

**Anadolubank**  
**Anonim Őirketi and Its Subsidiaries**

**Consolidated Interim Financial Information**  
**As of 30 June 2006**  
**Together With**  
**Independent Auditor's Review Report**

Akis Serbest Muhasebeci ve  
Mali Műşavirlik Anonim Őirketi  
25 August 2006

*This report includes 1 page of independent  
auditors' review report and 36 pages of  
consolidated interim financial information  
together with their explanatory notes.*

# Anadolubank Anonim Őirketi and Its Subsidiaries

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## **Independent Auditor's Review Report**

To the Board of Directors of  
Anadolubank Anonim Şirketi

We have reviewed the accompanying consolidated balance sheet of Anadolubank Anonim Şirketi (the Bank) and its subsidiaries (collectively "the Group") as of 30 June 2006; and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month period then ended. This consolidated interim financial information is the responsibility of the Bank's management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of Group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Group as of 30 June 2006, and the results of its operations and its cash flows for the six-month period then ended in accordance with IAS 34, "Interim Financial Reporting".

Istanbul, Turkey  
25 August 2006

**Anadolubank AŞ and Its Subsidiaries**  
**Consolidated Balance Sheet**  
**As at 30 June 2006**  
*Currency – Thousands of New Turkish Lira (YTL)*

	<b>Notes</b>	<b>30 June 2006</b>	<b>31 December 2005</b>
<b>ASSETS</b>			
Cash and balances with the Central Bank	1	159,485	41,021
Deposits with banks and other financial institutions	1	181,952	94,541
Interbank money market placements	1	--	280,210
Reserve deposits at the Central Bank	2	136,330	107,077
Financial assets at fair value through profit or loss	3	26,131	206,298
Investment securities	4	821,278	451,228
Loans and receivables	5	1,410,631	1,170,442
Derivative financial instruments	13	608	335
Property and equipment	7	19,537	20,433
Intangible assets		87	183
Deferred tax assets	12	72	--
Other assets	8	15,278	3,723
<b>Total assets</b>		<b><u>2,771,389</u></b>	<b><u>2,375,491</u></b>
<b>LIABILITIES AND EQUITY</b>			
Deposits from other banks	9	187,402	200,917
Customers' deposits	9	1,718,515	1,436,277
Other money market deposits	9	84,522	268,731
Funds borrowed	10	516,228	191,409
Derivative financial instruments	13	452	152
Other liabilities and provisions	11	44,873	34,519
Income taxes payable	12	--	4,306
Deferred tax liability	12	557	5,518
<b>Total liabilities</b>		<b><u>2,552,549</u></b>	<b><u>2,141,829</u></b>
Share capital issued	14	100,976	100,976
Revaluation of available-for-sale assets		(6,200)	25,411
Currency translation differences		(2,197)	(1,726)
Other reserves and accumulated profits	15	125,211	107,966
<b>Total equity attributable to equity holders of the parent</b>		<b><u>217,790</u></b>	<b><u>232,627</u></b>
<b>Minority interest</b>		<b>1,050</b>	<b>1,035</b>
<b>Total equity</b>		<b><u>218,840</u></b>	<b><u>233,662</u></b>
<b>Total liabilities and equity</b>		<b><u>2,771,389</u></b>	<b><u>2,375,491</u></b>
<b>Commitments and contingencies</b>	19		

**Anadolubank AŞ and Its Subsidiaries**  
**Consolidated Income Statement**  
**For the six-month period ended 30 June 2006**  
*Currency – Thousands of New Turkish Lira (YTL)*

	Notes	30 June 2006	30 June 2005
<b>Interest income</b>			
Interest on loans and receivables		85,556	66,330
Interest on securities		40,158	42,803
Interest on deposits with banks and other financial institutions		7,760	6,518
Interest on other money market placements		1,842	8
Other interest income		537	367
<b>Total interest income</b>		<b>135,853</b>	<b>116,026</b>
<b>Interest expense</b>			
Interest on deposits		(67,806)	(54,589)
Interest on other money market deposits		(9,011)	(19,241)
Interest on funds borrowed		(11,879)	(2,560)
Other interest expense		(142)	(207)
<b>Total interest expense</b>		<b>(88,838)</b>	<b>(76,597)</b>
<b>Net interest income</b>		<b>47,015</b>	<b>39,429</b>
Fees and commissions income		26,977	15,510
Fees and commissions expense		(6,103)	(1,998)
<b>Net fees and commissions income</b>		<b>20,874</b>	<b>13,512</b>
<b>Other operating income</b>			
Trading income		5,973	4,252
Foreign exchange gain		--	8,701
Other income		6,890	1,234
<b>Total other operating income</b>		<b>12,863</b>	<b>14,187</b>
<b>Other operating expense</b>			
Salaries and employee benefits	17	(26,592)	(20,094)
Foreign exchange loss		(7,619)	--
Provision for possible loan losses, net of recoveries	5	--	(2,991)
Depreciation and amortization		(2,504)	(3,323)
Taxes other than on income		(1,653)	(1,964)
Other expenses	18	(17,667)	(14,406)
<b>Total other operating expense</b>		<b>(56,035)</b>	<b>(42,778)</b>
<b>Income from operations</b>		<b>24,717</b>	<b>24,350</b>
Income tax provision	12	(7,457)	(7,136)
Loss on monetary position		--	(5,426)
<b>Net income for the period</b>		<b>17,260</b>	<b>11,788</b>
<b>Net income for the period attributable to:</b>			
Equity holders of the Bank		17,245	11,696
Minority interest		15	92

**Anadolubank AŞ and Its Subsidiaries**  
**Consolidated Statement of Changes in Equity**  
**For the six-month period ended 30 June 2006**  
*Currency – Thousands of New Turkish Lira (YTL)*

	Share capital	Adjustment to share capital	Minority Interest	Currency translation differences	Revaluation of available-for-sale assets	Legal reserves and Accumulated profits	Total
<b>Balances at 1 January 2005</b>	<b>66,000</b>	<b>34,976</b>	<b>807</b>	<b>(1,726)</b>	--	<b>70,123</b>	<b>170,180</b>
Net market value losses from available-for-sale portfolio, net off tax	--	--	--	--	(203)	--	(203)
Currency translation differences	--	--	--	--	--	--	--
Net income for the six-month period	--	--	92	--	--	11,696	11,788
<b>At 30 June 2005</b>	<b>66,000</b>	<b>34,976</b>	<b>899</b>	<b>(1,726)</b>	<b>(203)</b>	<b>81,819</b>	<b>181,765</b>
<b>Balances at 1 January 2006</b>	<b>66,000</b>	<b>34,976</b>	<b>1,035</b>	<b>(1,726)</b>	<b>25,411</b>	<b>107,966</b>	<b>233,662</b>
Net market value losses from available-for-sale portfolio, net off tax	--	--	--	--	(31,611)	--	(31,611)
Currency translation differences	--	--	--	(471)	--	--	(471)
Net income for the six-month period	--	--	15	--	--	17,245	17,260
<b>At 30 June 2006</b>	<b>66,000</b>	<b>34,976</b>	<b>1,050</b>	<b>(2,197)</b>	<b>(6,200)</b>	<b>125,211</b>	<b>218,840</b>

**Anadolubank AŞ and Its Subsidiaries**  
**Consolidated Cash Flows Statement**  
**For the six-month period ended 30 June 2006**  
*Currency – Thousands of New Turkish Lira (YTL)*

	<b>Note</b>	<b>30 June</b>	<b>30 June</b>
	<b>s</b>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>			
Income before minority interest and monetary loss		17,260	17,214
Deferred taxation		7,405	(634)
Provision for loan losses		--	2,991
Depreciation and amortization		2,504	3,323
Provision for retirement pay liability	11	375	242
Other various expense accruals		3,393	1,561
Currency translation differences		(471)	--
		<b>30,466</b>	<b>24,697</b>
<b>Operating profit before changes in operating assets and liabilities</b>			
<b>Changes in operating assets and liabilities</b>			
Reserve deposits		(29,253)	4,235
Financial assets at fair value through profit or loss		180,167	146,195
Loans and receivables		(240,189)	(102,063)
Derivatives		(27)	2,223
Other assets		(11,555)	3,253
Deposits		84,514	70,720
Other liabilities and provisions		6,642	(4,951)
Income taxes payable		(4,305)	4,054
		<b>16,460</b>	<b>148,363</b>
<b>Cash provided by operating activities</b>			
<b>Cash flows from investing activities</b>			
Net investment in property and equipment, and intangible assets		(1,512)	(4,248)
Disposal of investment securities		31,667	93,771
Acquisition of investment securities		(445,769)	(351,385)
		<b>(415,614)</b>	<b>(261,862)</b>
<b>Cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Proceeds from funds borrowed		354,746	97,905
Repayment of funds borrowed		(29,927)	(133,120)
		<b>324,819</b>	<b>(35,215)</b>
<b>Cash provided by/ (used in) financing activities</b>			
Effect of monetary gain/(loss) on cash and cash equivalent		--	(9,486)
Net decrease in cash and cash equivalents		(74,335)	(148,714)
Cash and cash equivalents at the beginning of the period		415,772	303,543
		<b>341,437</b>	<b>145,343</b>
<b>Cash and cash equivalents at the end of the period</b>			
Interest paid		95,808	82,045
Interest received		82,746	155,024

# **Anadolubank AŞ and Its Subsidiaries**

## **Notes to Consolidated Interim Financial Information**

### **As of and for the six-month period ended 30 June 2006**

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

#### **Overview of the Bank**

Anadolubank AŞ (“the Bank”), has commenced operations pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692 and started its operations on 25 September, 1997 in Turkey under the Turkish Banking and Commercial Codes. The Bank provides corporate, commercial and retail banking services through a network of 60 domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No:77 80260 Bomonti-Şişli / Istanbul-Turkey. The parent and the ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

The Bank has three consolidating subsidiaries which are Anadolu Off-shore Limited (“Anadolu Offshore”), Anadolu Yatırım Menkul Kıymetler AŞ (“Anadolu Yatırım”) and Anadolu Finansal Kiralama AŞ (Anadolu Leasing).

The Bank has 99.4% ownership in Anadolu Offshore, established in the Turkish Republic of Northern Cyprus (TRNC). Anadolu Offshore is licensed to undertake all commercial banking transactions.

The Bank has 82% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has 99.92% ownership in Anadolu Leasing, located in Istanbul. Anadolu Leasing was established on 8 December 2005 by obtaining the leasing license which is required to operate in the financial leasing sector.

The Bank has applied to Banking Regulation and Supervision Agency (BRSA) for founding a bank in Holland on 16 January 2004. As of 30 June 2006, the Bank is in the process of gathering and preparing the documents which are necessary to acquire the banking license in Holland.

For the purposes of the consolidated interim financial information, the Bank and its consolidated subsidiaries are referred to as “the Group”.



**Anadolubank AŞ and Its Subsidiaries**  
**Notes to Consolidated Interim Financial Information**  
**As of and for the six-month period ended 30 June 2006**  
(Currency – Thousands of New Turkish Lira (YTL))

**Significant accounting policies**

The principal accounting policies applied in the preparation of the accompanying consolidated interim financial information are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

**a) Statement of compliance**

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in New Turkish Lira (“YTL”) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), regulations promulgated by the Capital Market Board of Turkey and also the Turkish Commercial Code; The Bank’s foreign subsidiary maintains its books of account and prepares its statutory financial statements in U.S. Dollars and in accordance with the regulations of the country in which it operates.

The accompanying consolidated interim financial information have been prepared in accordance with International Accounting Standard No. 34, “Interim Financial Reporting” and are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (“IFRS”). The Group adopted all IFRS, which were mandatory as of 30 June 2006. The accompanying consolidated interim financial information is authorized for issue by the directors on 25 August 2006.

**b) Basis of preparation**

The accompanying consolidated interim financial information are presented in thousands of YTL. The application of IAS 29 “Financial Reporting in Hyperinflationary Economies” has ceased starting from 1 January 2006 because Turkey is no longer considered a hyperinflationary economy.

The accompanying consolidated interim financial information are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

**c) Basis of consolidation**

*i) Methodology*

The accompanying consolidated interim financial information include the accounts of the Bank and its subsidiaries on the basis set out in section below. The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the consolidated interim financial information.

For the purposes of the accompanying consolidated interim financial information, the subsidiaries are those companies over which the Bank has a controlling power on their operating and financial policies through having more than 50% of the ordinary shares held by the Bank and/or its other subsidiaries.

The major principles of consolidation are as follows:

- The balance sheets and income statements are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the balance sheets and income statements are eliminated.
- The results of the subsidiaries are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Minority interests in the shareholders’ equity and net income of the consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated income statements

**Anadolubank AŞ and Its Subsidiaries**  
**Notes to Consolidated Interim Financial Information**  
*As of and for the six-month period ended 30 June 2006*  
*(Currency – Thousands of New Turkish Lira (YTL))*

**Significant accounting policies (continued)**

*ii) Subsidiaries*

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

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			30 June 2006	31 December 2005
Anadolu Yatırım	Istanbul/Turkey	Brokerage	82.00	82.00
Anadolu Offshore	Turkish Republic of Northern Cyprus	Banking	99.40	99.40
Anadolu Leasing	Istanbul/Turkey	Leasing	99.92	99.92

**d) Accounting in hyperinflationary economies**

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 “Financial Reporting in Hyperinflationary Economies” as of 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Institute of Statistics (TIS). This together with the sustained positive trend in quantitative factors, such as the experienced financial and monetary economic stabilization, decreased interest rates and the appreciated value of Turkish Lira against USD, has resulted that Turkey should be considered non-hyperinflationary under IAS 29 from 1 January 2006. Therefore IAS 29 has not been applied to the accompanying consolidated interim financial statements as of and for the six-month period ended 30 June 2006.

For the period ended 30 June 2005 and the year ended 31 December 2005, such indices and conversion factors used to restate the accompanying consolidated financial statements presented for comparative purposes are as follows:

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 December 2005	8,627.60	1.000
30 June 2005	8,677.15	1.013

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.

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**Notes to Consolidated Interim Financial Information**  
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*(Currency – Thousands of New Turkish Lira (YTL))*

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

- 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”.

**e) Foreign currency**

*i) Foreign currency transactions*

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

*ii) Consolidated financial statements of foreign operations*

The functional currency of the foreign subsidiary, Anadolubank Offshore, is USD and it is translated to the presentation currency, YTL, for the consolidation purposes, as summarized in the following paragraph.

The assets and liabilities of the foreign subsidiary are translated at the rate of exchange ruling at the balance sheet date. The income statement of the foreign subsidiary is translated at quarterly average exchange rates. On consolidation exchange differences arising from the translation of the net investment in foreign entities are included in equity as currency translation differences until the disposal of such subsidiary.

**f) Property and equipment**

The costs of property and equipment purchased before 31 December 2005 are restated for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29. The property and equipment purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at costs, less accumulated depreciation and impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period in the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of property and equipment.

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

	Years
Buildings and land improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	Lease period

The carrying values of property and equipment are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use.

**Anadolubank AŞ and Its Subsidiaries**  
**Notes to Consolidated Interim Financial Information**  
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(Currency – Thousands of New Turkish Lira (YTL))

**Significant accounting policies (continued)**

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

**g) Intangible assets**

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the period in which it is incurred. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

The carrying values of intangible assets are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable.

**h) Financial instruments**

*Classification*

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

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

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt investment.

*Available-for-sale assets* are financial assets that are not held for trading purposes, loans and receivables to banks and customers, or held to maturity. Available-for-sale instruments include certain debt investment.

*Recognition*

Financial assets at fair value through profit or loss and available-for-sale assets are recognized on the date at which the purchase of the assets is committed. From this date any gains and losses arising from changes in fair value of the assets are recognized. Held-to-maturity instruments and loans and receivables are recognized on the day they are transferred to the Group.

*Measurement*

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. 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.

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**Notes to Consolidated Interim Financial Information**  
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**Significant accounting policies (continued)**

*Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

*Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of financial instruments are recognized in the income statement as net gain/(loss) on trading and investment securities.

Gains and losses arising from a change in the fair value of available-for-sale securities are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement. Interest earned whilst holding available-for-sale securities is reported as interest income. Interest earned whilst holding held to maturity assets is reported as interest income.

**i) Derecognition of financial instruments**

A financial asset is derecognized when the Group loses control over the contractual rights that comprise that asset. 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 financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group commits 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 Group.

**j) Repurchase transactions**

The Group enters into purchases/(sales) of investments under agreements to resell/(repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

**k) 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.

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**Notes to Consolidated Interim Financial Information**  
**As of and for the six-month period ended 30 June 2006**  
(Currency – Thousands of New Turkish Lira (YTL))

**Significant accounting policies (continued)**

The recoverable amount of loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific allowance for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivables to their recoverable amounts.

The Group fully reflected all specific provisions in the accompanying consolidated interim financial information. The expected cash flows for loans are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

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

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

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

**l) Income and expense recognition**

Interest income and expense is recognized as they are accrued taking into account the effective yield of the asset or an applicable floating rate, except for interest income on overdue loans, which are generally recognized only when received.

Fee and commission income arising on financial services provided, including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services is recognized when the corresponding service is provided. Certain commissions, such as those deriving from letters of guarantee and other banking services are also usually recognized as income when received.

Net gain/(loss) on trading and investment securities includes gains and losses arising from disposals and changes in the fair value of financial assets at fair value through profit or loss and available-for-sale.

**m) Items held in trust**

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

**n) Reserve for employee severance indemnity**

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

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**Significant accounting policies (continued)**

In the accompanying consolidated interim financial information, the Group has reflected a liability calculated using actuarial method and discounted by using the current market yield at the balance sheet date on government bonds, in accordance with IAS 19- “Employee Benefits”.

The principal actuarial assumptions used at 30 June 2006 and 31 December 2005 are as follows;

	<b>30 June</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
Discount rate	6%	6%
Expected rate of salary/limit increase	12%	12%
Turnover rate to estimate the probability of retirement	23%	25%

Actuarial gains and losses are recognized in the income statement in the period they occur.

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 30 June 2006 is YTL 1,770; at 31 December 2005 it was YTL 1,727. The liability is not funded, as there is no funding requirement.

**o) Income taxes**

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

Deferred tax liabilities and assets are recognized for the tax effects attributable to differences between the tax and book bases of assets and liabilities (i.e. future deductible or taxable temporary differences) and tax losses carried forward, using the liability method. The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset at the balance sheet date.

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

Deferred tax assets and liabilities relating to individual consolidated subsidiaries that report to the same fiscal authority are offset against each other in the accompanying consolidated financial statements.

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

**p) Offsetting**

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

**q) Provisions**

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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**Significant accounting policies** (continued)

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

**r) Subsequent events**

Post-balance sheet events that provide additional information about the Group's position at the balance sheet dates (adjusting events) are reflected in the consolidated interim financial information. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.



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**1. CASH AND CASH EQUIVALENTS**

	<b>30 June 2006</b>	<b>31 December 2005</b>
Cash on hand	20,298	24,917
Balances with the Central Bank	139,187	16,104
Deposits with banks and other financial institutions	181,952	94,541
Interbank money market placements	--	280,210
<b>Cash and cash equivalents in the balance sheet</b>	<b>341,437</b>	<b>415,772</b>
Less: Time deposits with original maturities of more than three months	--	--
<b>Cash and cash equivalents in the cash flow statement</b>	<b>341,437</b>	<b>415,772</b>

As of 30 June 2006 and 31 December 2005, interest range of deposits and placements are as follows:

	<b>30 June 2006</b>				<b>31 December 2005</b>			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign Currency	YTL	Foreign Currency	YTL	Foreign Currency	YTL	Foreign Currency
Balances with the Central Bank	36	139,151	10.3-12,9	1.14-2.42	907	15,197	10.25	1.1-2.0
Deposits with banks and other financial institutions	10,045	171,907	13.5-18.0	2.00-5.28	2,069	92,472	14.5-15.00	2.4-4.3
Interbank money market placements	--	--	--	--	280,210	--	14.44	--
<b>Total</b>	<b>10,081</b>	<b>311,058</b>			<b>283,186</b>	<b>107,669</b>		

**2. RESERVE DEPOSITS AT THE CENTRAL BANK**

	<b>30 June 2006</b>	<b>31 December 2005</b>
- YTL	51,445	41,113
- Foreign currency	84,885	65,964
<b>Total</b>	<b>136,330</b>	<b>107,077</b>

According to the regulations of the Central Bank, banks are obliged to reserve a certain portion of their liability accounts as specified in the related decree. Such reserves are deposited with the Central Bank.

As of 30 June 2006 and 31 December 2005, reserve deposit rates applicable for YTL and foreign currency deposits were 6% and 11%, respectively.

As of 30 June 2006, the interest rates applied for YTL and foreign currency reserve deposits are 12.93% and 1.2% - 2.4% (31 December 2005: 10.25% and 1.1% - 2.0%), respectively.

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**3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

**Financial assets at fair value through profit or loss**

	30 June 2006		31 December 2005	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
<b>Debt instruments</b>				
Turkish government bonds	23,381	13.24-23.43	183,636	13.81 – 19.80
Turkish treasury bills	234	14.25-22.25	16,219	13.87 – 15.81
Eurobonds issued by the Turkish government	2,513	5.50-12.38	6,333	5.50-12.38
	26,128		206,188	
<b>Others</b>				
Equity securities (listed)	3	--	110	--
<b>Total financial assets at fair value through profit or loss</b>	<b>26,131</b>		<b>206,298</b>	

Carrying value of debt instruments given as collateral under repurchase agreements are:

	30 June 2006	31 December 2005
Financial assets at fair value through profit or loss	4,192	60,928

As of 30 June 2006, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 73 and YTL 3,864 (31 December 2005 – YTL 37,771 and YTL 39,534), respectively.

**4. INVESTMENT SECURITIES**

As at 30 June 2006 and 31 December 2005, investment securities comprised the following:

	30 June 2006	31 December 2005
Available for sale securities	439,334	451,228
Held to maturity securities	381,944	--
<b>Total investment securities</b>	<b>821,278</b>	<b>451,228</b>

**Available-for-sale securities**

	30 June 2006		31 December 2005	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
<b>Debt instruments</b>				
Turkish government bonds	140,809	21.00	157,296	21.20
Eurobonds issued by Turkish government	166,684	7.25-11.44	146,693	10.50-11.88
Foreign currency government bonds	131,841	7.20-8.90	111,300	5.68-6.24
Foreign currency indexed government bonds	--		35,939	(a)
<b>Total available-for-sale securities</b>	<b>439,334</b>		<b>451,228</b>	

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**4. INVESTMENT SECURITIES** *(continued)*

(a) The interest rates applied on these securities are Libor+2.85% as fixed semiannually by the Turkish Treasury.

Carrying value of debt instruments given as collateral under repurchase agreements are:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Available-for-sale securities	93,204	250,066

As of 30 June 2006, the Bank does not have any securities kept in institutions for legal requirements and as a guarantee for stock exchange and money market operations. As of 31 December 2005, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 37,771 and YTL 39,684, respectively.

The Group has also given the governments bonds with the carrying value of YTL 86,607 (USD 54,031 thousand) and nominal amount of YTL 53,362 as collateral to Morgan Stanley Bank International Limited for the funds borrowed amounting YTL 60,000.

**Held to Maturity securities**

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>Amount</b>	<b>Effective Interest rate (%)</b>	<b>Amount</b>	<b>Effective Interest rate (%)</b>
<b>Debt instruments</b>				
Turkish government bonds	213,458	13.82	--	--
Eurobonds issued by Turkish government	168,486	7.41	--	--
<b>Total available-for-sale securities</b>	<b>381,944</b>		--	

The Bank has reclassified the securities from available for sale securities to held to maturity securities with the fair value of YTL 375,941 at the transfer date in accordance with the decision of Board of Directors dated 8 May 2006. The previous loss of YTL 10,346, net off deferred tax that has been recognized directly in equity has been accounted to be amortized to income statement over the remaining life of the transferred securities using the effective interest method.

The fair value of held to maturity securities which has been determined by using available market prices is YTL 337,385.

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**5. LOANS AND RECEIVABLES**

<b>30 June 2006</b>							
	Amount				Effective Interest Rate (%)		
	YTL	Foreign Currency	Foreign Currency Indexed	Total	YTL	Foreign currency	Foreign Currency Indexed
Minimum lease receivables (note 6)	3,744	10,217	--	13,961	20.60-22.44	7.29-12.56	--
Corporate loans	550,665	430,350	262,940	1,243,955	14.00-28.70	3.92-10.00	4.50-10.00
Consumer loans	104,999	--	16,323	121,322	11.88-34.80	--	3.00-10.05
Credit cards	25,098	--	--	25,098	67.44	--	--
<b>Total loans</b>	<b>684,506</b>	<b>440,567</b>	<b>279,263</b>	<b>1,404,336</b>			
Loans in arrears				17,475			
Less: Reserve for possible loan losses				(11,180)			
				<b>1,410,631</b>			
<b>31 December 2005</b>							
	Amount				Effective Interest Rate (%)		
	YTL	Foreign Currency	Foreign Currency Indexed	Total	YTL	Foreign Currency	Foreign Currency Indexed
Minimum lease receivables	--	--	--	--	--	--	--
Corporate loans	599,143	294,777	177,374	1,071,294	14.00-30.00	3.70-8.00	3.50-8.00
Consumer loans	35,772	--	42,205	77,977	11.88-23.88	--	6.12-9.60
Credit cards	21,171	--	--	21,171	54.00	--	--
<b>Total loans</b>	<b>656,086</b>	<b>294,777</b>	<b>219,579</b>	<b>1,170,442</b>			
Loans in arrears				15,887			
Less: Reserve for possible loan losses				(15,887)			
				<b>1,170,442</b>			

Movements in the reserve for possible loan losses:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Reserve at beginning of period/year	15,887	14,357
Provision for possible loan losses	5,052	5,474
Effect of change in estimates of recoverable amount	(6,297)	--
Recoveries	(3,462)	(1,204)
Provision, net of recoveries and changes in estimates	(4,707)	4,270
Loans written off during the period/year	--	(2,368)
Monetary (gain)/loss	--	(372)
<b>Reserve at end of period/year</b>	<b>11,180</b>	<b>15,887</b>

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**5. LOANS AND RECEIVABLES** *(continued)*

The Bank had provided the specific allowances for the carrying amount of loans and receivables that were identified as being impaired by estimating their collateral as worthless in prior periods. The Bank has re-assessed the fair value of collaterals taken for the loans in arrears and concluded that the recoverable amount of loans and receivables in arrears increased due to the fact that the collaterals become more valuable in line with the improvement in the economy. Accordingly, the Bank has reversed the provisions of YTL 6,297.

As of 30 June 2006, loans and receivables on which interest is not being accrued, amounted to YTL 11,180 (31 December 2005 – YTL 15,887). There is no uncollected interest accrued on impaired loans.

**6. MINIMUM LEASE RECEIVABLES**

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

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following financial lease receivables:

	<b>30 June</b>
	<b><u>2006</u></b>
Financial lease receivables, net of unearned income (note 5)	13,961
Less: allowance for possible losses on lease receivables	<u>-</u>
	<u>13,961</u>
<i>Analysis of net financial lease receivables</i>	
Due within 1 year	7,361
Due between 1 and 5 years	<u>9,087</u>
Financial lease receivables, gross	16,448
Unearned income	<u>(2,487)</u>
Financial lease receivables, net	<u>13,961</u>
<i>Analysis of net financial lease receivables, net</i>	
Due within 1 year	8,006
Due between 1 and 5 years	<u>5,955</u>
Financial lease receivables, net	<u>13,961</u>

**7. PROPERTY AND EQUIPMENT**

Movement in tangible assets as of and for the period ended 30 June 2006 is as follows:

	<b><u>31 December 2005</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>30 June 2006</u></b>
<b>Cost</b>				
Buildings	4,742	--	--	4,742
Motor vehicles	3,470	198	--	3,668
Furniture, office equipment and leasehold improvements	53,663	1,402	--	55,065
	<b>61,875</b>	<b>1,600</b>	<b>--</b>	<b>63,475</b>
<b>Accumulated Depreciation</b>				
Buildings	681	47	--	728
Motor vehicles	1,903	237	--	2140
Furniture, office equipment and leasehold improvements	38,858	2,212	--	41,070
	<b>41,442</b>	<b>2,496</b>	<b>--</b>	<b>43,938</b>
<b>Net Book Value</b>	<b>20,433</b>			<b>19,537</b>

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**7. PROPERTY AND EQUIPMENT**(continued)

As of 30 June 2006, the cost of fully depreciated property and equipment are still in active use amounting to YTL 33,441 (31 December 2005 – YTL 33,433).

As of 30 June 2006, tangible assets were insured to the extent of YTL 40,786 (31 December 2005: YTL 34,616) in total.

**8. OTHER ASSETS**

	30 June 2006	31 December 2005
Prepaid expenses	3,886	1,479
Advances given	3,499	24
Prepaid taxes	2,204	--
Assets held for resale	329	299
Income accruals	266	338
Others	5,094	1,583
<b>Total</b>	<b>15,278</b>	<b>3,723</b>

Assets held for resale obtained from loan customers are stated at restated cost less any impairment in value identified by the valuation reports made by independent appraisal firms.

**9. DEPOSITS**

**Deposits from other banks**

	30 June 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Demand	128	160,584	--	--	152	136	--	--
Time	10,690	16,000	14.25-17.00	2.70-6.95	192,320	8,309	13.20-16.50	3.00-4.50
<b>Total</b>	<b>10,818</b>	<b>176,584</b>			<b>192,472</b>	<b>8,445</b>		

**Customers' deposits**

	30 June 2006				31 December 2005			
	Amount		Effective Interest rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign Currency	YTL	Foreign currency	YTL	Foreign currency
<b>Saving</b>								
Demand	18,720	56,677	--	--	22,266	51,315	--	--
Time	613,276	719,809	11.50-19.00	2.00-6.30	537,337	508,090	10.00-19.00	1.00-4.85
	<b>631,996</b>	<b>776,486</b>			<b>559,603</b>	<b>559,405</b>		
<b>Commercial and other</b>								
Demand	43,950	57,318	--	--	48,032	82,325	--	--
Time	129,011	79,754	12.00-19.00	2.50-6.25	109,474	77,438	10.00-18.75	1.50-4.75
	<b>172,961</b>	<b>137,072</b>			<b>157,506</b>	<b>159,763</b>		
<b>Total</b>	<b>804,957</b>	<b>913,558</b>			<b>717,109</b>	<b>719,168</b>		

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**9. DEPOSITS (continued)**

**Other money market deposits**

	30 June 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign Currency	YTL	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	36	--	12.35-12.50	--	450	--	12.35-12.82	--
-Due to banks	3,305	81,181	13.50-18.12	3.74-4.98	170,280	98,001	13.70-15.25	3.19-4.46
<b>Total</b>	<b>3,341</b>	<b>81,181</b>			<b>170,730</b>	<b>98,001</b>		

**10. FUNDS BORROWED**

	30 June 2006				31 December 2005			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign Currency	YTL	Foreign Currency	YTL	Foreign Currency
<b>Short-term</b>								
Fixed interest	11,590	422,769	12.50-18.00	3.37-6.95	8,081	154,837	4.13-18.00	2.00-6.33
<b>Medium/long term</b>								
Fixed interest	63,065	18,804	12.45	5.42-6.58	27,022	1,469	9.95	3.89-5.42
<b>Total</b>	<b>74,655</b>	<b>441,573</b>			<b>35,103</b>	<b>156,306</b>		

On 4 August 2005, the Bank has obtained YTL 134,300 (YTL equivalent of USD 100,000,000) syndication loan with a maturity of one year. The arranger of the loan was Bank of New York London and the interest rate on such loan is Libor+0.62%.

On 27 January 2006, the Bank has obtained YTL 60,000 loan with a maturity of 2 years from Morgan Stanley Bank International Limited and the interest rate on such loan was 12.45%.

The Bank has closed down the borrowing account of YTL 27,000 from Morgan Stanley Bank International limited by paying YTL 20,600 which was the net present value of such loan at that date before the maturity.

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

	30 June 2006	31 December 2005
	Fixed rate	Fixed rate
2007	10,017	961
2008	63,662	508
2011	8,190	--
2015	--	27,022
<b>Total</b>	<b>81,869</b>	<b>28,491</b>



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**11. OTHER LIABILITIES AND PROVISIONS**

**Other liabilities and provisions**

	<b>30 June 2006</b>	<b>31 December 2005</b>
Transfer orders	26,482	12,166
Taxes other than on income	6,268	4,171
Other various accruals	3,393	4,051
Retirement pay liability	1,319	1,182
Cash collaterals and blockages	642	968
Others	6,769	11,981
<b>Total</b>	<b>44,873</b>	<b>34,519</b>

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

	<b>30 June 2006</b>	<b>31 December 2005</b>
<b>Total provision at the beginning of period</b>	1,182	572
Interest cost	--	1
Paid during the period/year	(238)	(461)
Increase during the period/year	375	1,080
Monetary gain	--	(10)
<b>Total</b>	<b>1,319</b>	<b>1,182</b>

**12. INCOME TAXES**

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2006. This rate was 30% for the year 2005. In accordance with Article No. 32 of the new Corporate Tax Law No. 5520 published in the Official Gazette No. 26205 dated 21 June 2006, corporate tax rate is reduced from 30% to 20%. Accordingly, effective from 1 January 2006, statutory income is subject to corporate tax at 20%. Excess of corporate taxes paid in advance based on the tax base calculated on the quarterly earnings of the companies at the rate of 30% subsequent to periods beginning after 1 January 2006, will be deducted from the corporate taxes paid in advance for the subsequent periods based on the new tax rate.

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

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The effective tax rate for offshore subsidiary in Turkish Republic of Northern Cyprus is 2%.

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**12. INCOME TAXES** *(continued)*

Major components of income tax expense:

	<b>30 June 2006</b>	<b>30 June 2005</b>
<i>Current income tax</i>		
Current income tax charge	52	7,575
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	7,405	(439)
<b>Income tax provision reported in consolidated income statement</b>	<b>7,457</b>	<b>7,136</b>

The taxes payable and prepaid taxes are detailed below:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Current taxes payable	52	17,609
Prepaid taxes	(2,256)	(13,303)
<b>Net balance</b>	<b>(2,204)</b>	<b>4,306</b>

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the six-month period ended 30 June 2006 were as follows :

	<b>30 June 2006</b>	<b>Tax rate (%)</b>	<b>30 June 2005</b>	<b>Tax rate (%)</b>
Net profit from ordinary activities before income tax and minority interest and after monetary loss	<b>24,717</b>		<b>18,924</b>	
Taxes on income per statutory tax rate	4,943	20	5,677	30
Effect of income not subject to tax	(139)	(1)	(637)	(3)
Disallowable expenses	267	1	777	4
Effect of restatement, tax rate changes and other, net	2,386	10	1,319	7
<b>Provision for taxes on income</b>	<b>7,457</b>	<b>30</b>	<b>7,136</b>	<b>38</b>

Deferred taxes at 30 June 2006 and 31 December 2005 are as follows:

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Valuation difference of derivative instruments	31	--	--	55
Differences in securities valuation	--	6,925	--	6,960
Performance premium accrual	168	--	455	--
Retirement pay liability	256	--	209	--
Provision for legal cases	186	--	279	--
Valuation differences of premises and equipment, intangibles and assets held for resale	501	--	117	--
Statutory Loss	5,177	--	--	--
Provision for credit card bonus	78	--	106	--
Other	44	1	331	--
<b>Total deferred tax assets/liabilities</b>	<b>6,441</b>	<b>6,926</b>	<b>1,497</b>	<b>7,015</b>
Amount netted off	(6,369)	(6,369)	(1,497)	(1,497)
<b>Total deferred tax assets/liabilities</b>	<b>72</b>	<b>557</b>	<b>--</b>	<b>5,518</b>

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**12. INCOME TAXES (continued)**

Movement of net deferred tax can be presented as follows:

	30 June 2006	31 December 2005
Beginning amount	5,518	3,849
Deferred income tax recognized in the consolidated income statement	7,405	329
Deferred income tax recognized in the consolidated changes in equity statement	(12,438)	1,340
<b>Total</b>	<b>485</b>	<b>5,518</b>

**13. DERIVATIVES**

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

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

The fair value of derivative financial instruments is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	30 June 2006								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<b>Derivatives held for trading</b>									
Forward purchase contract	411	--	299,114	274,846	14,363	7,149	2,756	--	--
Forward sale contract	--	230	299,035	274,579	14,485	7,158	2,813	--	--
Currency swap purchase	197	--	52,967	52,967	--	--	--	--	--
Currency swap sale	--	222	52,993	52,993	--	--	--	--	--
Put option sale	--	--	--	--	--	--	--	--	--
<b>Total</b>	<b>608</b>	<b>452</b>	<b>704,109</b>	<b>655,385</b>	<b>28,848</b>	<b>14,307</b>	<b>5,569</b>	<b>--</b>	<b>--</b>

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**13. DERIVATIVES (continued)**

	31 December 2005								
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<b>Derivatives held for trading</b>									
Forward purchase contract	97	--	229,798	207,433	19,905	2,180	280	--	--
Forward sale contract	--	152	229,927	207,466	19,990	2,189	282	--	--
Currency swap purchase	238	--	118,246	49,560	68,686	--	--	--	--
Currency swap sale	--	--	118,008	49,586	68,422	--	--	--	--
<b>Total</b>	<b>335</b>	<b>152</b>	<b>695,979</b>	<b>514,045</b>	<b>177,003</b>	<b>4,369</b>	<b>562</b>	<b>--</b>	<b>--</b>

**14. SHARE CAPITAL**

	30 June 2006	31 December 2005
<b>Number of common shares</b> , YTL 0.001 (in full YTL), par value		
Authorized, issued and outstanding 66,000 millions;	66,000	66,000

As of 30 June 2006 and 31 December 2005, the Bank's historical subscribed and issued share capital was YTL 66,000 (historical terms).

As of 30 June 2006 and 31 December 2005, the composition of shareholders and their respective % of ownership can be summarized as follows:

	30 June 2006		31 December 2005	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	44,796	67.87	44,796	67.87
Mehmet Rüştü Başaran	19,301	29.24	19,301	29.24
Other shareholders	1,903	2.89	1,903	2.89
Historical amount	66,000	100.00	66,000	100.00
Restatement effect	34,976		34,976	
<b>Total</b>	<b>100,976</b>		<b>100,976</b>	

**15. OTHER RESERVES AND ACCUMULATED PROFITS**

**Legal Reserves**

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of 30 June 2006, the Group's legal reserves, which were included within the other reserves and accumulated profit balance amount to YTL 5,100 (31 December 2005: YTL 3,116).

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**16. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sinai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 67.87% (31 December 2005: 67.87%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

**Outstanding balances**

	<b>30 June 2006</b>	<b>31 December 2005</b>
Cash loans	16,544	12,772
Non-cash loans	3,310	26,276
Deposits taken	249,713	99,470
Notional amount of derivative transactions	25,878	20,754

**Transactions**

	<b>For the six- month period ended 30 June 2006</b>	<b>For the six- month period ended 30 June 2005</b>
Interest income	156	2,816
Interest expense	663	64
Other operating income	892	2,623
Other operating expense	409	1,006

**Directors' Remuneration**

The key management (nine executives including the general manager) and the members of the Board of Directors received remuneration and fees totaling YTL 1,473 for the six month period ended 30 June 2006 (30 June 2005: YTL 939).

**17. SALARIES AND EMPLOYEE BENEFITS**

	<b>For the six- month period ended 30 June 2006</b>	<b>For the six- month period ended 30 June 2005</b>
<b>Staff costs</b>		
Wages and salaries	19,988	14,517
Cost of defined contribution plan (employer's share of social security premiums)	3,556	2,738
Other fringe benefits	2,911	2,597
Provision for employee termination benefits	137	242
<b>Total</b>	<b>26,592</b>	<b>20,094</b>

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**17. SALARIES AND EMPLOYEE BENEFITS** *(continued)*

The average number of employees during the period is:

	<b>30 June 2006</b>	<b>30 June 2005</b>
The Bank	1,282	1,157
Subsidiaries	48	64
<b>Total</b>	<b>1,330</b>	<b>1,221</b>

**18. OTHER EXPENSES**

	<b>For the six-month period ended 30 June 2006</b>	<b>For the six-month period ended 30 June 2005</b>
Operating lease charges	3,815	3,187
Provisions on securities	2,590	313
Communication expenses	1,293	825
Saving Deposit Insurance Fund premium	1,233	983
Transportation expenses	788	711
Advertising expenses	603	3,147
Other provisions	600	108
Cleaning service expense	501	420
Energy costs	442	548
Office supplies	362	385
Maintenance expenses	318	349
Various administrative expenses	5,122	3,430
<b>Total</b>	<b>17,667</b>	<b>14,406</b>

**19. COMMITMENTS AND CONTINGENCIES**

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

	<b>30 June 2006</b>	<b>31 December 2005</b>
Letters of guarantee	661,588	562,246
Letters of credit	386,552	179,622
Acceptance credits	15,465	16,356
Other guarantees	146,631	90,975
Total non-cash loans	1,210,236	849,199
Credit card limit commitments	131,941	142,822
Other commitments	191,514	156,089
<b>Total</b>	<b>1,533,691</b>	<b>1,148,110</b>

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**19. COMMITMENTS AND CONTINGENCIES** *(continued)*

**Litigations**

**a) The Bank**

- i) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of USD 3,250,000 (initially USD 14,750,000, USD 11,500,000 of which was dropped) plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management does not consider that there will be any probable loss.
- ii) The Bank has filed a lawsuit in order to net-off prior year losses arising primarily from the first time application of inflation accounting starting from the taxable profit of 2003 onwards, according to the Corporation Tax Law article 14/7. Such lawsuit was finalized in favor of the Bank within the year 2004 but the decision of the court was appealed by the Ministry of Finance. Following the verdict of the court, the Bank has booked YTL 4,562, the amount paid by the Bank as corporation tax of the year 2003, as income. Moreover, the remaining part of the prior year losses, which is YTL 15,003, was netted off from the corporation tax base of the year 2004. The Bank has offset YTL 3,941 (out of YTL 4,562) from the fourth quarter's (2004) temporary tax which was declared for payment at February 15, 2005. The Bank has offset the remaining prepaid tax amounting to YTL 621 from first quarter's (2005) temporary tax. As of the date of this report, the case appealed by the Ministry of Finance has not been finalized. Based on the opinion of the Bank's legal counsel, it is expected that the ruling of the court of appeals will be in favor of the Bank and as such the realization of income of YTL 4,562 on access taxes paid in 2003 and the deductibility of the losses carried forward amounting YTL 15,003 that are disputed, are virtually certain with reference to a court ruling in favor of another financial institution on the same subject.
- iii) In addition to the above mentioned cases, there are 29 other law cases opened against the Bank, claims of which in total amount to YTL 4,111. At 30 June 2006, the Bank management recorded the provision of YTL 931 for such cases.

**b) The Subsidiaries**

There are 3 law cases opened against Anadolu Yatırım, claims of which in total amount to YTL 1,795. As of 30 June 2006, a provision of YTL 135 is recorded for such cases.

**Commitments Under Operating Leases**

As of 30 June 2006 and 31 December 2005, future minimum rentals payable under non cancelable operating leases are as follows:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Within one year	6,045	6,111
After one year but not more than five years	10,219	9,227
<b>Total</b>	<b>16,264</b>	<b>15,338</b>

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**19. COMMITMENTS AND CONTINGENCIES** (continued)

**Other**

The Group manages three open-ended investment funds which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. For the six-month period ended 30 June 2006, the Bank has gained YTL 2,064 management fee from such investment funds.

**20. FINANCIAL RISK MANAGEMENT**

**General**

A dedicated member of the Board who is assigned as Risk Supervisor heads the Risk Management Group. The Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Group reviews the latest figures and projections for the Bank's profit and loss accounts and balance sheet, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

**Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by limiting the duration of exposure.

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

Anadolubank Risk Rating Module is based on both qualitative and quantitative criteria and used in credit decisions as well as pricing. The performance of the ratings is monitored by the Risk Management Group who intensively works on establishing Basel II compliant systems.



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**20. FINANCIAL RISK MANAGEMENT** *(continued)*

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

Sectorial break down of cash and non-cash loans is as follows:

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>
Non-bank financial institutions	10.1	7.9	15.8	6.6
Domestic trade	9.8	6.7	13.0	13.0
Metal and mining	7.3	4.0	9.4	14.1
Textiles	10.1	7.9	8.6	7.4
Food	4.8	4.5	6.6	3.9
Consumer loans	10.4	0.0	6.6	0.1
Chemical	3.9	3.6	6.2	4.8
Iron & steel	9.4	14.5	6.1	5.0
Construction	5.1	12.1	5.7	15.8
Agriculture	5.2	2.8	4.3	3.3
Service	5.0	7.1	4.1	3.5
Export	4.7	0.5	3.4	3.6
Automotive	3.7	8.7	1.3	5.4
Finance	0.0	0.2	1.2	2.4
Electronics	3.7	4.1	1.0	5.2
Other	6.8	15.4	6.7	5.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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**20.FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity Risk**

Liquidity risk is the risk that an entity will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate the risk, the Group diversifies funding sources and assets are managed with liquidity in mind, maintaining balance of cash and cash equivalents.

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

	<b>Up to 1 Month</b>	<b>1 to 3 months</b>	<b>3 to 6 Months</b>	<b>6 to 12 Months</b>	<b>Over 1 years</b>	<b>Total</b>
<b>As at 30 June 2006</b>						
<b>Assets</b>						
Cash and balances with the Central Bank	159,485	--	--	--	--	159,485
Deposits with banks and other financial Institutions	175,303	6,649	--	--	--	181,952
Interbank money market placements	--	--	--	--	--	--
Reserve deposits at the Central Bank	102,457	29,114	4,069	592	98	136,330
Financial assets at fair value through profit or loss	122	166	226	219	25,398	26,131
Investment securities	--	--	--	--	439,334	439,334
Held to maturity investments	--	--	--	--	381,944	381,944
Loans and receivables	308,284	354,101	299,396	199,238	249,612	1,410,631
Derivative financial instruments	608	--	--	--	--	608
Deferred tax asset	--	--	--	72	--	72
Other assets	--	--	--	--	15,278	15,278
<b>Total assets</b>	<b>746,259</b>	<b>390,030</b>	<b>303,691</b>	<b>200,121</b>	<b>1,111,664</b>	<b>2,751,765</b>
<b>Liabilities</b>						
Deposits from other banks	187,293	109	--	--	--	187,402
Customers' deposits	1,289,468	367,491	52,842	7,512	1,202	1,718,515
Other money market deposits	3,341	81,181	--	--	--	84,522
Funds borrowed	2,709	178,262	44,918	213,058	77,281	516,228
Derivative financial instruments	452	--	--	--	--	452
Other liabilities and provisions	33,892	795	--	--	10,185	44,872
Income taxes payable	--	--	1	--	--	1
Deferred tax liability	--	--	--	--	557	557
<b>Total liabilities</b>	<b>1,517,155</b>	<b>627,838</b>	<b>97,761</b>	<b>220,570</b>	<b>89,225</b>	<b>2,552,549</b>
<b>Net liquidity gap (*)</b>	<b>(770,896)</b>	<b>(237,808)</b>	<b>205,930</b>	<b>(20,449)</b>	<b>1,022,439</b>	<b>199,216</b>
<b>As at 31 December 2005</b>						
Total assets	914,396	420,146	256,897	172,462	590,974	2,354,875
Total liabilities	1,558,486	444,347	22,714	79,444	36,838	2,141,829
<b>Net liquidity gap (*)</b>	<b>(644,090)</b>	<b>(24,201)</b>	<b>234,183</b>	<b>93,018</b>	<b>554,136</b>	<b>213,046</b>

(\*) Property and equipment, intangible assets, minority interest and total equity are not included in net liquidity gap line.

**20. FINANCIAL RISK MANAGEMENT** (continued)

**Market Risk**

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on “Internal Control and Risk Management Systems of Banks” announced in the Official Gazette dated 8 February 2001.

“General market risk” is the risk of loss composed of “interest rate risk”, “equity position risk” and “foreign exchange risk”, regarding the assets and liabilities of the Group’s on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the number, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

“Value at Risk” is calculated on a monthly basis by employing Standard Approach. The results have been reported to the Senior Level Risk Committee and Asset-Liability Committee in regular periods. By regarding the VaR results, the risk of maturity mismatch has been examined in the Asset-Liability Management Committee and the necessary measures have been taken by the ALCO.

The adequate amount of capital that banks shall maintain against losses which may result from existing and potential risks, on a consolidated and unconsolidated basis especially for the General Market Risk and Specific Risk, has been calculated by employing the Standard Approach and reported on a monthly basis regarding the provisions of “Regulation on Measurement and Assessment of Capital Adequacy of Banks”.

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**20. FINANCIAL RISK MANAGEMENT (continued)**

**Currency Risk**

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 30 June 2006, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table. The concentrations of assets, liabilities and off balance sheet items:

	YTL	U.S. Dollars	Euro	Japanese Yen	Others	Total
<b>As at 30 June 2006</b>						
<b>Assets</b>						
Cash and balances with the Central Bank	5,482	127,935	25,918	--	150	159,485
Deposits with banks and other financial institutions	10,044	160,103	10,077	84	1,644	181,952
Reserve deposits at the Central Bank	51,445	34	84,851	--	--	136,330
Financial assets at fair value through profit or loss	23,617	2,506	8	--	--	26,131
Investment securities	354,266	467,012	--	--	--	821,278
Loans and receivables	690,819	580,947	138,865	--	--	1,410,631
Derivative financial instruments	608	--	--	--	--	608
Property and equipment	19,486	51	--	--	--	19,537
Intangible assets	87	--	--	--	--	87
Deferred tax asset	--	72	--	--	--	72
Other assets	11,781	3,497	--	--	--	15,278
<b>Total assets</b>	<b>1,167,635</b>	<b>1,342,157</b>	<b>259,719</b>	<b>84</b>	<b>1,794</b>	<b>2,771,389</b>
<b>Liabilities</b>						
Deposits from other banks	10,605	176,768	29	--	--	187,402
Customers' deposits	804,957	660,427	248,652	9	4,470	1,718,515
Other money market deposits	3,341	81,181	--	--	--	84,522
Funds borrowed	74,655	424,144	17,429	--	--	516,228
Derivative financial instruments	452	--	--	--	--	452
Other liabilities and provisions	41,126	3,580	166	--	--	44,872
Income taxes payable	1	--	--	--	--	1
Deferred tax liability	557	--	--	--	--	557
<b>Total liabilities</b>	<b>935,694</b>	<b>1,346,100</b>	<b>266,276</b>	<b>9</b>	<b>4,470</b>	<b>2,552,549</b>
<b>Net on-balance sheet position</b>	<b>231,941</b>	<b>(3,943)</b>	<b>(6,557)</b>	<b>75</b>	<b>(2,676)</b>	<b>218,840</b>
<b>Off-balance sheet position</b>						
Net notional amount of derivatives	(11,055)	(3,501)	11,767	(70)	2,912	53
Non-cash loans	483,157	445,425	277,078	3,465	1,111	1,210,236
<b>As at 31 December 2005</b>						
Total assets	1,372,610	856,592	143,204	103	2,982	2,375,491
Total liabilities	1,150,477	749,843	237,527	1	3,981	2,141,829
Net on balance sheet position	222,133	106,749	(94,323)	102	(999)	233,662
Net notional amount of derivatives	(3,663)	(92,683)	95,009	(88)	1,534	109
Non-cash loans	432,993	153,246	259,749	1,475	1,736	849,199

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**20. FINANCIAL RISK MANAGEMENT (continued)**

**Interest Rate Risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Board of Directors sets limit on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the re-pricing date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non interest bearing	Total
<b>As at 30 June 2006</b>							
<b>Assets</b>							
Cash and balances with the Central Bank	--	--	--	--	--	159,485	159,485
Deposits with banks and other financial institutions	164,723	6,649	--	--	--	10,580	181,952
Reserve deposits at the Central Bank	102,457	29,114	4,069	592	98	--	136,330
Financial assets at fair value through profit or loss	119	166	293	219	25,331	3	26,131
Investment securities	--	50,021	81,820	--	689,437	--	821,278
Loans and receivables	614,673	195,104	172,397	190,927	231,235	6,295	1,410,631
Derivative financial instruments	608	--	--	--	--	--	608
Property and equipment	--	--	--	--	--	19,537	19,537
Intangible assets	--	--	--	--	--	87	87
Deferred tax asset	--	--	--	72	--	--	72
Other assets	--	--	--	--	--	15,278	15,278
<b>Total assets</b>	<b>882,580</b>	<b>281,054</b>	<b>258,579</b>	<b>191,810</b>	<b>946,101</b>	<b>211,265</b>	<b>2,771,389</b>
<b>Liabilities</b>							
Deposits from other banks	26,581	109	--	--	--	160,712	187,402
Customers' deposits	1,112,803	367,491	52,842	7,512	1,202	176,665	1,718,515
Other money market deposits	3,341	81,181	--	--	--	--	84,522
Funds borrowed	2,709	178,262	44,918	213,058	77,281	--	516,228
Derivative financial instruments	452	--	--	--	--	--	452
Other liabilities and provisions	38,594	6,278	--	--	--	--	44,872
Income tax payable	--	--	1	--	--	--	1
Deferred tax liability	--	--	--	--	--	557	557
<b>Total liabilities</b>	<b>1,184,480</b>	<b>633,321</b>	<b>97,761</b>	<b>220,570</b>	<b>78,483</b>	<b>337,934</b>	<b>2,552,549</b>
On balance sheet interest sensitivity gap	(301,900)	(352,267)	160,818	(28,760)	867,618	(126,629)	218,840
Off balance sheet interest sensitivity gap	--	--	--	--	--	--	--
<b>Total interest sensitivity gap</b>	<b>(301,900)</b>	<b>(352,267)</b>	<b>160,818</b>	<b>(28,760)</b>	<b>867,618</b>	<b>(126,629)</b>	<b>218,840</b>
<b>As at 31 December 2005</b>							
Total assets	1,086,719	322,703	247,021	167,024	472,755	79,269	2,375,491
Total liabilities	1,332,568	438,859	13,805	79,444	28,497	248,656	2,141,829
On balance sheet interest sensitivity gap	(245,849)	(116,156)	233,216	87,580	444,258	(169,387)	233,662
Off balance sheet interest sensitivity gap	--	--	--	--	--	--	--
<b>Total interest sensitivity gap</b>	<b>(245,849)</b>	<b>(116,156)</b>	<b>233,216</b>	<b>87,580</b>	<b>444,258</b>	<b>(169,387)</b>	<b>233,662</b>

**20. FINANCIAL RISK MANAGEMENT** (continued)

**Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. This definition captures operational risk events such as IT problems, shortcomings in the organizational structure, lapses in internal controls, human error, fraud, and external threats such as major earthquake, major fire, flood or terror.

The Risk Management Group investigates and approves policies, procedures, workflows and business processes. The main principle in the Bank is that management at all levels are responsible for directing and managing their own operational risks.

Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank. The Internal Control and the Internal Audit Departments are fully engaged in monitoring the responsibilities within the Bank, a detailed testing and verification of the Bank's control over all operational systems; and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility.

**Capital Adequacy**

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of 30 June 2006, the Bank's statutory capital adequacy ratio on a consolidated basis is above the minimum required by BRSA.

**21. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown 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 realised in the current circumstances.

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

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**22. SUBSEQUENT EVENT**

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 non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased from 10% to 15%.