,376,042 | 1,332,196 |
| Interest rate swap agreements | 5,516 | 12,747 | 15,386 | - |
| Interest rate and foreign currency options | 581,173 | 308,020 | 351,970 | 477,262 |
| Forward rate agreements, foreign currency and interest rate futures | 99,530 | 66,583 | 166,401 | 123,914 |
| Forward agreements for gold trading | 16,799 | 15,299 | 48,665 | 23,492 |
| Spot foreign currency transactions | 60,201 | 98,215 | 75,860 | 61,756 |
| | 3,677,851 | 4,773,868 | 3,720,662 | 2,166,495 |

The following tables summarize the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the income statement, except for contracts of cash flow hedges as stated above. At 31 December 2006, approximately 106% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (2005: 97%).

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

## 23 Commitments and contingencies (continued)

| | *Notional amount with remaining life of* | | | | | |
|---|---|---|---|---|---|---|
| *At 31 December 2006* | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 to 12 months* | *over 1 year* | *Total* |
| *Interest Rate Derivatives* | | | | | | |
| Forward rate agreements | - | - | - | 69,768 | - | 69,768 |
| *Purchases* | - | - | - | *69,768* | - | *69,768* |
| *Sales* | - | - | - | - | - | - |
| Interest rate swaps | 12,662 | 172 | - | 508 | 4,921 | 18,263 |
| *Purchases* | - | *87* | - | *508* | *4,921* | *5,516* |
| *Sales* | *12,662* | *85* | - | - | - | *12,747* |
| Interest rate futures | - | 9,300 | 1,815 | - | - | 11,115 |
| *Purchases* | - | *3,747* | *1,481* | - | - | *5,228* |
| *Sales* | - | *5,553* | *334* | - | - | *5,887* |
| *Currency Derivatives* | | | | | | |
| Spot exchange contracts | 158,416 | - | - | - | - | 158,416 |
| *Purchases* | *60,201* | - | - | - | - | *60,201* |
| *Sales* | *98,215* | - | - | - | - | *98,215* |
| Forward exchange contracts | 561,981 | 110,468 | 28,770 | 10,428 | 5,215 | 716,862 |
| *Purchases* | *245,238* | *59,529* | *16,744* | *6,616* | *5,017* | *333,144* |
| *Sales* | *316,743* | *50,939* | *12,026* | *3,812* | *198* | *383,718* |
| Currency/cross currency swaps | 2,786,751 | 1,853,498 | 617,282 | 901,914 | 230,151 | 6,389,596 |
| *Purchases* | *1,434,555* | *439,531* | *511,793* | *101,620* | *58,332* | *2,545,831* |
| *Sales* | *1,352,196* | *1,413,967* | *105,489* | *800,294* | *171,819* | *3,843,765* |
| Options | 657,333 | 201,867 | 68,593 | 42,578 | - | 970,371 |
| *Purchases* | *391,323* | *163,627* | *45,578* | *16,302* | - | *616,830* |
| *Sales* | *266,010* | *38,240* | *23,015* | *26,276* | - | *353,541* |
| Foreign currency futures | - | 77,576 | 7,654 | - | - | 85,230 |
| *Purchases* | - | *22,087* | *2,447* | - | - | *24,534* |
| *Sale* | - | *55,489* | *5,207* | - | - | *60,696* |
| Other foreign exchange contracts | 32,098 | - | - | - | - | 32,098 |
| *Purchases* | *16,799* | - | - | - | - | *16,799* |
| *Sale* | *15,299* | - | - | - | - | *15,299* |
| Subtotal Purchases | 2,148,116 | 688,608 | 578,043 | 194,814 | 68,270 | 3,677,851 |
| Subtotal Sales | 2,061,125 | 1,564,273 | 146,071 | 830,382 | 172,017 | 4,773,868 |
| Total of Transactions | 4,209,241 | 2,252,881 | 724,114 | 1,025,196 | 240,287 | 8,451,719 |

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

## 23 Commitments and contingencies (continued)

| | *Notional amount with remaining life of* | | | | | |
|---|---|---|---|---|---|---|
| *At 31 December 2005* | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 to 12 months* | *over 1 year* | *Total* |
| *Interest Rate Derivatives* | | | | | | |
| Forward rate agreements | - | - | - | 53,336 | 106,671 | 160,007 |
| *Purchases* | - | - | - | *53,336* | *106,671* | *160,007* |
| *Sales* | - | - | - | - | - | - |
| Interest rate swaps | 8,953 | - | - | - | 6,433 | 15,386 |
| *Purchases* | *8,953* | - | - | - | *6,433* | *15,386* |
| *Sales* | - | - | - | - | - | - |
| Interest rate futures | - | 1,990 | - | - | - | 1,990 |
| *Purchases* | - | *1,990* | - | - | - | *1,990* |
| *Sales* | - | - | - | - | - | - |
| *Currency Derivatives* | | | | | | |
| Spot exchange contracts | 148,048 | - | - | - | - | 148,048 |
| *Purchases* | *81,479* | - | - | - | - | *81,479* |
| *Sales* | *66,569* | - | - | - | - | *66,569* |
| Forward exchange contracts | 252,323 | 51,068 | 22,542 | 2,211 | 1,660 | 329,804 |
| *Purchases* | *187,334* | *45,796* | *20,972* | *682* | - | *254,784* |
| *Sales* | *64,989* | *5,272* | *1,570* | *1,529* | *1,660* | *75,020* |
| Currency/cross currency swaps | 2,312,062 | 686,431 | 355,961 | 222,324 | 247,322 | 3,824,100 |
| *Purchases* | *1,484,994* | *592,254* | *229,590* | *133,705* | - | *2,440,543* |
| *Sales* | *827,068* | *94,177* | *126,371* | *88,619* | *247,322* | *1,383,557* |
| Options | 654,902 | 455,073 | 22,826 | 74,546 | - | 1,207,347 |
| *Purchases* | *347,737* | *316,981* | *11,413* | *37,273* | - | *713,404* |
| *Sales* | *307,165* | *138,092* | *11,413* | *37,273* | - | *493,943* |
| Foreign currency futures | 5,871 | 65,377 | 56,251 | 128 | 691 | 128,318 |
| *Purchases* | *3,283* | *1,051* | *68* | *2* | - | *4,404* |
| *Sale* | *2,588* | *64,326* | *56,183* | *126* | *691* | *123,914* |
| Other foreign exchange contracts | 72,157 | - | - | - | - | 72,157 |
| *Purchases* | *48,665* | - | - | - | - | *48,665* |
| *Sale* | *23,492* | - | - | - | - | *23,492* |
| Subtotal Purchases | 2,162,445 | 958,072 | 262,043 | 224,998 | 113,104 | 3,720,662 |
| Subtotal Sales | 1,291,871 | 301,867 | 195,537 | 127,547 | 249,673 | 2,166,495 |
| Total of Transactions | 3,454,316 | 1,259,939 | 457,580 | 352,545 | 362,777 | 5,887,157 |

# 24 Risk management disclosures

This section provides details of the Bank and its affilates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affilates are exposed, are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 24.2 contains risk management information related to the trading portfolio and section 24.3 deals with the non-trading portfolio.

## *24.1 Derivative financial instruments*

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the balance sheet dates are set out in Note 23. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

*Swaps*

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

*Futures and forwards*

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

## 24 Risk management disclosures (continued)

*Options*

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

### *24.2 Trading activities*

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

*Counterparty credit risk*

The Bank and its affiliates' counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

# 24 Risk management disclosures (continued)

*Market risk*

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

## *24.3 Non-trading activities*

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

*Liquidity risk*

Liquidity risk arises in the general funding of the Bank and its affiliates' activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed through identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank's liquidity risk management strategy.

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

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

| | *2006* | | | | | | *2005* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 to 12 months* | *Over 1 year* | *Total* | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 to 12 months* | *Over 1 year* | *Total* |
| **MONETARY ASSETS** | | | | | | | | | | | | |
| **New Turkish Lira** | | | | | | | | | | | | |
| Cash and balances with Central Banks | 682,602 | - | - | - | - | 682,602 | 107,664 | - | - | - | - | 107,664 |
| Financial assets at fair value through profit or loss | 9,568 | 3,071 | 9,106 | 18,247 | 61,613 | 101,605 | 2,398 | 7,854 | 19,709 | 32,805 | 78,964 | 141,730 |
| Loans and advances to banks | 177,397 | 63,342 | 1,000 | - | 14,611 | 256,350 | 313,850 | 171,085 | 31,609 | - | - | 516,544 |
| Loans and advances to customers | 6,591,375 | 2,357,383 | 1,162,739 | 1,977,938 | 4,272,774 | 16,362,209 | 5,539,307 | 540,042 | 637,450 | 932,908 | 2,204,404 | 9,854,111 |
| Other assets | 1,362,467 | 369,708 | 600 | 202,534 | 10,232 | 1,945,541 | 1,093,892 | 168,566 | - | 113,756 | 119,472 | 1,495,686 |
| Security investments | 12,016 | 178,559 | 489,369 | 760,235 | 8,183,342 | 9,623,521 | 210,086 | 368,588 | 430,386 | 1,047,113 | 4,110,197 | 6,166,370 |
| Deferred tax asset | - | - | - | - | 70,075 | 70,075 | - | - | - | - | 81,744 | 81,744 |
| Total New Turkish Lira monetary assets | 8,835,425 | 2,972,063 | 1,662,814 | 2,958,954 | 12,612,647 | 29,041,903 | 7,267,197 | 1,256,135 | 1,119,154 | 2,126,582 | 6,594,781 | 18,363,849 |
| **Foreign currency** | | | | | | | | | | | | |
| Cash and balances with Central Banks | 1,773,563 | - | - | - | - | 1,773,563 | 2,115,767 | - | - | - | - | 2,115,767 |
| Financial assets at fair value through profit or loss | 16,663 | 9,233 | 31,086 | 301,948 | 558,886 | 917,816 | 15,519 | 9,209 | 42,547 | 302,422 | 470,889 | 840,586 |
| Loans and advances to banks | 1,623,614 | 90,684 | 243,025 | 204,913 | 113,912 | 2,276,148 | 1,223,387 | 161,153 | 111,277 | 104,683 | 59,973 | 1,660,473 |
| Loans and advances to customers | 1,034,061 | 2,203,072 | 1,251,446 | 1,930,564 | 7,959,702 | 14,378,845 | 601,421 | 1,114,782 | 1,523,351 | 1,318,415 | 4,569,121 | 9,127,090 |
| Other assets | 1,779,610 | 51,380 | 21,052 | 8,871 | 32,202 | 1,893,115 | 1,158,708 | 35,450 | 3,525 | 4,690 | 35,407 | 1,237,780 |
| Security investments | 32,185 | 545,637 | 90,897 | 506,588 | 4,168,763 | 5,344,070 | 16,011 | 25,859 | 1,690,115 | 403,469 | 3,607,220 | 5,742,674 |
| Deferred tax asset | - | - | - | - | 20 | 20 | - | - | - | - | 2 | 2 |
| Total foreign currency monetary assets | 6,259,696 | 2,900,006 | 1,637,506 | 2,952,884 | 12,833,485 | 26,583,577 | 5,130,813 | 1,346,453 | 3,370,815 | 2,133,679 | 8,742,612 | 20,724,372 |
| Total Monetary Assets | 15,095,121 | 5,872,069 | 3,300,320 | 5,911,838 | 25,446,132 | 55,625,480 | 12,398,010 | 2,602,588 | 4,489,969 | 4,260,261 | 15,337,393 | 39,088,221 |
| **MONETARY LIABILITIES** | | | | | | | | | | | | |
| **New Turkish Lira** | | | | | | | | | | | | |
| Deposits | 13,214,031 | 981,132 | 77,848 | 49,084 | 4,607 | 14,326,702 | 9,848,787 | 1,840,694 | 138,557 | 84,357 | 1,047 | 11,913,442 |
| Obligations under repurchase agreements | 2,776,498 | 700,591 | - | 54,022 | 779,578 | 4,310,689 | 1,257,782 | - | 3,378 | 50,000 | 54,348 | 1,365,508 |
| Loans and advances from banks | 464,650 | 24,470 | 55,059 | 405,934 | - | 950,113 | 263,130 | 28,030 | 41,026 | 49,011 | - | 381,197 |
| Bonds payable | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities and accrued expenses | 1,624,902 | 75,850 | 507,125 | 207,220 | 275,972 | 2,691,069 | 1,151,546 | 47,284 | 149,772 | 156,695 | 143,808 | 1,649,105 |
| Total New Turkish Lira monetary liabilities | 18,080,081 | 1,782,043 | 640,032 | 716,260 | 1,060,157 | 22,278,573 | 12,521,245 | 1,916,008 | 332,733 | 340,063 | 199,203 | 15,309,252 |
| **Foreign currency** | | | | | | | | | | | | |
| Deposits | 16,407,279 | 2,004,577 | 370,304 | 529,877 | 229,548 | 19,541,585 | 11,200,594 | 1,387,464 | 398,935 | 393,680 | 290,878 | 13,671,551 |
| Obligations under repurchase agreements | 170,492 | 282,841 | 90,694 | 130,779 | 310,047 | 984,853 | 286,127 | 15,999 | 200,440 | 201,928 | 270,127 | 974,621 |
| Loans and advances from banks | 147,413 | 328,440 | 1,613,535 | 851,479 | 5,758,790 | 8,699,657 | 246,176 | 323,081 | 522,004 | 2,535,453 | 2,665,635 | 6,292,349 |
| Bonds payable | - | - | - | - | 55,155 | 55,155 | - | - | - | - | - | - |
| Other liabilities and accrued expenses | 149,792 | 101,467 | 189,012 | 144,870 | 7,423 | 592,564 | 232,621 | 106,120 | 283,282 | 143,319 | 6,233 | 771,575 |
| Total foreign currency monetary liabilities | 16,874,976 | 2,717,325 | 2,263,545 | 1,657,005 | 6,360,963 | 29,873,814 | 11,965,518 | 1,832,664 | 1,404,661 | 3,274,380 | 3,232,873 | 21,710,096 |
| Total Monetary Liabilities | 34,955,057 | 4,499,368 | 2,903,577 | 2,373,265 | 7,421,120 | 52,152,387 | 24,486,763 | 3,748,672 | 1,737,394 | 3,614,443 | 3,432,076 | 37,019,348 |

## 24 **Risk management disclosures** (continued)

*Market risk*

*Interest rate risk:* The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and nine months libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have indefinite maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

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

The following table provides an analysis of interest rate sensivity of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings:

| | *31 December 2006* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 to 12 months* | *Over 1 year* | *Non-Interest Bearing* | *Total* |
| **MONETARY ASSETS** | | | | | | | |
| Cash and balances with Central Banks | 601,674 | - | - | - | - | 1,854,491 | 2,456,165 |
| Financial assets at fair value through profit or loss | 43,601 | 103,723 | 78,330 | 299,716 | 461,188 | 32,863 | 1,019,421 |
| Loans and advances to banks | 1,639,178 | 153,744 | 242,883 | 204,074 | 99,531 | 193,088 | 2,532,498 |
| Loans and advances to customers | 8,677,250 | 5,990,903 | 2,889,599 | 5,789,893 | 6,912,189 | 481,220 | 30,741,054 |
| Other assets | 3,095,349 | - | 3,903 | 203,501 | 40,998 | 494,905 | 3,838,656 |
| Security investments | 2,158,360 | 5,893,335 | 1,323,318 | 796,353 | 3,965,162 | 831,063 | 14,967,591 |
| Deferred tax asset | - | - | - | - | - | 70,095 | 70,095 |
| Total Monetary Assets | 16,215,412 | 12,141,705 | 4,538,033 | 7,293,537 | 11,479,068 | 3,957,725 | 55,625,480 |
| **MONETARY LIABILITIES** | | | | | | | |
| Deposits | 22,809,845 | 2,964,029 | 444,229 | 583,101 | 193,270 | 6,873,813 | 33,868,287 |
| Obligations under repurchase agreements | 3,702,102 | 213,505 | 105,881 | 179,078 | 1,019,441 | 75,535 | 5,295,542 |
| Loans and advances from banks | 542,012 | 547,838 | 1,674,913 | 1,177,100 | 5,599,471 | 108,436 | 9,649,770 |
| Bonds payable | - | - | - | - | 55,131 | 24 | 55,155 |
| Other liabilities and accrued expenses | 1,510,863 | 244,927 | 147,555 | 199,575 | 1,166 | 1,179,547 | 3,283,633 |
| Total Monetary Liabilities | 28,564,822 | 3,970,299 | 2,372,578 | 2,138,854 | 6,868,479 | 8,237,355 | 52,152,387 |

| | *31 December 2005* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 to 12 months* | *Over 1 year* | *Non-Interest Bearing* | *Total* |
| **MONETARY ASSETS** | | | | | | | |
| Cash and balances with Central Banks | 217,268 | - | - | - | - | 2,006,163 | 2,223,431 |
| Financial assets at fair value through profit or loss | 1,038 | 42,170 | 101,962 | 332,708 | 476,690 | 27,748 | 982,316 |
| Loans and advances to banks | 1,370,986 | 328,601 | 143,252 | 104,682 | 59,973 | 169,523 | 2,177,017 |
| Loans and advances to customers | 6,036,762 | 1,734,027 | 2,171,345 | 2,192,300 | 6,586,312 | 260,455 | 18,981,201 |
| Other assets | 2,121,215 | - | 3,525 | 118,446 | 142,507 | 347,773 | 2,733,466 |
| Security investments | 339,472 | 5,014,778 | 2,142,939 | 518,391 | 3,382,603 | 510,861 | 11,909,044 |
| Deferred tax asset | - | - | - | - | - | 81,746 | 81,746 |
| Total Monetary Assets | 10,086,741 | 7,119,576 | 4,563,023 | 3,266,527 | 10,648,085 | 3,404,269 | 39,088,221 |
| **MONETARY LIABILITIES** | | | | | | | |
| Deposits | 14,257,879 | 3,205,758 | 533,679 | 475,096 | 290,956 | 6,821,625 | 25,584,993 |
| Obligations under repurchase agreements | 1,542,446 | 15,976 | 196,254 | 250,107 | 319,348 | 15,998 | 2,340,129 |
| Loans and advances from banks | 503,754 | 342,621 | 548,887 | 2,493,997 | 2,724,427 | 59,860 | 6,673,546 |
| Other liabilities and accrued expenses | 92,635 | 93,218 | 212,467 | 139,410 | 1,625 | 1,881,326 | 2,420,680 |
| Total Monetary Liabilities | 16,396,714 | 3,657,573 | 1,491,287 | 3,358,610 | 3,336,356 | 8,778,809 | 37,019,348 |

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

## 24 Risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the years 2006 and 2005:

| | *2006* | | | |
|---|---|---|---|---|
| | *US$ %* | *EUR %* | *YTL %* | *Other Currencies %* |
| *Assets* | | | | |
| Loans and advances to banks | 3.25-8.00 | 2.75-4.75 | 17.34-21.50 | 5.00-9.20 |
| Debt and other fixed or floating income instruments | 7.95-9.25 | 6.39-6.50 | 20.00-23.06 | 4.00-13.36 |
| Loans and advances to customers | 7.0-14.33 | 5.73-9.93 | 14.00-25.16 | 8.00-13.00 |
| *Liabilities* | | | | |
| Deposits: | | | | |
| - Foreign currency deposits | 4.85-6.75 | 2.25-5.00 | - | 0.50-9.00 |
| - Bank deposits | 5.25-7.35 | 3.33-5.67 | 15.00-18.56 | 2.00-6.25 |
| - Saving deposits | - | - | 19.00-19.84 | - |
| - Commercial deposits | - | - | 18.13-21.03 | - |
| - Public and other deposits | - | - | 20.08 | - |
| Obligations under repurchase agreements | 5.26-5.45 | 3.33 | 14.20-17.14 | - |
| Loans and advances from banks | 5.50-6.70 | 3.97-4.41 | 14.69-19.83 | - |

| | *2005* | | | |
|---|---|---|---|---|
| | *US$ %* | *EUR %* | *YTL %* | *Other Currencies %* |
| *Assets* | | | | |
| Loans and advances to banks | 4.10-7.00 | 2.37-2.80 | 11.23-18.75 | 2.50-9.70 |
| Debt and other fixed or floating income instruments | 7.47-10.13 | 8.16-9.14 | 17.70-20.00 | 5.89 |
| Loans and advances to customers | 6.07-13.88 | 4.07-9.74 | 15.98-23.17 | 8.00-13.00 |
| *Liabilities* | | | | |
| Deposits: | | | | |
| - Foreign currency deposits | 1.00-7.00 | 2.19-5.25 | - | 4.98-9.00 |
| - Bank deposits | 4.30-6.40 | 0.28-4.67 | 10.51-14.58 | 2.00-6.25 |
| - Saving deposits | - | - | 13.89-17.88 | - |
| - Commercial deposits | - | - | 14.25-17.20 | - |
| - Public and other deposits | - | - | 17.90 | - |
| Obligations under repurchase agreements | 4.00-4.87 | 2.38 | 14.20-15.20 | - |
| Loans and advances from banks | 4.35-7.32 | 3.08-7.20 | 14.16-15.75 | 6.59-8.48 |

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

## 24 Risk management disclosures (continued)

*Equity price risk*

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arises from trading activities and the Bank limits the risk by maintaining a small portfolio. Exposure to market risk is formally managed in accordance with risk limits.

*Currency risk*

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

The Bank and its affiliates' main foreign operations are in Netherlands and Moscow. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is YTL, the consolidated financial statements are affected by currency exchange rate fluctuations against YTL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved, excluding borrowings treated as hedges of net investments in foreign operations.

These exposures are as follows:

| | 2006 | | | |
|---|---|---|---|---|
| | US$ | EUR | Other Currencies | Total |
| *Assets* | | | | |
| Cash and balances with Central Banks | 77,645 | 1,667,966 | 27,952 | 1,773,563 |
| Financial assets at fair value through profit or loss | 753,642 | 120,445 | 43,729 | 917,816 |
| Loans and advances to banks | 1,423,477 | 810,772 | 41,899 | 2,276,148 |
| Loans and advances to customers | 8,538,077 | 5,477,231 | 354,317 | 14,369,625 |
| Other assets | 105,628 | 1,807,915 | 10,231 | 1,923,774 |
| Security investments | 5,056,269 | 253,580 | 34,221 | 5,344,070 |
| Investments in equity participations | - | 585 | - | 585 |
| Tangible assets | 355 | 60,577 | 2,748 | 63,680 |
| Deferred tax asset | 20 | - | - | 20 |
| *Total Assets* | 15,955,113 | 10,199,071 | 515,097 | 26,669,281 |

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

## 24 Risk management disclosures (continued)

| | 2006 | | | |
|---|---|---|---|---|
| | *US$* | *EUR* | *Other Currencies* | *Total* |
| *Total Assets* | *15,955,113* | *10,199,071* | *515,097* | *26,669,281* |
| *Liabilities* | | | | |
| Deposits | 11,768,646 | 6,999,858 | 773,081 | 19,541,585 |
| Obligations under repurchase agreements | 879,595 | 105,258 | - | 984,853 |
| Loans and advances from banks | 6,287,087 | 2,412,136 | 434 | 8,699,657 |
| Current and deferred tax liability | - | 2,438 | 19 | 2,457 |
| Bonds payable | - | 55,155 | - | 55,155 |
| Other liabilities and accrued expenses | 426,538 | 156,446 | 7,123 | 590,107 |
| *Total Liabilities* | 19,361,866 | 9,731,291 | 780,657 | 29,873,814 |
| *Net On Balance Sheet Position* | (3,406,753) | 467,780 | (265,560) | (3,204,533) |
| *Net Off Balance Sheet Position* | 3,382,774 | (384,901) | 394,369 | 3,392,242 |
| *Net Long/(Short) Position* | (23,979) | 82,879 | 128,809 | 187,709 |

| | 2005 | | | |
|---|---|---|---|---|
| | *US$* | *EUR* | *Other Currencies* | *Total* |
| *Total Assets* | 13,645,408 | 6,818,666 | 343,386 | 20,807,460 |
| *Total Liabilities* | 14,647,024 | 6,575,612 | 496,307 | 21,718,943 |
| *Net On Balance Sheet Position* | (1,001,616) | 243,054 | (152,921) | (911,483) |
| *Net Off Balance Sheet Position* | 784,720 | (127,497) | 223,129 | 880,352 |
| *Net Long/(Short) Position* | (216,896) | 115,557 | 70,208 | (31,131) |

For the purposes of the evaluation of the table above, the figures represent the YTL equivalent of the related hard currencies.

Approximately 106% (2005: 97%) of the amounts shown in the table above, at 31 December 2006 are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The net amount of Russian Rubles denominated assets and liabilities as included in the above table at their YTL equivalents, is a net asset of YTL 104,072 thousands at 31 December 2006 (2005: YTL 65,307 thousands).

## 24 Risk management disclosures (continued)

*Credit risk*

The Bank and its affiliates are subject to credit risk through its trading, lending, hedging and investing activities and in cases where they act as intermediaries on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 23).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Bank and its affiliates' investments, loans and advances and guarantees issued. There is no exposure to any individual customer or counterparty.

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

## 24 Risk management disclosures (continued)

Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | *Loans* | *Total Assets* | *Total Liabilities* | *Non-Cash Loans* | *Capital Expenditure* | *Net Income* |
| Turkey | 29,416,133 | 52,240,724 | 37,872,115 | 8,458,958 | 165,751 | 1,113,989 |
| Germany | 33,379 | 989,234 | 2,131,261 | 68,609 | - | (2,125) |
| Russia | 449,618 | 898,077 | 64,593 | 31,058 | 615 | 7,161 |
| Netherlands | 279,436 | 464,682 | 979,207 | 259,873 | 7,736 | 15,064 |
| USA | 49,625 | 405,167 | 4,473,149 | 16,187 | - | - |
| Romania | 222,998 | 319,181 | 228,182 | 46,682 | - | (261) |
| France | 12,144 | 301,995 | 32,019 | 27,514 | - | - |
| Luxembourg | 965 | 238,741 | 390,100 | 220 | - | 10,682 |
| England | 88,461 | 171,282 | 2,533,648 | 65,719 | - | - |
| Switzerland | 108,843 | 111,758 | 714,257 | 139,039 | - | - |
| Others | 142,150 | 951,950 | 2,733,856 | 933,517 | - | 4,990 |
| | 30,803,752 | 57,092,791 | 52,152,387 | 10,047,376 | 174,102 | 1,149,500 |

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | *Loans* | *Total Assets* | *Total Liabilities* | *Non-Cash Loans* | *Capital Expenditure* | *Net Income* |
| Turkey | 18,226,837 | 37,917,375 | 25,985,744 | 7,395,000 | 238,825 | 655,362 |
| Russia | 221,220 | 561,687 | 28,241 | 29,668 | 1,441 | 3,493 |
| Netherlands | 233,101 | 532,819 | 945,802 | 8,679 | 1,367 | 24,718 |
| USA | 22,787 | 467,953 | 3,083,236 | 7,627 | - | - |
| Germany | 18,875 | 345,633 | 1,323,955 | 2,272 | - | (354) |
| Romania | 106,487 | 308,397 | 109,648 | 16,184 | - | 3,162 |
| Luxembourg | 75,911 | 169,035 | 583,261 | 123,391 | - | 13,184 |
| Switzerland | 87,825 | 152,919 | 317,279 | 67,167 | - | |
| England | 23,934 | 57,897 | 3,110,374 | 44,971 | - | |
| France | 3,944 | 57,788 | 64,436 | 50,043 | - | |
| Others | 120,599 | 562,331 | 1,549,883 | 716,564 | - | (1,652) |
| | 19,141,520 | 41,133,834 | 37,101,859 | 8,461,566 | 241,633 | 697,913 |

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Approximately 72% of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for guarantees and letters of credit is approximately 79%.

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

## 24 Risk management disclosures (continued)

The Bank generally seeks collateral security comprised of real estate and other mortgages of varying ranking, charges on commodity inventories, letters of guarantee, promissory notes and similar items. The breakdown of cash and non-cash loans and advances to customers by type collateral is as follows:

| | 2006 | 2005 |
|---|---|---|
| *Cash loans* | | |
| Secured loans: | 21,811,384 | 12,058,910 |
| Secured by cash collateral | 1,094,525 | 725,240 |
| Secured by mortgages | 5,195,898 | 3,215,626 |
| Secured by government institutions or government securities | 1,190,992 | 797,961 |
| Guarantees issued by financial institutions | 261,358 | 111,705 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 14,068,611 | 7,208,378 |
| Unsecured loans | 8,448,451 | 6,687,936 |
| Total performing loans and financial lease receivables | 30,259,835 | 18,746,846 |
| *Non-cash loans* | | |
| Secured loans: | 7,925,065 | 6,564,654 |
| Secured by cash collateral | 316,893 | 221,195 |
| Secured by mortgages | 126,022 | 13,862 |
| Secured by government institutions or government securities | - | - |
| Guarantees issued by financial institutions | 26,157 | 14,214 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 7,455,993 | 6,315,383 |
| Unsecured loans | 2 ,122,311 | 1,896,912 |
| Total non-cash loans | 10,047,376 | 8,461,566 |

### *24.4 Hedging*

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

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

## 24 Risk management disclosures (continued)

In 2004, the Bank has entered into an interest rate swap transaction in order to hedge its certain cash flow exposures primarily on floating rate liabilities, through converting its floating rate payments into fixed rate payments. The following table includes certain characteristics of this swap transaction:

| *Notional amount* | *Fixed payer rate (%)* | *Floating payer rate (%)* | *Fixed payment frequency* | *Maturity* |
|---|---|---|---|---|
| US$ 160 millions | 5.445 | 3 month libor + 175 | Quarterly | 2009 |

## 25 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 31 December 2006:

| *Affiliates* | *Shareholding Interest (%)* |
|---|---|
| Garanti Bank International NV | 100.00 |
| Garanti Bank Moscow | 100.00 |
| Garanti Sigorta AŞ | 100.00 |
| Garanti Emeklilik ve Hayat AŞ | 100.00 |
| Garanti Portföy Yönetimi AŞ | 100.00 |
| Garanti Yatırım Menkul Kıymetler AŞ | 100.00 |
| Garanti Financial Services plc. | 100.00 |
| Garanti Fund Management Co. Ltd. | 100.00 |
| Garanti Bilişim Teknolojisi | 100.00 |
| Galata Araştırma Yayıncılık Tanıtım ve Bilişim Teknoloji Hizmetleri AŞ | 100.00 |
| Garanti Finansal Kiralama AŞ | 98.94 |
| Garanti Faktoring Hizmetleri AŞ | 81.84 |
| Garanti Diversified Payment Rights Finance Company | - *(a)* |

***(a)*** *Garanti Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions explained in Note 17. The Bank or any of its affiliates does not have any shareholding interest in this company.*

In the first quarter of 2005, the Bank sold its shares in Konaklı Temizlik Taşımacılık Organizasyon Bilgisayar Danışmanlık Yapı ve Ticaret AŞ (99.97%), a consolidated non-financial affiliate at a price of YTL 11,723 thousands resulting in a loss of YTL 85 thousands.

The Bank merged with Ana Konut Danışmanlık AŞ (100.00%), a consolidated non-financial affiliate on 28 September 2005, taking over all the rights, assets, liabilities and obligation of this company ceasing its legal corporate existence after the merger.

## 25 Affiliates and associates (continued)

During the year 2005, the shares in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, one of its non-financial associates were sold in two transactions at a total price of YTL 3,470 thousands to E Haber Ajansı Reklam ve Ticaret AŞ, a related party.

The liquidation processes of Bosphorus Financial Services Ltd. (100.00%) and Clover Investments Co. (100.%) have been completed as of 31 December 2005 and the affiliates have been disposed of.

As per the Agreement signed with GE on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank issued share capital, the Bank sold some of its consolidated affiliates to Doğuş Holding AŞ in December 2005. These affiliates were Voyager Mediterranean Turizm End. ve Tic. AŞ (77.00%), Sititur Turizm taşımacılık Org. AŞ (99.95%), Lasaş Lastik San. ve Tic. (99.99%), Doğuş Hava Taşımacılığı AŞ (100.00%), Şahintur Şahinler Otelcilik Turizm Yatırım İşletmeleri AŞ (100.00%) and Doğuş Turizm Sağlık Yat. İşlt. Tic. AŞ (100.00%). Subsequent to the year end 2005, the Bank further sold certain equity participations to Doğuş Holding AŞ, that were categorized as the second group as per this Agreement, namely Garanti Turizm Yatırım ve İşletmeleri AŞ and Doc Finance SA with a total book value of YTL 31,556 thousands on 17 April 2006.

As further explained in Note 26, early in December 2006, the Bank sold its 50.98% participation in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, a consolidated affiliate, to certain related parties.

Garanti Fund Management Co. Ltd. (100.00%) is under liquidation as of the reporting date. The liquidation procedures are expected to complete in the first half of 2007.

## 26 Discontinued operation

The Bank received a joint offer from General Electric Capital Corporation and Doğuş Holding AŞ, on 27 October 2006 for the acquisition of 1,475,410 A-group shares and 36,147,535 B-group shares of Garanti Gayrimenkul Yatırım Ortaklığı AŞ, its consolidated affiliate at a price of YTL 1.928 per share. In this offer, it is also stated that an application will be made for a call to the shares held by the public at the offered price. The Bank's authorized bodies accepted this offer on 2 November 2006 and the sale took place on 1 December 2006. In the accompanying consolidated financial statements, the Bank incurred a net gain amounting approximately YTL 15,772 thousands as at 31 December 2006 on the disposal of its 50.98% participation in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, being the proceeds of disposal less the carrying amount of the consolidated affiliate's net assets and attributable goodwill. The tax expense effect of the gain on this sale amounts to YTL 1,274 thousands in accordance with the statutory requirements.

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

## 26 Discontinued operation (continued)

The results of the discontinued operation included in the accompanying consolidated income statement are as follows:

| | *30 November* **2006** | *31 December* **2005** |
|---|---|---|
| Gross profit | 7,134 | 9,471 |
| Expenses | (5,630) | (5,768) |
| Income before loss on monetary position | 1,504 | 3,703 |
| Loss on monetary position, net | - | (1,182) |
| Net results of discontinued operation | 1,504 | 2,521 |

As at 30 November 2006, Garanti Gayrimenkul Yatırım Ortaklığı AŞ had YTL 109 thousands (31 December 2005: YTL 802 thousands) of interest income on deposits at banks, YTL 39 thousands (31 December 2005: -) of interest expense on borrowings and YTL 566 thousands (31 December 2005: YTL 535 thousands) of rent income from intercompany transactions that were eliminated in the accompanying consolidated financial statements during consolidation process.

During the eleven-month period, Garanti Gayrimenkul Yatırım Ortaklığı AŞ contributed YTL 8,891 thousands (31 December 2005: YTL 10,447 thousands) to the Bank’s net operating cash flow, paid YTL 23,983 thousands (31 December 2005: YTL 13,542 thousands) in respect of investing activities and paid YTL 12,137 thousands (31 December 2005: -) in respect of financing activities.

The effect of discontinued operation on segment results is also included in Note 1 under “other financial” segment.

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

## 26 Discontinued operation (continued)

The major classes of assets and liabilities comprising the operation classified as held for sale are as follows:

| | *30 November* **2006** | *31 December* **2005** |
|---|---|---|
| Cash and balances with Central Banks | 2 | 4 |
| Financial assets at fair value through profit or loss | - | 25,712 |
| Loans and advances to banks | 58 | 2,237 |
| Other assets | 41,188 | 34,826 |
| Tangible assets, net | 95,657 | 71,969 |
| Total assets | 136,905 | 134,748 |
| Loans and advances from banks | 12,176 | - |
| Other liabilities and accrued expenses | 38,774 | 50,298 |
| Total liabilities | 50,950 | 50,298 |
| Net asset of sold company | 85,955 | 84,450 |
| Bank's share in net assets of sold company | 43,820 | 43,052 |
| Bank's share in real estate adjustment for the company at consolidation level | 12,430 | 12,430 |
| Goodwill associated with sold company | 515 | 515 |
| Total net asset of sold company | 56,765 | 55,997 |
| Proceeds from sale | 72,537 | |
| Gain on sale | 15,772 | |

As at 30 November 2006, Garanti Gayrimenkul Yatırım Ortaklığı AŞ had YTL 58 thousands (31 December 2005: YTL 2,237 thousands) of loans and advances to banks, YTL 1,294 thousands (31 December 2005: YTL 1,294 thousands) of other assets, YTL 12,176 thousands (31 December 2005: -) of loans and advances from banks, YTL 21 thousands (31 December 2005: YTL 2 thousands) of other liabilities and accrued expenses from intercompany balances that were eliminated in the accompanying consolidated financial statements during consolidation process.

## 27 Significant events

The Bank decided to entrust Watson Wyatt Limited with the assessment of potential merger, joint venture, share purchase and sale prospects for Garanti Sigorta AŞ and Garanti Emeklilik ve Hayat AŞ, as their parent company, in the insurance sector. As of the reporting date, negotiations with various prospective strategic investors continue.

The Bank signed a preliminary agreement with the European Investment Bank in March 2006 for a 10-year loan amounting EUR 100 millions to finance its commercial and SME customers. The loan related processes is still in progress.

On 29 November 2006, the Bank signed an agreement for a club term loan facility of US$ 700 millions with a maturity of two years and interest rate of libor+0.625% per annum.

On 4 December 2006, the Bank secured US$ 500 millions through another Diversified Payment Rights securitisation transaction. The borrowing has two tranches; US$ 100 millions with eight years maturity, and US$ 400 millions with 10 years maturity.

## 28 Subsequent event

On 5 February 2007, Garanti Bank obtained a 10-year maturity subordinated fixed-rate notes of US$500 millions due February 2017 with a repayment option for the Bank at the end of the fifth year. The fixed rate notes with Political Risk Insurance provided by Steadfast (a subsidiary of Zurich American Insurance Company) received a rating of Baa1 by Moody's Investors Service and priced at par to yield 6.95% to investors (20.7 bps over comparable US Treasuries).

..................................................................