GarantiBank
International N.V.

Annual Report 2006

Mission Statement

The mission of GarantiBank International N.V. is to be recognized by our stakeholders and competitors as the most reliable and respectable bank within our niche markets by offering speedy and accurate services, providing tailor-made, innovative and country specific solutions and investing in cutting-edge technology and in our human resources.

Table of Contents

Financial Reports

Chairman's statement 5

Report of the Supervisory Board 6

Report of the Managing Board 8

Financial Statements 23

Other Information 49

Chairman's statement

2006 was a good year for GarantiBank International N.V. (GBI). We were able to increase our net profits considerably despite sizeable investments we made in Romania. Our net profit rose from EUR 20.7 million to EUR 24.7 million, an increase of 19 percent. Our operating result before tax and value adjustments increased by 16 percent. The balance sheet grew by more than 15 percent compared to the same period of last year with the most remarkable growth in the loan book (47 percent) and private banking assets (32 percent).

Our goal is to deliver more value to our shareholder through a combination of growth and return that shows a constantly increasing trend. To achieve that we keep improving the execution of our business fundamentals, we want to be strong at what we do and we will not lose our focus on delivering outstanding services to our valued customers and on continuously managing costs, risks and reputation.

The two main core businesses of GBI are trade finance and private banking. GBI has been historically strong in taking Turkish trade finance risk. However, since 2001 the Bank has diversified its risks by taking more and more non-Turkish risk. This diversification strategy offers not only ample growth potential but also generates much better returns on allocated capital. In 2006, total trade finance transaction volume increased by 34 percent to a record high level of USD 6.8 billion. 60 percent of such volume is non-Turkish which shows that GBI's diversification policy bears fruit. Total clients assets of GBI's Private Banking Division increased by 32 percent compared to last year.

Our Retail Banking funding business decreased slightly compared to last year but total funds entrusted increased due to a substantial increase in private banking funding. The solid base of valued retail clients in the Netherlands and in Germany, provides GBI enough comfort to continue servicing these clients with innovative products in a fast and accurate way.

In 2006, GBI raised EUR 30 million in the form of 10 year - 5 year Non-Callable lower Tier 2 Capital Subordinated notes. The transaction received strong demand from the market. The investors were third parties rather than the current shareholder, which is an important indicator of the Bank's ability to raise capital independently from the parent company.

On 24 February 2007, Moody's Investors Service upgraded GBI's Long-term Bank Deposits rating by two notches to A3 from Baa2. The rating upgrade reflects the Banks role as a niche player in the competitive segment of international trade finance and private banking, its strong financial fundamentals and asset quality, historically low credit losses, a reliable funding profile and its solid profitability.

The world economy is experiencing a robust upswing. The expansion of the world economy will slow down to trend growth levels in 2007. It will be particularly stimulated by corporate earnings that still remain favorable and still accommodate interest rate environment in G3 countries. Our forecast is based on the assumption that the price of oil will hover at an average level of USD 64.5 per barrel and that the euro exchange rate is expected to lie above 1.30 US dollars.

In the United States, growth in GDP is expected to slow slightly but remains robust and in line with its trend growth. The expansion in consumer spending is expected to weaken somewhat since the savings rate is expected to gradually increase in line with slower growth in real-estate prices. In Japan the economy remains in full swing. Also in the emerging economies, economic growth continues to be lively. In China GDP continues to expand strongly. In the remaining countries of the area, economic expansion accelerates, which is also be the case for Latin America.

In the euro zone, GDP will increase perceptibly. Consumption could expand with an improved labour market situation. Investments will increase noticeably. In total, Global GDP will increase by about 5 percent in 2006 before slowing slightly to 4.5 percent in 2007. World trade will expand in 2007 by 7.5 percent.

Through all these positive global economic forecasts and our own analysis and interpretation of the growing economy, GBI will deliver with confidence value for our customers and stakeholders also in 2007.

Amsterdam, 7 March 2007

S. Sözen
Chairman of the Board

Annual accounts

In compliance with the provisions of the Articles of Association of GarantiBank International N.V., the Supervisory Board has examined the auditor's report and the financial statements of the year 2006. Our examinations included also discussions with the internal and external auditors (KPMG Accountants N.V.). We propose that at the annual general meeting of shareholders of GarantiBank International N.V. to be held on 21 March 2007 the shareholder adopts the financial statements for 2006.
We propose that the members of the Managing Board be discharged from liability in respect of their management of the Bank's activities in 2006 and that the members of the Supervisory Board also be discharged in respect of their supervision thereof.

Financial statements and profit appropriation

This annual report includes the financial statements as drawn up by the Managing Board. In accordance with Article 27, paragraph 4 of the Articles of Association, these accounts were audited by KPMG Accountants N.V. and in accordance with Article 29 will be adopted at the annual general meeting of shareholders on 21 March 2007. The Supervisory Board has voted to adopt the Managing Board's proposal to convert the net profit of 2006 (EUR 24,720,000) into nominal share capital by issuing 24,720 shares.

Composition of the Supervisory Board

Members of the Supervisory Board are elected for a term of three years. Messrs. S. Sözen and E. Özen are due to resign by rotation on 21 March 2007. They are nominated by our Board for reappointment by the shareholder for a new term of three years effective as of 21 March 2007. Mr. G. Ryan who was appointed as member of the Supervisory Board in the annual general meeting of 2006 resigned on his own initiative from all his duties of Türkiye Garanti Bankası A.Ş. including GarantiBank International N.V. due to accepting a job outside the group of shareholders.

Supervisory Board activities and Audit Committee

The Supervisory Board met five times during the year. All the meetings were held at the Bank's premises in the Netherlands. Important issues like the 2006 - 2008 Strategic Business plan, the Romanian Operations, the improved synergy within the Dogus Group of Companies have been extensively discussed. Credit issues are discussed in the Amsterdam Credit Committee meetings and the Extended Credit Committee meetings. Two Supervisory Board meetings were preceded by meetings of the Supervisory Board Audit Committee. Mr. A. Acar is the Chairman of the Audit Committee and Mr. G. Ryan member. Both members have the experience, financial expertise and independence to supervise the Bank's business, financial statements and risk profile. In these audit committee meetings in-depth discussions were held on audit planning, audit status reports and internal and external audit reports.

Also important subjects like Corporate Governance, the implementation of Basel II, IFRS and the new Dutch law "Wet financieel toezicht" (Wft) were extensively discussed. In the Audit Committee meeting, prior to the annual general meeting of shareholders, KPMG Accountants N.V. have always been invited to discuss their year-end reports such as the Management Letter, the Report to the Supervisory Board and the Annual Report and Financial Statements of the financial year under control. In these meetings also operational, financial and strategic issues have been discussed. During the year under review Mr. Ryan resigned from all his duties of GBI including the Supervisory Board membership and consequently his membership of the Audit Committee. Mr. H. Akhan replaced Mr. Ryan as member of the Audit Committee.

Managing reputation

Managing integrity and reputation is an essential part of the strategic role of the Managing Board, who must take into account all stakeholders, whose perception of the organisation will determine its reputation. Risks or uncertainties, both positive and negative, must be managed in a holistic systemic approach, as there is no such thing as reputation risks - rather, all risks may impact on reputation. Thus the best management of risks to reputation is sound enterprise-wide risk management and governance, where all insiders are involved and outsiders' interests are taken into account. The adherence to laws and regulations is extremely important for GBI and for its customers whose long-term relationship with GBI primarily depend on our integrity and fairness. Senior management has been made even more accountable for compliance and regulatory matters. A new Risk Management Department (RMD) has been established in order to integrate the efforts in risk quantification and risk monitoring processes and to safeguard the good reputation of the Bank. The RMD develops and implements risk policies, procedures, methodologies and risk management infrastructures and systems that are appropriate for each business line.

The Supervisory Board would like to express its gratitude to the Managing Board and staff for their great effort and involvement in the past year. GBI is a strong niche bank and has much potential for further growth. Serving the clients' needs in a speedy and accurate manner is and remains the foundation of our success.

Amsterdam, 7 March 2007
Board of Supervisory Directors:

Mr. S. Sözen (Chairman)
Mr. A. Acar
Mr. H. Akhan
Mr. T. Gönensin
Mr. E. Özen
Mr. F. Şahenk

Key Figures

	2006	2005	2004	2003	2002
	EUR 1,000	*EUR 1,000*	*EUR 1,000*	*EUR 1,000*	*EUR 1,000*
Total assets	**2,623,766**	2,279,566	1,913,910	1,755,039	1,520,259
Banks (assets)	**1,018,872**	859,934	833,042	677,708	617,767
Loans and advances	**1,014,838**	694,982	534,399	554,037	507,680
Banks (liabilities)	**628,654**	581,000	257,099	181,071	226,203
Funds entrusted	**1,689,090**	1,424,554	1,401,511	1,339,252	1,023,167
Subordinated liabilities	**78,004**	38,288	59,132	40,840	40,840
Shareholders' equity	**183,348**	174,285	154,032	155,020	136,972
Operating result before tax and value adjustments	**38,711**	33,414	33,806	27,329	22,931
Result after tax	**24,720**	20,688	23,140	17,440	13,038
Foreign branches and representative offices	**4**	4	4	4	4
Cost to income ratio %*	**43**	46	44	51	56
Return on average equity % **	**15.83**	13.48	15.91	13.34	10.52
Return on average assets %	**1.01**	0.99	1.26	1.06	0.86
Average number of employees	**243**	230	224	224	229

* Cost is total expenses excluding value adjustments to receivables and tangible fixed assets.

** Return on average equity is calculated using average shareholders' equity excluding result after tax.

Financial analyses

Operating result before tax and value adjustments amounted to EUR 38.7 million in 2006, which is almost 16 percent higher than in 2005 (EUR 33.4 million). Net result after tax stands at EUR 24.7 million, which is 19 percent higher compared to 2005 (EUR 20.7 million).

Net interest income of EUR 36 million increased by EUR 0.8 million, which is 2 percent higher compared to 2005 (EUR 35.4 million). The net interest income increase is mainly due to asset growth. Improved credit fundamentals of Turkey and other emerging markets caused the gross margins to decrease further, a trend that was already visible in 2005. Income from participating interests showed a loss of EUR 0.7 million, resulting from the sale of the participation in Cappadocia Ltd. Net commission income amounted to EUR 19.8 million, which is 16 percent or EUR 2.7 million more compared to 2005. This is mainly due to the higher volumes in trade finance and private banking activities. Result on financial transactions increased by EUR 3.7 million to EUR 12.9 million, which is 41 percent more than in 2005. The main contributor to the growth in result on financial transactions is foreign exchange dealing.

Total administrative expenses amounted to EUR 27.8 million, which is 6 percent higher compared to 2005 and mainly due to increased costs relating to the Basel II project and the expansion of the activities in Romania.

Value adjustments to receivables show a negative adjustment of EUR 2.6 million due to the increased dynamic provision resulting from the growth in risk-weighted assets. In 2005 value adjustments to receivables still showed a positive adjustment of EUR 168 thousand.

The balance sheet grew 15 percent or EUR 344 million, which on the asset side is mainly reflected in an increase in banks (EUR 159 million) and loans and advances (EUR 320 million) whereas cash (EUR 96 million) and interest-bearing securities (EUR 49 million) decreased. On the liability side the growth is reflected in banks (EUR 48 million), funds entrusted (EUR 265 million) and subordinated liabilities (EUR 40 million). In 2006, GBI successfully continued its prudent growth strategy and further diversified its country risk exposures.

Macroeconomic developments

The global expansion continued at a healthy pace led by the emerging markets in 2006. The global economy grew 5 percent this being the fourth consecutive year near or above 5 percent growth. While the developed markets grew at an average rate of 2.4 percent, emerging world grew at an impressive 6.4 percent. In the United States and Japan growth started to moderate, recording 3.3 percent and 2.4 percent respectively. The euro zone maintained its momentum and recorded a growth of 2.7 percent. Among emerging market countries, China continued to lead at 10.7 percent, while Russia and Turkey grew at 6.7 percent and 5.3 percent respectively.

The Central Banks either started or continued their interest rate hike cycles. In the US interest rates went up as the Federal Reserve (FED) took four consecutive rate hike decisions up to July 2006. After the official lending rate went up to 5.25 percent from 4.25 percent, the FED decided to pause monetary tightening to be able to measure the effects of the previous hikes on the US economy.

The ECB continued raising rates, bringing its REPO rate to 3.50 percent from 2.25 percent. Japanese Central Bank ended its Zero Interest Rate Policy and increased its rates to 0.25 percent.

US Treasury bond yields increased slightly while the yield curve remained slightly inversed. 10 year US Treasury paper yielded 4.68 percent at the end of 2006, after peaking at 5.24 percent during the year. The yield increased by 33 basis points compared to 4.35 percent at the year-end of 2005.

The Emerging Market Bond Index Plus (EMBI+) displayed a very good performance and tightened 76 basis points from 245 to 169, surpassing all forecasts. Liquidity concerns, in an environment where interest rates were decisively going up in all major economies, led to risk aversion and sharp market sell-offs in May and June. Volatility, which was at all time low levels and risk appetite at all times highs made drastic reversals. However, once those fears were eased, markets calmed down and global liquidity conditions remained fair. In the last quarter, volatilities came down and risk premiums contracted to new record low levels. Emerging markets reduced their supply of sovereign debt instruments considerably as their fiscal balances continued to improve. Russia and several Latin America countries decreased their debt burden with buy backs and IMF re-payments.

Stock markets performed well throughout the world. US stocks had a remarkable year with the S&P posting a gain of 13.5 percent. In Japan Nikkei went up by 7 percent. European economy benefited from a weak currency and accommodative ECB. European large cap stocks (DJ Stoxx 50) were up by 15 percent. In Russia and China equities went up by 60 percent and 126 percent respectively. In Brazil equity market went up by 33 percent. Turkish stock market decreased by 6 percent in USD terms, under-performing the rest of the emerging equity markets.

Global imbalances continued to occupy the minds of policy-makers and investors. Reserve accumulation in Asian countries, especially in China above USD 1 billion, reached excessive levels. Balance of payments deteriorated in a number of countries, noteably in the United States. Towards the end of 2006, US current account deficit reached to around USD 850 billion, approximately 6.6 percent of the country's GDP.

Commodity markets continued to attract more investments and maintained their appeal in spite of high volatility and sharp corrections experienced during the year. During the second half of the year, geopolitical risks became less pronounced, causing a sharp fall in energy prices. Crude oil prices fell to USD 50 from their peak at USD 76 mid-year. Structural factors continued to support the commodities asset class as a whole.

2006 has been the year of the Euro in general. Hard landing fears in the U.S., FED's pause of monetary tightening, strong European growth and the ECB's rate hike path decreased interest rate differentials in favour of European currency. Euro appreciated 11.5 percent against USD in 2006. USD remained strong against emerging market currencies across the world from Asia to Latin America to Eastern Europe after the May-June crisis. Carry trades remained to be the most popular investment theme in currency markets.

However, this year performances differed dramatically between various currencies. BRL (Brazilian Real) and RON (Romanian Lei) were among the best performers, while TRY (Turkish Lira) and ZAR (South African Rand) were among the worst. JPY (Japanese Yen) remained to be the major funding currency and weakened further. Chinese authorities continued the process of Yuan depreciation albeit at an extremely gradual pace.

Turkey has underperformed the other countries in the Emerging Market asset class in 2006. As global risk aversion increased especially in the first half of the year, countries with high current account deficits were hit most severely. Policy mistakes by the Turkish Central Bank fuelled the market's nervousness during the May-June period. As a response, the Turkish Central Bank had to end monetary easing and hiked interest rates by 425 basis points to fight huge outflows and increasing inflation. Double anchors of the EU and the IMF and the continued implementation of structural reforms helped the country's financial markets to stabilise. Sound economic policies since 2001, unprecedented FDI and portfolio investment flows into the country changed the bearish outlook and were the main reasons behind the good performance in the last quarter. Year on year CPI went up to 9.65 percent while PPI rose to 11.58 percent at the end of 2006. Budget deficit fell to 0.5 percent, a level that has not been seen in Turkey for very long time and that is comfortably within the Maastricht criteria. On the other hand, on a less positive note, external balances continued to deteriorate, foreign trade deficit reached over USD 50 billion at the end of 2006, while current account deficit is estimated to be at USD 32 billion, in excess of 8.7 percent of GDP. Despite slower growth, following the substantial correction in interest rates and the currency in May and June, the trade and current account deficits continued growing thanks to rising energy costs.

In 2007, the global economic growth is likely to moderate to a trend-like pace, led by a downshift in US and Japan. The biggest risks remain to be geopolitical ones. Energy and other commodity prices might also cause renewed inflation fears and threaten growth, if they resume their up-trend once more. With volatility once again at historic lows and risk appetite at all time highs, the financial markets are expected to remain vulnerable to sharp corrections in 2007. However, the general outlook remains constructive.

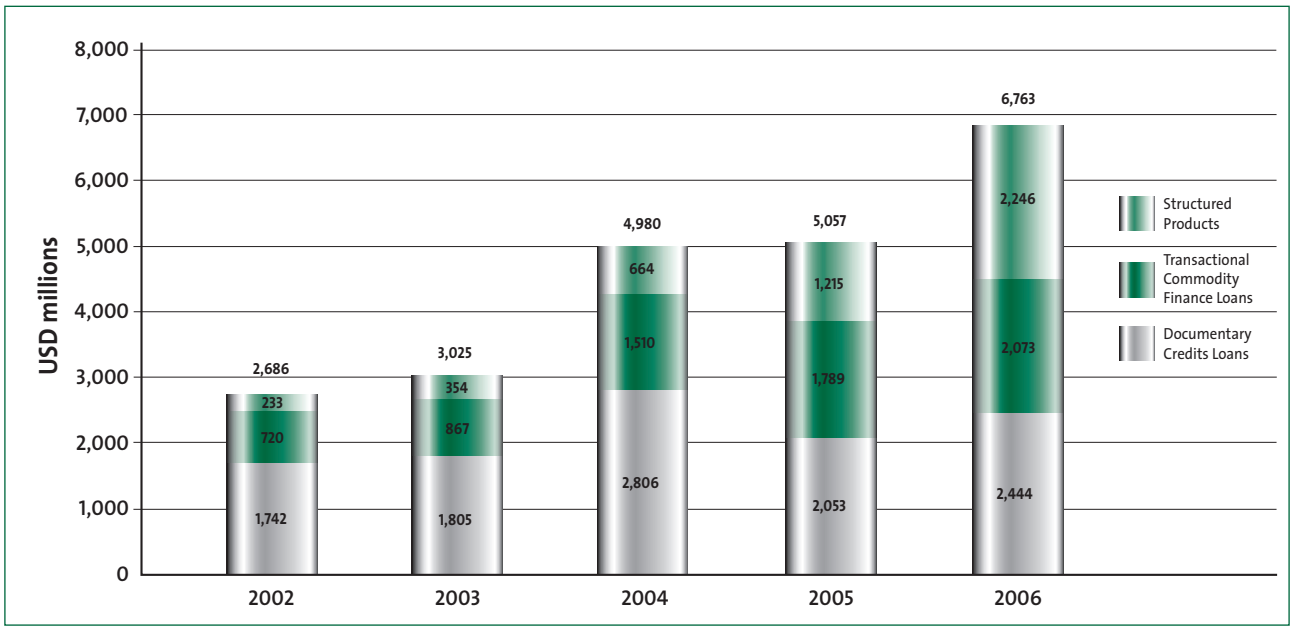
BUSINESS DEVELOPMENTS

Trade Finance

Being a "global boutique", GBI's Trade Finance Division provides fast, accurate, innovative, tailor-made and country specific financing solutions with a holistic view. Other banks in emerging and developed markets, physical commodity traders, manufacturers and producers engaged in international trade, factoring, leasing and forfaiting houses and other businesses around the globe requiring boutique solutions form part of our client base.

With 34 percent increase on the previous year, GBI Trade Finance Division closed 2006 with USD 6.8 billion annual transaction volume and without any scratch on its credit portfolio.

Chart-1 Tansaction Volume by Product Clusters



Product mix

As illustrated in Chart-1, three clusters of products are included within the volume:

- Structured Products: In this cluster, bank or corporate syndication participations for trade or for general purposes, secondary market asset purchases, and other primary originations are included.

  Taking into account the efficiency and growth issues, various front office functions dealing with structured products are now centralized within the Trade Finance Division under the Global Origination & Distribution department. In addition to asset generation, GBI is one of the major global players in distributing assets to the secondary market. Such distribution volume in 2006 was USD 1.6 billion, which is more than double of the previous year.

- Transactional Commodity Finance: Financing against bills of lading, warehouse receipts, forwarder's certificates of receipt, railway bills and many other loan products self-liquidated by export proceeds that are tailor-made to finance a particular trade flow on a transactional basis are included within this cluster. GBI recognizes transactional documentation, collateralization and commodity expertise as being key to this product cluster.

- Documentary Credits and Collections: Various forms of import and export letters of credit, documentary collections, various kinds of payment guarantees and assignment of proceeds are included within this cluster. Estimations indicate that two decades ago about 80 percent of the world merchandise trade was financed through documentary credits whereas nowadays such share went down to 20 percent. Nevertheless, GBI is adamant about the significance of this product cluster as trading parties and financiers alike are expected to continue favouring these products to secure exposures in one way or another.

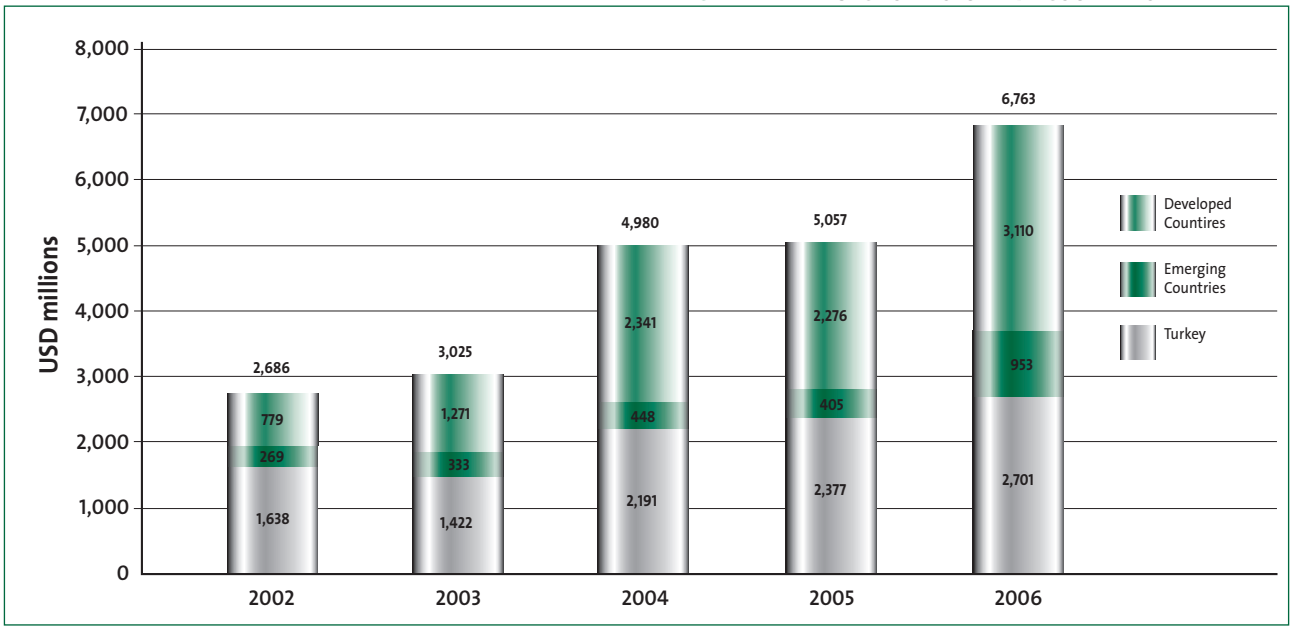
Documentary Credits and Collections products together with Transactional Commodity Finance products collectively constituted almost 70 percent of the 2006 volume. Such products are delivered to GBI's valued clients through three Trade & Commodity Finance departments, each of which have designated commodity or product mandates.

In addition to the above product clusters, GBI Trade Finance also provides other "global boutique" solutions such as ship and project finance, local currency loans and SME financing on a selective basis.

Country Risk Diversification

In line with the diversification strategy set forth in March 2001, GBI's annual trade finance volume in 2006 continued to be diversified (Chart-2).

Chart-2 Transaction Volume by Country of Repayment



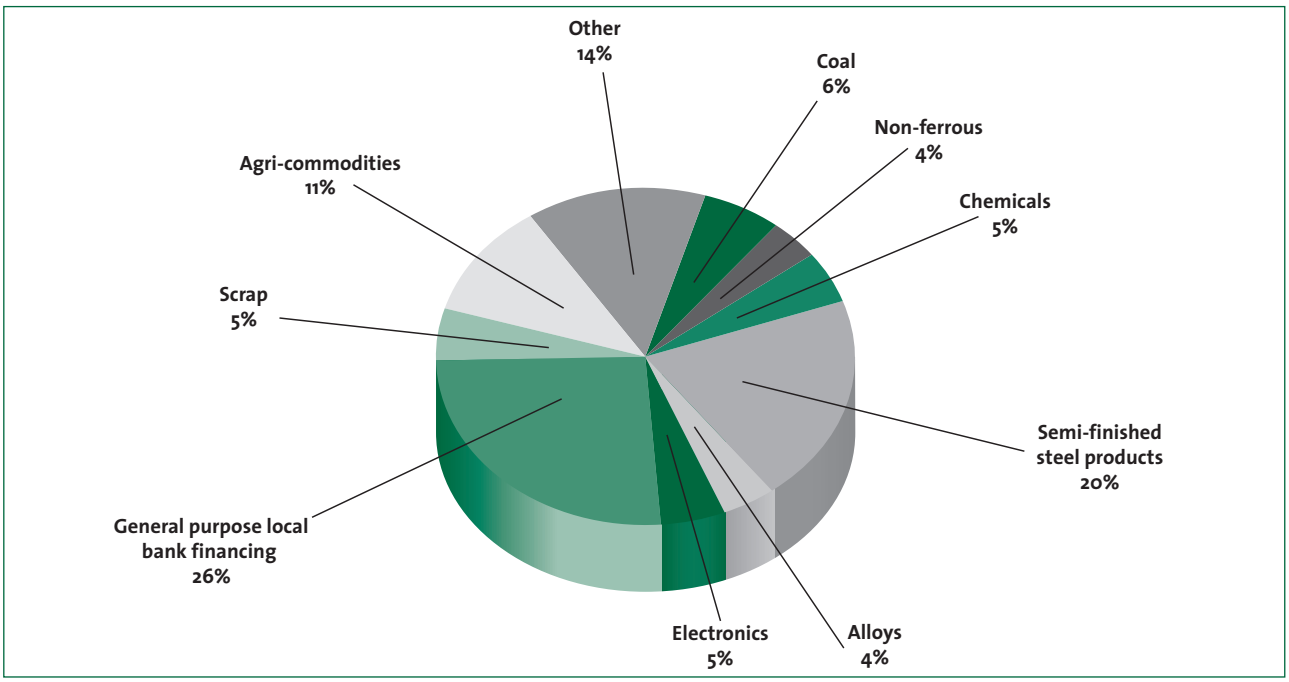
Compared to the previous year, the relative weight of emerging countries including Turkey remained the same this year. However, in 2006, GBI put more emphasis on those emerging countries with investment grade rating, such as the Russian Federation, Kazakhstan and Romania while increasing relations with China, Ukraine, Azerbaijan and others. We also note here that more than 65 percent of our non-Turkish emerging country repayments are due from banks and more than 20 percent of the same are due from large corporates through syndicated and structured facilities. Especially when doing transactions with emerging country repayments, risk assessment, structuring and distribution capabilities become critical.

According to the World Trade Organization, global merchandise trade in 2005 exceeded USD 10 trillion and 7 percent growth is expected from 2006. Trend analysis of the last ten years reveals more than 150 percent growth in merchandise exports from emerging countries to emerging countries. Additionally, we also note that exports from emerging countries to developed countries have doubled during the same time span. In consideration of such, GBI observes the growing weight of emerging markets in global trade and positions itself accordingly to provide boutique solutions around the globe.

Merchandise Finance

GBI has historically been a boutique bank with selected focus and expertise areas. Taking this as a reference, GBI facilitated more than 14 million metric tonnes of international merchandise trade including our focus commodities, a 28 percent growth over the previous year.

Chart-3 Transaction Volume by Merchandise



GBI has historically been a boutique bank with expertise on merchandise finance. Taking this as a reference, GBI facilitated more than 14 million metric tonnes of international merchandise trade with 28 percent growth over the previous year.

The largest chunk, 26 percent as in Chart-3, of the merchandise volume is related to providing financing to emerging market local banks in the form of syndications, stand-by LC's, etc. In this capacity, GBI's risk counterparties are emerging country banks.

The second largest chunk of our transaction volume, 20 percent, is related to financing semi-finished steel products including semi-finished flat steel products and semi-finished long steel products. After 2004, 2006 was another sterling year for the steel industry. Industry consolidation driven by mega mergers, capacity increases at emerging country producers, global production growth exceeding 8.5 percent to 1.24 billion metric tonnes and globally vibrant demand were dominant themes. China positioning itself as a steel products exporter and Russia becoming an importer in certain product groups may have long term impacts on global supply-demand balances. Providing boutique solutions to traders, producers, banks and other service providers, GBI has well-positioned itself in this growing industry and financed 4.8 million metric tonnes of steel and steel making raw materials.

As we explained in our last year's annual report, we envisaged more accommodating commodity price fluctuations and increasing weight of emerging markets for 2006, which have been the case. GBI has successfully positioned itself as a "global boutique" and was mentioned among the top five commodity finance banks by Trade Finance Magazine, August 2006 issue. In terms of our secondary market activity, we are also regarded among the top five.

2007 is expected to be another year of prudent and profitable growth with further client acquisitions around the globe. However, in the event of adverse macro developments, GBI's regional, markets, commodity and risk management expertise coupled with the well-established relationships with market players are expected to bring adequate cushion as has been the case in the past.
Advanced technologies and capable people have inspiring effects on global trade and its finance. In that respect, we owe our clients and counterparts our genuine thanks, who have constantly praised the functionality of our Internet Banking Portal and our web site, and who have expressed their kind gratitude for our fast, accurate, tailor-made, innovative and country specific solutions. Observing ample growth and collaboration opportunities as a "global boutique", GBI is committed to continue to provide best value-added solutions to our present and future relationships.

Private Banking

In 2006, the global wealth management market remained highly competitive and emphasis on client acquisition has been noteably greater than previous years. Investment environment remained supportive, in spite of the sharp corrections and high volatility in the financial markets during May and June. The sector enjoyed a healthy growth of client assets under management, which is estimated to be around 8 percent globally. The growth in the Asia-Pacific region was the highest, due to increasing wealth accumulation.

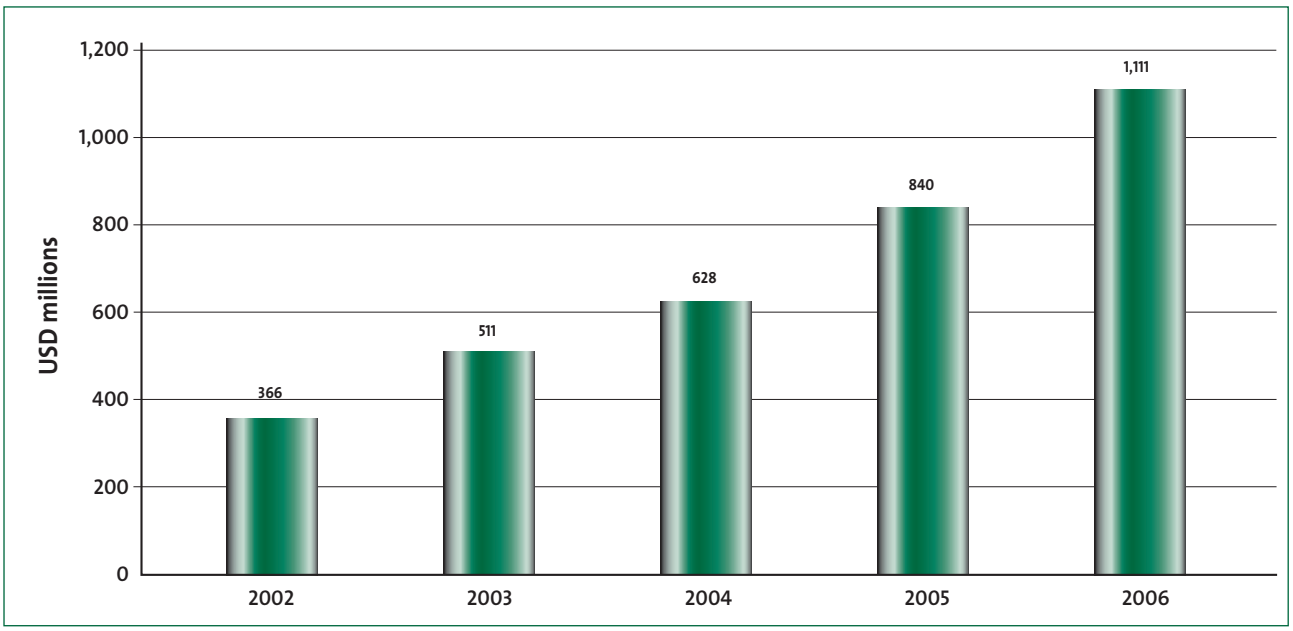
GBI's Private Banking Division strategically positions itself as a regional specialist with a well-defined niche market. It provides financial services and products to its high net worth individual and institutional clients. It offers a broad range of products with a holistic approach and a high degree of service sophistication. The quality of its staff is the most important source of competitive advantage. GBI provides fast, accurate, innovative and tailor-made services that are in line with the changing market conditions and clients' needs. The Bank uses its network and experience built over the years in its niche market to realize growth considerably above the sector's average.

In 2006, the Private Banking Division continued implementing its growth strategy and increased its contributions to the Bank's revenues. After achieving steady double-digit growth during the previous years, in 2006 total client assets grew by 32 percent. The Bank continued to enjoy a strong customer loyalty, in spite of increasing competition. The impressive growth was achieved by new client acquisitions and successful retention of existing clients. Private Banking extended its geographical coverage to include European countries, Turkey, US, Russia, Romania, Israel, Kazakhstan and Lebanon.

Discretionary Asset Management led the growth by a four-fold increase in assets under management. GBI maintained its position as a pioneer in implementing new products and offering access to new markets for its clients. GBI's product range includes a complete range of financial products; such as deposits, foreign exchange spot and forwards, non-deliverable forwards, securities, equities, OTC and exchange traded derivatives, structured products, commodities, ETF's and investment funds. More sophisticated products such as structured products and derivatives instead of simple cash transactions gained a great significance among the product offerings. At the beginning of the year GBI structured a commodity linked deposit product in the London market, for its clients. It was the first of its kind that was executed and sold to the clients by a Turkish owned bank. In 2006, GBI also widened its product offerings by putting more emphasis on distribution of third party products where its own expertise is limited.

GBI's service quality in the product offering process boosted the transaction volumes. GBI's capability to provide valuable market guidance and asset allocation advice maximized client satisfaction. Both during the large sell-off in financial markets in May and June, as well as during the rest of the year with low volatility, GBI proved once again its reliability and consistency in its service quality. Consequently, the total client commissions were up by 22 percent in 2006 in comparison to 2005.

Chart-4 Private Banking Client Assets



In 2006, existing customer base remained at the crux of GBI's acquisition of new customers in its marketing strategy. The growth targets for the year were surpassed with very robust organic growth. GBI Private Banking continued to put a high emphasis on staff development and education while adding new members to the team both in Istanbul and Amsterdam to handle the growing business.

GBI's Private Banking pursued a sustainable growth strategy and maintained its emphasis on risk management. In line with the Bank's prudent approach, risk management policies were further strengthened to minimize the risks associated with the business line. Strict implementation of the Know-Your-Customer policy ensured a healthy growth of client assets and reduced the integrity risks. The Bank continued to give high priority to minimizing operational, credit and market risks as well. In this respect, the Operations, Internal Audit and Financial Control and Reporting Departments played a crucial role together with the Private Banking Division.

The outlook for 2007 looks promising for GBI Private Banking. The wealth management sector as a whole is expected to continue its growth in terms of client assets under management. Wealth management remains an attractive business with its low capital intensity and balance sheet risks and potentially high revenues. In spite of increasing competition, opportunities remain for GBI thanks to high growth potential in its niche market. GBI Private Banking will continue to build on its strengths, will maintain its differentiated position and implement its growth strategy with a view to increase its contribution to the Bank's revenues.

Treasury

2006 was characterized by low volatility in the financial markets for most of the year with the exception of extreme volatility in May and June. While emerging markets continued to outperform, differentiation between countries and regions was more pronounced than previous years, particularly during the periods of adverse market movements. Increased use of credit derivatives and other sophisticated instruments spread the market risks across various participants and helped diversification significantly.

GBI's Treasury Division continued to carry out its dual functions: generating revenues from proprietary and commercial transactions and managing balance sheet risks and cash flows of the Bank. In its capacity as revenue generating profit center, it maintained its risk averse strategy and avoided any setbacks during the market sell-off in May and June. It focused on building commercial transaction volumes further, ensuring steady growth in volumes and revenues. Foreign exchange volumes increased by 73 percent to reach to USD 42.9 billion in comparison to 2005. Transaction volumes in derivatives and capital markets also went up by 14 percent and 33 percent, respectively. Higher commercial volumes helped the Treasury to increase its trading income and to contribute significantly to the Bank's performance in 2006.

In 2006, Treasury's role as risk manager was crucial to manage balance sheet risks in an efficient and effective manner. The Division's capacity to conduct accurate analysis and strong guidance on global economic conditions, interest rate outlook, currency trends and general market risks, enabled the Asset & Liability Committee (ALCO) to make timely decisions in liquidity and interest risk management. In a macro environment where uncertainty was high regarding the market interest rate movements, ALCO remained prudent and minimized all interest mismatches in GBI's balance sheet. By taking hedging actions, GBI minimized the effects of sharp interest rate increases in USD on its balance sheet. Similarly, by hedging its USD accruals, GBI protected its net USD revenues from depreciation during a year that USD continued weakening. The prudent approach proved to be beneficial for the Bank's overall performance in 2006.

In liquidity risk management, diversification in funding sources between different segments of wholesale and retail market continued, with a particular emphasis on funds entrusted.

GBI maintained high levels of liquidity throughout the year to make sure that there was a sufficient buffer to encounter any adverse market conditions.

The Division continued to follow the developments in financial markets and implemented various new products with a view to supporting the marketing efforts of the Private Banking Department. The technical capacity of the Treasury in product development and strategy setting gave it a competitive advantage among its peers.

Its broad based expertise in Turkish and global financial markets enabled it to easily adapting to the changing environment of increasing sophistication. Diversification, which started in 2000, from the original core market, Turkey, to other selected emerging markets such as Russia, Romania, CIS, Ukraine, Brazil and developed markets, reached targeted levels. GBI's Treasury Division now covers a broad investment universe of developed and emerging markets, while Turkey remains its most significant country of coverage. It is active in a wide range of products, such as; deposits, foreign exchange spot and forwards, non-deliverable forwards, securities, equities, OTC and exchange traded derivatives, structured products, commodities, ETF's and investment funds. In spite of narrowing spreads and tightening margins in its core markets, Treasury was able to generate very satisfactory revenues.

GBI's Treasury's reputation as an active and professional counterpart, helped the Bank to increase its direct limits and transaction volumes with all major international banks. The Treasury Division also benefited from the international banks' increasing interest in Turkish financial markets by providing them with treasury services and competitive pricings in all plain vanilla as well as derivative and structured products.

2007 started on a very positive note in financial markets with large inflows entering into riskier asset classes and carry trades gaining even more momentum. Although we acknowledge the presence of supportive global economic conditions and macro progress in developing markets, we believe caution is warranted due to the very low levels of risk premiums and excessive market positions. The markets are expected to be prone to episodes of sharp corrections similar to 2006.

Financial Institutions

In 2006, the Financial Institutions Division (FI) continued its growing asset origination in its core markets and concluded two distinct wholesale funding activities.

The Division has strengthened its ties with existing relationship banks and extended the coverage network of its correspondent banks through the addition of new partners in different regions of the world. It further focused on building stronger name recognition in the Bank's core markets in parallel with increasing business volumes with developed and emerging market banks.
As a result of our long-lasting commitment and dedication, particularly to Russia and Kazakhstan, and new markets like Ukraine and Azerbaijan, FI's non-Turkish asset origination activities have climaxed in 2006. The total trade-related loans issued to Kazakhstan, Romania, Russia, Ukraine and Azerbaijan banks has shown a 171 percent growth for the same period on a yearly basis in comparison to 2005.

The Bank has been present in the international loan markets for the purpose of diversifying its funding base. GBI successfully raised the USD 250 million syndicated dual tranche term loan facility with the participations of 25 banks from 15 different countries. Natexis and Standard Chartered acted as joint book runners and the Bank of New York was facility agent. The significantly oversubscribed facility set a new benchmark for boutique international banks.

During the third quarter of 2006, GBI raised EUR 30 million in the form of Lower Tier II 10-year-5-year Non-Callable Subordinated notes. The transaction received strong demand from the market. The investors were third parties rather than the current shareholders, which is a strong indicator of the Bank's ability to raise capital independently from the parent.

On 24 February 2007, Moody's Investors Service upgraded GBI's Long-term Bank Deposits rating by two notches to A3 from Baa2. The rating upgrade reflects the Bank's role as a niche player in the competitive segment of international trade finance and private banking, its strong financial fundamentals and asset quality, historically low credit losses, a reliable funding profile and its solid profitability.

As of October 2006, the asset generation activities of FI relating to interbank trade finance have been transferred to the Trade Finance Division with a view to conduct the product coverage holistically. The new structure gives FI the opportunity to focus on promoting all business lines of the Bank and managing the relationships with other financial institutions.

Retail Banking

In 2006, GBI's Retail Banking activities in the Netherlands and in Germany mainly concentrated on deposit taking and preserving the customer base. In the competitive market of both the Netherlands and Germany, without being the highest payer, the Bank succeeded to keep a satisfactory level of volumes from a strong and stable customer base, which appreciates quality and a high level of service. Customer satisfaction remains a critical success factor for retail banks as increasing numbers of customers want online access to banking functions. GBI's Internet Banking Services, which only started in 2003 and has been further enhanced over the years, are used increasingly with high customer satisfaction. The Bank's Call Center also has high customer satisfaction.

Since its launch in December 2005, the Turkish Lira high yielding time deposit continues to attract the attention of new customers in the Dutch retail savings market as well as existing customers and allow our customer base to benefit from the positive socio-economic developments in Turkey.

International Branches

Romania

In 2006, Romania maintained the speed of economic growth and also kept the deflation process on track by meeting its inflation target of 5 percent by 4.87 percent.

At the end of 2006, the GDP of Romania was EUR 90 billion and the real GDP growth was 5 percent. In 2007, the GDP of Romania is expected to grow another 4.9 percent to EUR 95 billion.

1 January 2007 was the date that Romania officially joined the European Union. The post-accession EU package for Romania is around EUR 11 billion for 2007 till 2009 with a main focus on road construction, building railways, and further cultivating the agriculture industry. Fitch Ratings announced in the second half of 2006 the upgrade of Romania's ratings by one notch. Hence, Romania's foreign currency Issuer Default Rating (IDR) went to `BBB`. The outlook remained stable. The country ceiling was also upgraded from BBB+ to A-. Romania sustained real economic growth performance and the impressive pick-up in foreign direct investments were the main factors for the upgrade.

The Romanian banking industry has witnessed significant changes in the recent years following the positive development of domestic banks and the influx of foreign banks into the country. All domestic banks in Romania are now privatized except for Casa de Economi si Consemnatiuni. Consumer and mortgage loans increased significantly noteably including consumer loans.

The net result of GBI Romania increased significantly compared to 2005 (56 percent increase) despite the sizeable investments the Branch has realized in 2006. The branch concluded the year with 6 agencies of which 4 new agencies are located outside the city of Bucharest. The Branch took the necessary steps to enter the retail banking market including card businesses and implementing state-of-the-art retail banking software to support the new activity. It is our intention to continue to increase the number of agencies in 2007 by 34, reaching a total of 40, which will be spread all over the country and will provide domestic clients with full up-to-date (retail) banking services.

Germany

The German economy grew strongly in 2006. According to first calculations of the Federal Statistical Office, the price-adjusted GDP rose 2.5 percent on the previous year. When examining the calendar-adjusted figures, the GDP growth rate was 2.7 percent for 2006. That is the strongest economic upturn since the boom year of 2000. According to provisional calculations, general government net borrowing amounted to EUR 46.5 billion in 2006; when put in relation to the gross domestic product at current prices, that is 2.0 percent. For the first time since 2001, the figure was therefore below the 3 percent reference value according to the Maastricht Treaty.

Despite lower interest rates and tougher competition in the direct banking markets, the German branch has successfully managed to keep the level of savings deposits around EUR 540 million. The number of customers who are benefiting from our Internet Banking Services increased by 12.5 percent, which is a strong increase compared to the market. In 2007, some new adjustments and additions will be done on the Internet Banking site to convince more customers to use it and to service them even better.

Germany remains a very large and expanding market for retail deposit banking. From 2000 to 2006, the rate of savings increased from 9.2 percent to 10.7 percent. Experts attribute the trend for consumer restraint particularly to the fear of unemployment and the obligation to more private precaution.

The German branch has moved its operations to a new location in June 2006 and continues to deliver high quality services to its high valued customers.

Risk Management

Risk management organization

Managing the risks and, consequently, the cost of capital is essential for stable and profitable growth. Our risk management culture within GBI supports value creation by providing insight into the levels of risk that can be absorbed compared to the earnings power and the capital base. Integrated risk management - combining credit, market, liquidity, operational, legal and integrity risk into one common view - is a key ingredient of the Bank's strategy.

Risk Management in GBI is structured as an integrated effort under various levels within the organization. The Risk Management Committee (RMC), whose members are the CEO, the Managing Director and the Executive Director of Credits, has the ultimate responsibility of the coordination of the risk management activities within the Bank and reports directly to the Supervisory Board. Other risk committees manage more specifically the key banking risks; the Credit Committee for credit risk, Asset & Liability Committee (ALCO) for market and liquidity risks and the Legal Committee for legal risk.

In 2006, GBI established the Risk Management Department (RMD) in order to integrate the efforts in risk quantification and risk monitoring processes. RMD is responsible for the quantification and monitoring of the market, credit and operational risk in terms of economic capital in order to limit the impact of potential events on the financial performance of GBI. RMD develops and implements risk policies, procedures, methodologies and risk management infrastructures and systems that are appropriate for each business line. RMD also coordinates all the efforts for compliance of the Bank's risk management policies and practices with Basel principles and the Financial Supervision Act (FSA, Wet financieel toezicht (Wft)), which came into force on 1 January 2007. RMD is an independent risk control unit, which operates independently from the commercial activities and reports directly to the RMC. Senior management is involved in the day-to-day risk management activities via the RMC.

Market risk

GBI assumes market risk in both trading and non-trading activities by taking positions in debt, foreign exchange, other securities and commodities as well as in equivalent derivatives.

GBI is using Value-at-Risk (VaR) methodology as a risk measure for the market risk on the trading book. VaR quantifies the maximum loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, etc.) for a time interval of one day, with a confidence level of 99 percent. VaR is supplemented by stress tests to determine the effects of potentially extreme market developments on the value of market risk sensitive exposures.

The non-trading books primarily consist of commercial banking activities. Commercial business units are not allowed to run structural mismatch positions in their banking books.

As a result of this policy, all structural interest-rate risks are managed by the Treasury Division in line with the policies and limits set by ALCO. Interest rate sensitivity and earnings at risk analyses are used for quantification and monitoring of the interest rate risk for the banking book.

Liquidity risk

The main objective of GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe and sound operations. ALCO bears overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the Treasury Division, which is responsible for managing the overall liquidity risk position of the Bank. The Treasury Division monitors all maturing cash flows along with expected changes in core-business funding requirements to maintain the day-to-day funding. The Bank aims

for a well-diversified funding mix in terms of instrument types, fund providers, geographic markets and currencies. Liquidity gap analyses for different cash flow scenarios are reported to ALCO on a monthly basis. ALCO reviews and manages the liquidity gaps. The Supervisory Board monitors the liquidity gap against predefined limits.

Credit risk

GBI is mainly involved in low default portfolios such as sovereigns, banks, large corporates and trade finance activities. The credit risk assessment and monitoring processes are designed to reflect the credit risk profile of the Bank. A primary element of the credit approval process is a detailed risk assessment of every credit exposure associated with an obligor. The risk assessment process considers both the creditworthiness of the counterparty and the risks related to the specific type of credit facility or exposure. This risk assessment not only affects the structuring of the transaction but also the outcome of the credit decision.
In parallel with the initiatives to improve risk transparency and compliance with various new regulations such as the Basel II capital accord, GBI has been developing a new series of credit-risk measurement models. The Bank has dedicated internal rating models for all asset classes for evaluating the creditworthiness of the counterparties. The rating models are integrated in the credit granting and monitoring processes.

The granular 22-grade rating scale, which is calibrated on a probability of default measure based upon a statistical analysis of historical defaults, enables the Bank to compare the internal ratings between different sub-portfolios of the institution. Risk rating models also serve as a basis for the calculation of the regulatory capital and economic capital that GBI needs to hold to cover possible losses from its lending activities.

The Credit Committee is responsible for the control of all the credit risks arising from the banking book and the trading book, i.e. counterparty risks (for sovereigns, banks, corporates and specialised lending facilities) and concentration risks (single name, country and sectoral concentrations). The Trade Finance Division, Corporate Credit Department and Credit FI and Sovereign Department perform separate credit assessment for each counterparty and the Credit Committee assigns the final limit based on these assessments together with the internal rating of the customer.

Operational risk

Operational risk includes potential losses caused by a breakdown in information or transaction processing and settlement systems and procedures, human errors, non-compliance with internal policies or procedures, including the possibility of unauthorized transactions by employees. Such risks are managed through bankwide or business-line specific policies and procedures, controls, and monitoring tools. GBI's policy to control operational risk is communicated to and implemented in all business lines. Key elements in this policy are Know-Your-Customer principles, delegating tasks and responsibilities, issuing clear policies, procedures and directives, segregation of duties, four-eyes principles, carrying out supervision, taking corrective action, maintaining highly responsive accounting systems, systematic internal controls and performing periodic internal audits.

Legal integrity and reputational risk

GBI is committed to the preservation of its reputation in the markets in which it operates. As integrity is one of the core values of GBI, this is embedded within GBI's policies and specifically designed integrity and compliance procedures. Internal communication sessions support the proper understanding and effective compliance of these external and internal requirements. All legal issues are under the co-ordination of the Legal Committee. For each line of business, GBI has established standardized legal documentation and procedures to ensure that GBI's rights and obligations are clearly documented and legally enforceable.

Basel II

GBI intends to be Basel II Foundation-IRB compliant for credit risk starting from 1 January 2008 and will opt for the Standardized Approach for market risk and the Basic Indicator Approach for operational risk.

GBI benefits from advanced risk measurement and management practices in its day-to-day activities. This provides the Bank significant expertise and opportunity to enhance the risk management culture within the Bank as well as promotes the use of advanced risk management tools in decision-making and risk monitoring processes. The Bank has decided to leverage the accumulated risk management know-how and the pre-established risk culture to be an IRB compliant bank, which will also provide a more risk sensitive and transparent risk management framework for all of its stakeholders.

The Basel II project is defined and organized as a part of the current risk management organization. The day-to-day activities within the Basel II project are executed by the RMD. As the owner of the capital, the Supervisory Board on behalf of the shareholder has approved the Basel II project plan and timeline. During 2006, the RMD, supported by a number of business segment specialists and external advisors, has completed major design, development and implementation activities required to achieve Basel II compliance. All risk-rating models have been reviewed, developed and implemented across all business lines in order to integrate the risk measures with the credit decision making process. 2007 will be the year for parallel runs and the supervisory review process.

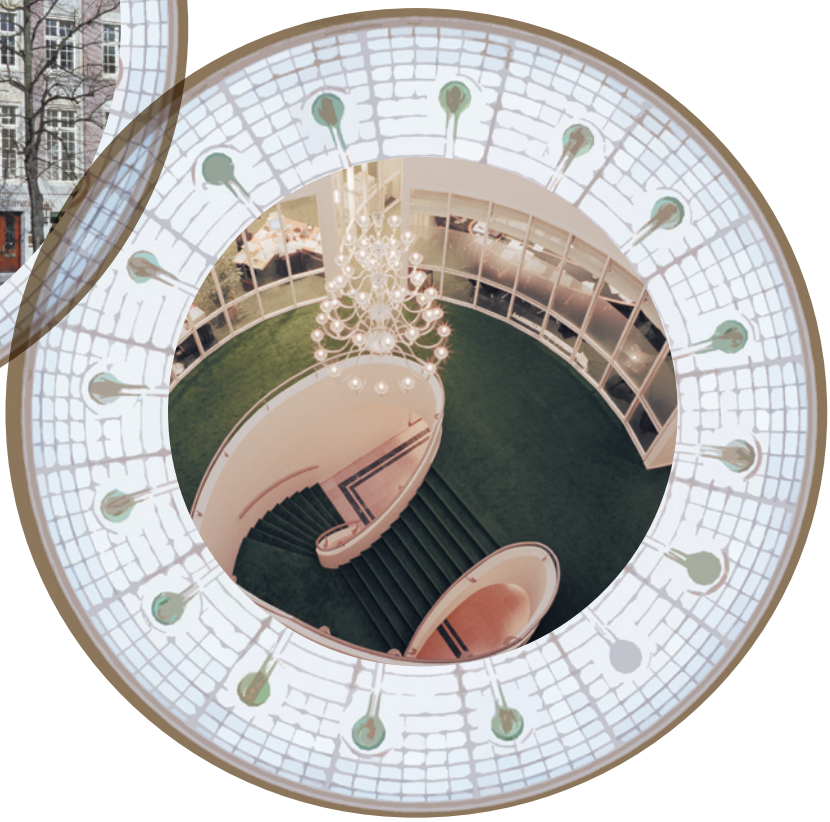
The Managing Board would like to thank our clients, shareholders and stakeholders for the trust they have in our esteemed bank and especially our employees for their tireless contribution to the excellent results of 2006.

Amsterdam, 7 March 2007

Board of Managing Directors:

Bahadır Ateş

Marc P. Padberg



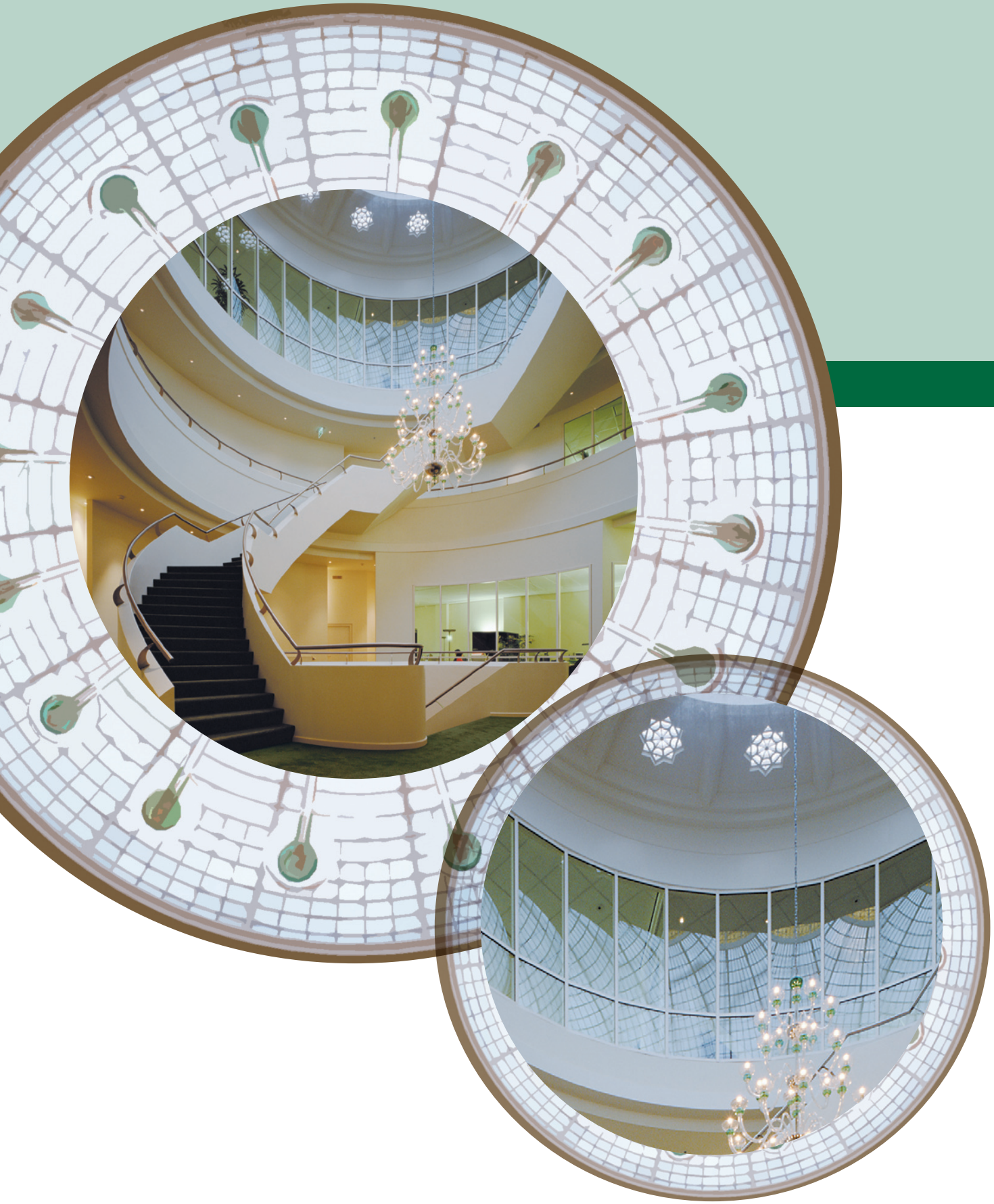


Table of contents

Balance sheet as at 31 December 2006 24

Profit and loss account for the financial year 2006 25

Cash flow statement for the year 2006 26

Notes to the financial statements

1	Overview of GBI	28
2	Significant accounting policies	28

Balance sheet: Assets

3	Cash	32
4	Banks	32
5	Loans and advances	32
6	Interest-bearing securities	32
7	Shares	33
8	Participating interests	33
9	Property and equipment	34
10	Other assets	34
11	Prepayments and accrued income	34

Balance sheet: Liabilities

12	Banks	34
13	Funds entrusted	34
14	Debt securities	35
15	Other liabilities	35
16	Accruals and deferred income	35
17	Provisions	35
18	Subordinated liabilities	36
19	Shareholders' equity	37

Off-balance sheet information

20	Off-balance sheet liabilities	38

Profit and loss account

21	Interest income	39
22	Interest expense	39
23	Income from participating interest	39
24	Commission income	39
25	Commission expense	39
26	Net commission	39
27	Result on financial transactions	40
28	Segmentation of income	40
29	Staff costs and other administrative expenses	40
30	Depreciation	41
31	Value adjustments to tangible fixed assets	41
32	Value adjustments to receivables	41
33	Tax on result on ordinary activities	41

Further disclosures

34	Pledged assets	43
35	Risk management	43
35.1	Credit risk	43
35.1.A	Breakdown by geographic regions	43
35.1.B	Breakdown by collateral	43
35.1.C	Breakdown by sector and industry	44
35.1.D	Derivatives and capital adequacy requirement	44
35.2	Market risk	45
35.2.A	Currency risk	45
35.2.B	Interest rate risk	46
35.3	Liquidity risk	46
36	Fair value of financial instruments	47
37	Related parties	47
37.1	Outstanding balances	48
37.2	Remunerations of Managing Board Directors and Supervisory Board Directors	48

Balance sheet as at 31 December 2006 (before profit appropriation)

	2006		2005	
	EUR 1,000		*EUR 1,000*	
Assets				
Cash		**55,987**		151,865
Banks		**1,018,872**		859,934
Loans and advances		**1,014,838**		694,982
Interest-bearing securities		**423,552**		472,224
Shares		**5,675**		7,309
Participating interests		**318**		2,645
Property and equipment		**39,154**		30,838
Other assets		**2,590**		2,876
Prepayments and accrued income		**62,780**		56,893
Total assets		**2,623,766**		2,279,566
Liabilities				
Banks		**628,654**		581,000
Funds entrusted		**1,689,090**		1,424,554
Debt securities		**1,655**		–
Other liabilities		**6,562**		7,810
Accruals and deferred income		**34,115**		51,828
Provisions		**2,338**		1,801
		2,362,414		2,066,993
Subordinated liabilities		**78,004**		38,288
Paid-in and called-up capital	**134,750**		134,750	
Share premium account	**2,086**		2,086	
Revaluation reserves	**4,777**		(254)	
Other reserves	**17,015**		17,015	
Net profit	**24,720**		20,688	
Shareholders' equity		**183,348**		174,285
Total liabilities and shareholders' equity		**2,623,766**		2,279,566
Off-balance sheet liabilities		**269,480**		210,302*

*Restated for reasons of comparison only.

Profit and loss account for the financial year 2006

		2006 *EUR 1,000*		2005 *EUR 1,000*
Interest income	**173,585**		127,414	
Interest expense	**137,431**		92,042	
Net interest		**36,154**		35,372
Income from participating interest		**(716)**		(240)
Commission income	**21,354**		21,589	
Commission expense	**1,556**		4,525	
Net commission		**19,798**		17,064
Result on financial transactions		**12,873**		9,139
Total income		**68,109**		61,335
Administrative expenses:				
• Staff costs	**19,227**		18,449	
• Other administrative expenses	**8,544**		7,763	
		27,771		26,212
Depreciation		**1,627**		1,709
Value adjustments to tangible fixed assets		**(6)**		4,000
Value adjustments to receivables		**2,595**		(168)
Total expenses		**31,987**		31,753
Operating result before tax		**36,122**		29,582
Tax on result on ordinary activities		**11,402**		8,894
Net result after tax		**24,720**		20,688

Cash flow statement for the year 2006

	2006	2005
	EUR 1,000	*EUR 1,000*
Net cash flow out of profit		
Net profit	**24,720**	20,688
Depreciation	**1,627**	1,709
Value adjustments to tangible fixed assets	**(6)**	4,000
Value adjustments to receivables	**2,595**	(168)
	28,936	26,229
Net cash flow out of banking activities		
Due from banks, excluding due from banks demand	**(160,340)**	(24,175)
Loans and advances (excluding provisions)	**(322,451)**	(160,415)
Trading portfolio	**2,638**	(3,143)
Other assets	**286**	1,028
Prepayments and accrued income	**(5,887)**	54,900
Due to banks, excluding due to banks demand	**47,524**	329,534
Funds entrusted	**264,536**	23,043
Other liabilities	**(1,248)**	(10,456)
Accruals and deferred income	**(17,713)**	29,346
	(192,655)	239,662
Net cash flow out of investment activities		
Investments in:		
• Fixed assets	**(9,939)**	(945)
• Participating interests	**–**	(1,720)
• Investment portfolio	**–**	(133,140)
Divestments in:		
• Fixed assets	**2**	–
• Participating interests	**2,327**	–
• Investment portfolio	**47,668**	–
	40,058	(135,805)
Net cash flow out of financing activities		
Debt securities	**1,655**	–
Provisions	**537**	413
Subordinated liabilities	**39,716**	(20,844)
Revaluation reserves	**5,031**	719
Carried forward	**46,939**	(19,712)

Cash flow statement for the year 2006

	2006 *EUR 1,000*	2005 *EUR 1,000*
Brought forward	**46,939**	(19,712)
Appropriation of profit previous year	**–**	(640)
Other reserves	**–**	(514)
Dividends paid from net profit	**(20,688)**	–
	26,251	(20,866)
Net cash flow	**(97,410)**	109,220
Cash balance as at 1 January	**160,720**	51,500
Cash balance as at 31 December	**63,310**	160,720
Net cash flow	**(97,410)**	109,220
Specification of cash and cash equivalents as at 31 December		
Cash	**55,987**	151,865
Due from banks demand	**7,323**	8,855
	63,310	160,720

1 Overview of GarantiBank International N.V.

General

The financial information of GarantiBank International N.V. (hereafter: GBI) will be included in the financial statements of Garanti Bankası A.Ş. incorporated in Turkey. GBI works in close cooperation with its 100 percent shareholder Türkiye Garanti Garanti Bankası A.Ş..

GBI is mainly active in financing of international trade and corporate lending, as well as in retail banking, treasury and private banking.

Economic environment

The financial position of GBI is to a large extent related to the economic developments in Turkey and emerging markets. The accompanying financial statements reflect GBI's best assessment of the impact of these economic developments on the financial position of GBI.

Basis of presentation

The financial statements are compiled in conformity with the provisions governing the financial statements of banks as contained in Part 9, Book 2 of the Netherlands Civil Code, Guidelines of the Council for Annual Reporting (Raad voor de Jaarverslaggeving) and the formats prescribed for the balance sheet and profit and loss account of banks under the Financial Statements Formats Decree.

All amounts are stated in thousands of euros, unless otherwise indicated.

Principles for consolidation

All branches of GBI are consolidated in these financial statements.

2 Significant accounting policies

General

Assets and liabilities are stated at nominal value, unless otherwise stated below.

Foreign currencies

Assets and liabilities denominated in foreign currencies are converted at the spot rate as at balance sheet date.
Foreign exchange rate differences are taken to the profit and loss account as 'Result on financial transactions', with the exception of exchange differences resulting from the conversion of capital investments in participating interests and related edging transactions. These are accounted for in shareholders' equity together with the results from related hedging instruments, after allowing for taxation.

Other outstanding forward transactions in foreign currencies are valued at the applicable forward rate for the residual term to maturity as at balance sheet date.

Transactions and the resulting income and charges in foreign currencies are converted at the rate applicable on transaction date. The resulting exchange rate effects are accounted for as 'Result on financial transactions' in the profit and loss account except for exchange losses arising on Turkish lira denominated loans, which are accounted for as interest.

Results of participating interests in foreign currencies are translated at the rates prevailing at the end of the month in which the results are realized. The difference resulting from the translation at the rates prevailing at the end of months instead of the rate at balance sheet date is accounted for in shareholders' equity.

The results of the branch in Romania are translated at the rates prevailing at balance sheet date and are adjusted for the revaluation of the book value of the fixed assets in local currency.

Derivatives

Derivatives are financial instruments embodied in contracts of which the value depends on one or more underlying assets or indices.

The derivatives are valued at fair value, i.e. market value as at balance sheet date. The resulting price and valuation differences are stated in the profit and loss account as result on financial transactions.

Changes in the fair value of derivatives used for cash flow hedging are, net of taxes, recognized as equity. They are included in the profit and loss account under interest (where interest related) and result on financial transactions (for the non-interest related part) when the result of the hedged item is reported in the profit and loss account.

Loans and advances to banks/customers

Loans and advances to banks/customers are valued at nominal value, after deduction of general and specific provisions for doubtful debts. The additions to or transfers from the general and specific provisions for doubtful debts are recognized in 'Value adjustments to receivables'.

Profits or losses on the sale of loans and advances to banks/customers (forfaiting) are taken to the profit and loss account as 'Result on financial transactions'.

Investment and trading portfolio

The investment portfolio shown in the item 'Interest-bearing securities' comprises all invest¬ments, which are intended to be held on a permanent basis or to maturity.

The trading portfolio shown in the items 'Interest-bearing securities' and 'Shares' consists of investments which are intended to be used to gain transaction results on a short-term basis.

Interest-bearing securities

Interest-bearing securities, including fixed-income securities belonging to the investment port¬folio, are stated at redemption value. The difference between redemption value and acquisition price is deferred and included in the balance sheet as either a prepayment or an accrual and amortized over the remaining life of the relevant securities.

Interest-bearing securities included in the trading portfolio are stated at market value. Profits or losses on these internal transfers are taken to the profit and loss account as 'Results on financial transactions'.

Shares

Shares belonging to the trading portfolio are stated at market value. The resulting differences in value are accounted for in the profit and loss account as 'Result on financial transactions'.

Participating interests

Participating interests in which GBI has a significant influence on the commercial and financial policy are stated at net asset value determined in conformity with the accounting policies applied in these financial statements. GBI's share in the net result is stated as 'Income from participating interests'.

Property and equipment

The valuation principles for tangible fixed assets are as follows:

Land and buildings in use by GBI

Premises held as a long-term investment or held for sale are valued at the 'best efforts' market value. Changes in this value are accounted for in the revaluation reserve, taking deferred tax liabilities into account.

A debit balance of the revaluation reserve is taken to the profit and loss account. Incidental revaluations of GBI's premises held for sale are released to the profit and loss account upon realization. Land is not being depreciated.
Depreciation periods applied are as follows:

- Properties, excluding land : 50 years.
- Improvement of properties : 50 years.

Other fixed assets

These are stated at acquisition price less straight-line depreciation on the basis of estimated useful economic lives.
Depreciation periods applied are as follows:

- Renovation properties : 10 to 15 years.
- Furniture and equipment : 3 to 10 years.

Provisions

General

Provisions are carried on the balance sheet to cover obligations and losses at the balance sheet date, for which the amounts are uncertain as at the balance sheet date but which can be reliably estimated.

Deferred tax liabilities

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are accounted for only if there is sufficient assurance about their collectibility.

Pensions

Pension plans have been established for the employees in the Netherlands and the majority of staff employed outside the Netherlands in accordance with the regulations and practices of the relevant countries. Third parties, mostly insurance companies, administer these plans.

The nature and substance of the plans are decisive for their treatment in the financial statements. In this respect, a distinction is made between defined contribution plans and defined benefit plans.

Defined benefit obligations are calculated in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension and other employee benefit obligations is determined on the basis of the number of active years of service up to balance sheet date, the estimated salary scale at the time of the expected retirement date and the market rate of interest on high quality corporate bonds.

To determine the pension cost, the expected return on the plan assets is included in the calculation. Differences between the expected and actual returns on the plan assets, as well as actuarial changes, are only (partly) recorded in the profit and loss account of the next financial year if the total of these accumulated differences and changes exceeds a corridor of 10 percent of the largest of obligations under the plan or the amount in the profit and loss account in the next financial year over the members' average remaining years of service. Additions in defined benefit obligations resulting from revised plans regarding past-service periods (past-service cost) are recognized over the period these benefits become vested.

In the case of a defined contribution plan, contributions owing are charged directly to the profit and loss account in the year to which they relate.

Income

All income items are attributed to the period in which they arise or in which the service was provided, with the exception of value differences in respect of trading positions stated at market value. The latter are added or charged directly to the result for the year.

Interest income and interest expenses are recognized in the year to which they relate. Interest results on off-balance sheet instruments used to hedge GBI's own positions are recognized in the items appropriate to the various hedged positions.

Commission income and commission expense are recognized in the year to which they relate.

Interest income and commissions from the extension of credits are not stated as income if the collection of the interest and commission is doubtful.

Results on the sale of interest-bearing securities belonging to the investment portfolio are attributed to interest income over the weighted average term of the investment portfolio, unless sales are made in connection with a structural reduction of the investment portfolio.

If, on balance, losses on the sale of interest-bearing securities belonging to the investment portfolio would arise, the surplus losses are charged directly to 'interest expense'.

Operating expenses

Expenses are allocated to the period in which they arise.

Taxes

In determining the effective tax rate, all permanent and timing differences between pre-tax profit and the taxable amount in accordance with tax legislation, are taken into account.

Income tax in the profit or loss account for the year comprises current and deferred tax. Income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Cash flow statement

The cash flow statement gives details of the source of liquid funds, which became available during the year and the use of the liquid funds over the course of the year. The cash flows are analyzed into cash flows from operations/banking activities, investment activities and financing activities. Liquid funds include cash in hand, net credit balances on current accounts with other banks and net demand deposits with central banks.

Movements in loans, total customer accounts and interbank deposits are included in the cash flow from banking activities. Investment activities comprise purchases, sales and redemptions in respect of investment portfolios, as well as investments in and sales of participating interests, property and equipment. The issue of shares and the borrowing and repayment of long-term funds are treated as financing activities.

The cash flow statement has been drawn up using the same accounting principles as applied to the balance sheet and profit and loss account.

		2006	2005
3	**Cash**	**55,987**	151,865
	This item includes all legal tender, as well as demand deposits held at the central bank and giro and retail clearing services in countries in which GBI is established.		
4	**Banks**	**1,018,872**	859,934
	This item comprises all loans and advances to banks falling under government supervision as well as to central banks, which are not included in the 'Cash' item and insofar as not embodied in the form of debt securities including fixed-income securities.		
5	**Loans and advances**	**1,014,838**	694,982
	These include all loans and advances, excluding those to banks and those embodied in debt securities including fixed-income securities. (This amount is shown net of provisions amounting to EUR 12.6 million (2005: EUR 12.1 million)).		
6	**Interest-bearing securities**	**423,552**	472,224
	Included under this item are debt securities with a fixed interest rate or an interest rate dependent on the prevailing interest rate. All interest-bearing securities are listed. The breakdown by issuer is as follows:		
	• issued by public bodies	**299,916**	383,989
	• issued by others	**123,636**	88,235
		423,552	472,224
	The breakdown by portfolio is as follows:		
	• investment portfolio	**401,892**	449,560
	• trading portfolio	**21,660**	22,664
		423,552	472,224

Of the interest-bearing securities EUR 144 million will become payable on demand in 2007. None of these securities have been issued by shareholders or group companies. The difference between the acquisition price and the market value of the trading portfolio is EUR 96 thousand (2005: EUR 205 thousand).

Changes in the investment portfolio are as follows:		
Balance sheet value as at 1 January	**449,560**	316,420
Purchases	**146,804**	228,158
Sales	**–**	(1,767)
Redemptions	**(141,272)**	(87,629)
Foreign exchange rate differences	**(53,200)**	(5,622)
Balance sheet value as at 31 December	**401,892**	449,560

The purchase price of the investment portfolio was EUR 31.6 million above the redemption value (2005: EUR 38.5 million).

		2006	2005
7	**Shares**	**5,675**	7,309

This item includes unlisted shares which are not issued by group companies and does not include any options. The shares are part of the trading portfolio.
The difference between the acquisition price and the market value of the shares is EUR 116 thousand positive (2005: EUR 32 thousand positive).

8	**Participating interests**	**318**	2,645

This item comprises the following equity participations:

- 100 percent Trifoi SRL, Bucharest, the owner of the land where GarantiBank International Bucharest Branch, Paris Street, Romania is located.
- 100 percent Trifoi Investment SRL, Bucharest, a financial services company.
- Cappadocia Investments Ltd, London, an asset management company. The principle objectives of this company are to act as investment bankers, investment advisers, fund managers and traders, dealers and brokers in securities. During 2006 the Bank has sold its full 49 percent participating interest.
- 100 percent Golden Clover Stichting Custody, Amsterdam, a custodian company.
- 100 percent United Custodian, Amsterdam, a custodian company.
- 100 percent Stichting Safekeeping, Amsterdam, the owner of the shares of Safekeeping Custody Company B.V., a custodian company.

The sole objective of the custodian companies is to hold, for the benefit of customers of GBI, rights with respect to securities, and to conclude agreements and perform or bring about the performance of all other acts conducive to the foregoing. Securities kept in custody amount to EUR 217 million in 2006 (2005: EUR 137 million).

The changes in this item were as follows:

Participating interests as at 1 January	**2,645**	925
Purchases/increases	**–**	1,909
Sales	**(1,648)**	–
Share in result	**(716)**	(240)
Foreign exchange rate differences	**37**	51
Participating interests as at 31 December	**318**	2,645

		2006	2005
9	**Property and equipment**	**39,154**	30,838

The changes in this balance sheet item are as follows:

	Land and buildings inuse by GBI	Other fixed assets	Total
Balance sheet value as at 1 January 2006	**27,970**	**2,868**	**30,838**
Purchases	**1,642**	**1,843**	**3,485**
Revaluation*	**6,460**	**–**	**6,460**
Depreciation	**(561)**	**(1,066)**	**(1,627)**
Book value disposals	**–**	**(2)**	**(2)**
Balance sheet value as at 31 December 2006	**35,511**	**3,643**	**39,154**
Accumulated depreciation	**7,006**	**5,899**	**12,905**

*EUR 6.5 million revaluation relates to the revaluation of GBI's office premises in The Netherlands and Romania, based on the current market value.

10	**Other assets**	**2,590**	2,876

This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified with any other balance sheet asset item. This concerns, for example, balances of payment transactions still to be settled and deferred tax assets. Deferred tax assets amounted to EUR 2.2 million (2005: EUR 2.9 million).

11	**Prepayments and accrued income**	**62,780**	56,893

This item includes the prepayments for costs to be charged to following periods, as well as uninvoiced amounts still to be received, such as accrued interest. It also includes the net positive value of forward foreign exchange contracts and other off-balance sheet instruments stated at market value amounting to EUR 14.0 million (2005: EUR 0 million).

12	**Banks**	**628,654**	581,000

This includes the non-subordinated amounts owed to banks insofar as not embodied in debt certificates.

13	**Funds entrusted**	**1,689,090**	1,424,554

Included under this item are all non-subordinated debts, insofar as they are not amounts owed to banks or embodied in debt certificates.

This item can be specified as follows:

• savings accounts	**980,422**	984,648
• other funds entrusted	**708,668**	439,906
	1,689,090	1,424,554

		2006	2005
14	**Debt securities**	**1,655**	–
	This item includes issued notes that are fully linked to securities that are kept in the GBI trading portfolio.		
15	**Other liabilities**	**6,562**	7,810
	This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified under any other balance sheet liability item. This concerns, for example, current taxes payable amounting to EUR 0.2 million (2005: EUR 0.7 million).		
16	**Accruals and deferred income**	**34,115**	51,828
	This item includes prepayments received in respect of profits attributable to following periods and amounts still to be paid such as accrued interest, as well as the net loss on forward foreign exchange contracts and other off-balance sheet instruments stated at market value amounting to EUR 0 million (2005: EUR 20.8 million).		
17	**Provisions**	**2,338**	1,801
	The following table summarizes the composition of the provisions:		
	Provision for deferred tax liabilities (see note 33)	**2,013**	824
	Provision for pension obligations	**325**	977
	Total	**2,338**	1,801
	Provision for pension obligations	**325**	977
	The changes in this item were as follows:		
	Position as at 1 January	**977**	1,639
	Curtailment due to change in pension plan	**(1,043)**	–
	New position as at 1 January	**(66)**	1,639
	Recognized change in pension obligations less investments	**391**	(662)
	Position as at 31 December	**325**	977

The following tables summarize the change in projected benefit obligations and plan assets of the defined benefit pension plan as well as the funded status of the plan:

Projected benefit obligations		
Position as at 1 January	**4,964**	3,437
Curtailment due to change in pension plan	**(1,283)**	–
New position as at 1 January	**3,681**	3,437
Service cost	**730**	681
Interest cost	**187**	196
Actuarial loss	**(1,375)**	650
Position as at 31 December	**3,223**	4,964

	2006	2005
Plan assets		
Position as at 1 January	**3,059**	1,798
Actual return on plan assets	**19**	(674)
Employer's contribution	**537**	2,213
Actuarial loss	**(580)**	(278)
Position as at 31 December	**3,035**	3,059
Pension		
Funded deficit	**(188)**	(1,905)
Unrecognized net actuarial loss	**(137)**	928
Accrued benefit costs	**(325)**	(977)

18	**Subordinated liabilities**	**78,004**	38,288

This item comprises subordinated retail loans and subordinated lower tier 2 notes issued. The subordinated liabilities are subordinate in respect of the other current and future liabilities of GBI.
The subordinated retail loans have a fixed yearly interest payment or a variable yearly interest payment at a rate of EURIBOR plus 3 percent at a minimum rate of 5.5 percent. The original maturity of the retail deposits is 5, 6, 8 or 10 years.

The subordinated lower tier 2 notes issued have a quarterly interest payment at a variable rate of EURIBOR plus 1.5 percent. The original maturity of the notes is 10 years.

In the financial year the charges paid in respect of the subordinated loans and subordinated notes issued amounted to EUR 3.0 million (2005: EUR 2.7 million).

		2006	2005
19	**Shareholders' equity**	**183,348**	174,285
	Paid-in and called-up capital	**134,750**	134,750
	The authorized capital amounts to EUR 150 million and is subdivided into 150,000 shares with a nominal value of EUR 1,000 each, of which 134,750 shares have been issued and fully paid up.		
	Share premium account	**2,086**	2,086
	The share premium account is fully recognized by the Dutch tax authorities. The capital tax relating to the issue of new shares is charged against the other reserves net of corporation taxes.		
	Revaluation reserves	**4,777**	(254)
	This item comprises revaluation reserves for buildings and derivatives. The changes were as follows:		

	As at 31 December 2006			As at 31 December 2005		
	Buildings	**Derivatives**	**Total**	Buildings	Derivatives	Total
Position as at 1 January	**–**	**(254)**	**(254)**	–	(973)	(973)
Adjustments	**4,777**	**254**	**5,031**	–	719	719
Position as at 31 December	**4,777**	**–**	**4,777**	–	(254)	(254)

	2006	2005
Other reserves	**17,015**	17,015
The changes in this item were as follows:		
Position as at 1 January	**17,015**	17,529
Change in accounting policy pensions	**–**	(1,154)
New position as at 1 January	**17,015**	16,375
Profit appropriation	**–**	640
Position as at 31 December	**17,015**	17,015
Net profit	**24,720**	20,688
The changes in this item were as follows:		
Position as at 1 January	**20,688**	23,140
Dividend paid out	**(20,688)**	(22,500)
Addition to reserves	**–**	(640)
Result after tax	**24,720**	20,688
Position as at 31 December	**24,720**	20,688

Capital adequacy

The standards applied by the Dutch Central Bank for the principal capital ratios are based on the capital adequacy guidelines of the European Union and the Basel Committee for Banking Supervision.

These ratios compare GBI's total capital and Tier 1 capital with the total of risk-weighted assets and off-balance sheet items and the market risk associated with the trading portfolios. The minimum requirement for the total capital ratio and Tier 1 ratio is 8 percent and 4 percent respectively of risk-weighted assets.

The following table analyses actual capital and the minimum standard in accordance with international BIS requirements before profit appropriation:

	As at 31 December 2006		As at 31 December 2005	
	Required	**Actual**	Required	Actual
Total capital	**115,054**	**216,544**	86,590	177,365
Total capital ratio	**8.00%**	**15.06%**	8.00%	16.39%
Tier 1 capital	**57,527**	**153,851**	43,295	151,524
Tier 1 capital ratio	**4.00%**	**10.70%**	4.00%	14.00%

		2006	2005
20	**Off-balance sheet liabilities**	**269,480**	210,302
	This includes all liabilities arising from transactions in which GBI has guaranteed the commitments of third parties.		
	The off-balance sheet liabilities can be broken down into liabilities in respect of:		
	• guarantees	**42,059**	24,599
	• irrevocable letters of credit	**194,513**	154,045
	• other commitments	**32,908**	31,658
		269,480	210,302

		2006	2005
21	**Interest income**	**173,585**	127,414
	This includes income arising from the lending of funds and related transactions as well as commissions and other income, which have an interest characteristic.		
	This item comprises interest and similar income from:		
	• debt securities including fixed-income securities	**41,814**	37,272
	• others	**131,771**	90,142
		173,585	127,414
22	**Interest expense**	**137,431**	92,042
	Included here are the costs arising from the borrowing of funds and the interest related result of derivatives used for cash flow hedging as well as other charges, which have an interest characteristic. The foreign exchange loss related to high-yield investments is also included in interest expense. In 2006 this amounted to EUR 1,732 thousand (2005: EUR 697 thousand).		
23	**Income from participating interest**	**(716)**	(240)
	This item includes the share in the net result of participating interests on which GBI exercises a significant influence.		
24	**Commission income**	**21,354**	21,589
	This amount comprises the income from fees received in respect of banking services supplied to third parties insofar as these do not have an interest characteristic. This relates primarily to trade finance activities.		
25	**Commission expense**	**1,556**	4,525
	This concerns the expenses paid in respect of fees for banking services supplied by third parties insofar as these do not have the characteristics of interest.		
26	**Net commission**	**19,798**	17,064
	The net commission comprises:		
	• trade finance	**15,741**	13,673
	• payment services	**1,216**	1,129
	• security brokerage	**2,404**	2,239
	• other	**437**	(630)
		19,798	17,064

		2006	2005
27	**Result on financial transactions**	**12,873**	9,139
	This heading covers value differences and profits and losses on the sale of securities belonging to the trading portfolio and currency differences and price/rate differences arising from dealing in other financial instruments.		
	This item comprises:		
	• securities trading	**537**	2,643
	• foreign exchange dealing	**8,041**	3,909
	• forfaiting	**3,176**	2,353
	• other	**1,119**	234
		12,873	9,139
28	**Segmentation of income**	**207,812**	157,902
	The total of interest income, income from participating interests, commission income, net result on financial transactions and other income can be broken down into the following geographical areas based on customer domicile:		
	• The Netherlands	**13,503**	8,968
	• Turkey	**111,457**	82,282
	• Rest of Europe	**63,158**	42,424
	• Rest of the world	**19,694**	24,228
		207,812	157,902
29	**Staff costs and other administrative expenses**		
	This includes:		
	• staff costs	**19,227**	18,449
	• other administrative expenses	**8,544**	7,763
		27,771	26,212
	The staff costs comprise:		
	• wages and salaries	**16,242**	14,247
	• pension costs	**954**	2,374
	• other social costs	**1,107**	1,018
	• other staff costs	**924**	810
		19,227	18,449
	The pension costs for own staff breaks down as follows:		
	• service cost	**730**	681
	• interest cost	**187**	196
	• actual return on plan assets	**(19)**	674
	• unrecognised net actuarial loss	**29**	–
	• curtailment due to change in pension plan	**(1,043)**	–
	• defined benefit plan	**(116)**	1,551
	• defined contribution plan	**1,070**	823
		954	2,374

	2006	2005
The main actuarial assumptions to determine the value of the provision for pension obligations are as follows:		
• Discount rate	**4.75%**	4.25%
• Expected increment in salaries	**3.50%**	4.50%
• Expected return on investments	**4.75%**	4.25%
• Indexation pensions	**3.00%**	3.00%
• Inflation	**1.50%**	1.50%
The number of full-time equivalent employees was 243 (2005: 230), which can be split as follows:		
• in the Netherlands	**137**	138
• outside the Netherlands	**106**	92
	243	230

30	**Depreciation** For a breakdown of this item, please see the overview of changes in property and equipment in note 9.	**1,627**	1,709
31	**Value adjustments to tangible fixed assets** This item relates to the impairment of GBI's office premises in Germany. Please also see note 9, property and equipment.	**(6)**	4,000
32	**Value adjustments to receivables** This item consists of additions to provisions for loans and advances to credit institutions and customers.	**2,595**	(168)
33	**Tax on result on ordinary activities** The corporate income tax has been calculated using the nominal tax rate of 29.6 percent over the Dutch taxable income and the local applicable tax rates for taxable income in Germany (2006: 40 percent, 2005: 40 percent) and Romania (2006: 16 percent, 2005: 16 percent). The overall effective tax rate increased from 30.1 percent in 2005 to 31.6 percent in 2006.	**11,402**	8,894
	Dutch tax rate	**29.6%**	31.5%
	Effect of deviating tax rate in foreign countries	**0.5%**	(1.5%)
	Other	**1.5%**	0.1%
	Effective tax rate on operating income	**31.6%**	30.1%

The 2006 taxes amounted to EUR 11,402 thousand (2005: EUR 8,894 thousand), including a deferred tax expense of EUR 44 thousand (2005: EUR 1.4 million deferred tax income). The total taxation amount credited directly to shareholders' equity during the year amounted to EUR 1.5 million.

The provision for deferred tax liabilities relates to tax liabilities that will arise in the future owing to the difference between the book value of specific assets and liabilities and their valuation for tax purposes.

	2006	2005
The sources of deferred tax liabilities can be specified as follows:		
Foreign branches	**104**	305
Buildings	**1,909**	519
Total	**2,013**	824

The sources of deferred tax assets can be specified as follows:		
Derivatives	**–**	107
Pensions	**83**	289
Foreign branches	**2,104**	2,480
Total	**2,187**	2,876

34 **Pledged assets**

EUR 257.8 million of 'Interest-bearing securities' and EUR 3.0 million of asset item 'Banks' have been pledged as collateral for EUR 234.4 million liability item 'Banks'. These assets are consequently not freely available.

35 **Risk management**

35.1 *Credit risk*

Credit risk encompasses all forms of counterparty exposure where counterparties may default on their obligations to GBI in relation to lending, hedging, settlement and other financial activities.

Concentrations of credit risks, including country risks, indicate the relative sensitivity of GBI's performance to developments affecting a particular industry or geographical region.

35.1.a *Breakdown by geographical regions*

The geographic breakdown of assets and off-balance sheet liabilities is based on customer domicile as follows:

	As at 31 December 2006			As at 31 December 2005		
	Banks	**Loans and advances**	**Off-balance liabilities**	Banks	Loans and advances	Off-balance liabilities
• The Netherlands	**17,334**	**133,319**	**5,796**	45,571	76,431	3,267
• Turkey	**307,580**	**293,144**	**81,544**	269,645	217,390	54,392
• Rest of Europe	**474,321**	**462,110**	**138,957**	305,532	268,642	120,522
• Rest of the world	**219,637**	**126,265**	**43,183**	239,186	132,519	32,121
	1,018,872	**1,014,838**	**269,480**	859,934	694,982	210,302

35.1.b *Breakdown by collateral*

The loans and advances can be broken down by collateral as follows:

	2006	2005
• Guaranteed by banks	**57,785**	72,515
• Advances against securities and cash	**78,407**	25,739
• Advances against other collateral and unsecured	**878,646**	596,728
	1,014,838	694,982

	2006	2005
35.1.c ***Breakdown by sector and industry***		
The loans and advances can be broken down by sector and industry as follows:		
Retail customers	**18,914**	23,225
Corporate customers:		
• Manufacturing	**224,394**	191,623
• Construction	**19,772**	17,259
• Wholesale and retail trade	**289,055**	165,835
• Financial services	**324,704**	255,464
• Other services	**135,239**	39,365
• Public sector	**2,760**	2,211
	1,014,838	694,982

35.1.d ***Derivatives and capital adequacy requirement***

Derivatives are financial instruments taking the form of contracts whose value depends on one or more underlying assets, reference prices or indices. Examples of derivatives are forward exchange contracts, swaps, options and forward rate agreements. Transactions in derivatives are contracted by GBI to hedge interest rate risks and foreign exchange risks on GBI's own positions and on behalf of clients.

The degree to which GBI is active in the respective markets or market segments is shown in the following analysis by means of notional amounts. However, the notional amounts give no indication of the size of the cash flows and the market risk or credit risk attached to derivatives transactions.

The market risk arises from movements in variables determining the value of derivatives, such as interest rates and quoted prices. The credit risk (positive replacement value) is the loss that would arise if a counterparty were to default. In calculating the credit risk shown in the following table, netting agreements and other collateral have not been taken into consideration.

		Nominal amounts < 1 year EUR 1,000	Nominal amounts 1<x<5 years EUR 1,000	Total EUR 1,000	Positive replacement value EUR 1,000
Interest rate contracts					
OTC	Swaps	**53,151**	**56,948**	**110,099**	**2,535**
	Forwards	**37,965**	**–**	**37,965**	**200**
Currency contracts					
OTC	Swaps	**691,148**	**27,707**	**718,855**	**18,039**
	Forwards	**31,989**	**443**	**32,432**	**401**
	Options	**165,088**	**–**	**165,088**	**1,162**
Other contracts					
	Options	**1,355**	**–**	**1,355**	**5**
		980,696	**85,098**	**1,065,794**	**22,342**

In determining the capital adequacy requirement according to BIS standards, existing and future credit risks are taken into account. To this end the current potential loss, i.e. the positive replacement value based on market conditions at balance sheet date, is increased by a percentage of the relevant notional amounts, depending on the nature and remaining term of the contract. This method takes into account the possible adverse development of the positive replacement value during the remaining term of the contract.

The analysis below shows the resulting credit equivalent, both unweighted and weighted for the counterparty risk (mainly banks). The figures allow for the downward impact of netting agreements and other collateral on risk exposure and capital adequacy.

	As at 31 December 2006		As at 31 December 2005	
	EUR 1,000	**EUR 1,000**	EUR 1,000	EUR 1,000
	Unweighted	**Weighted**	Unweighted	Weighted
Interest rate contracts	**1,173**	**235**	4,961	992
OTC currency contracts	**33,797**	**7,707**	13,590	3,311
	34,970	**7,942**	18,551	4,303

35.2 *Market risk*

Market risk arises from fluctuations in interest rates, foreign currency exchange rates and security prices. It is GBI's policy to avoid exposure to significant open positions in interest and foreign currency risk.

35.2.a *Currency risk*

The total equivalent of assets in foreign currencies is EUR 1,839 million, while the total equivalent of liabilities in foreign currencies is EUR 1,415 million. The currency position is reduced to manageable levels through off-balance sheet instruments.

	As at 31 December 2006				As at 31 December 2005			
Currency	**Gross long position EUR 1,000**	**Gross short position EUR 1,000**	**Net long position EUR 1,000**	**Net short position EUR 1,000**	Gross long position EUR 1,000	Gross short position EUR 1,000	Net long position EUR 1,000	Net short position EUR 1,000
USD	**1,824,189**	**1,832,905**	**–**	**8,716**	1,636,385	1,648,310	–	11,925
TRY	**438,833**	**438,449**	**384**	**–**	484,606	483,087	1,519	–
CHF	**414**	**400**	**14**	**–**	1,246	1,291	–	45
RON	**65,330**	**61,660**	**3,670**	**–**	53,350	50,597	2,753	–
GBP	**11,044**	**10,999**	**45**	**–**	12,230	12,284	–	54
BRL	**–**	**–**	**–**	**–**	2,605	2,598	7	–
JPY	**5,860**	**4,447**	**1,413**	**–**	13,390	11,716	1,674	–
SEK	**5,696**	**5,693**	**3**	**–**	30	–	30	–
AUD	**26,187**	**26,198**	**–**	**11**	27,514	27,585	–	71
RUB	**7,556**	**1,520**	**6,036**	**–**	–	–	–	–
CAD	**144**	**143**	**1**	**–**	–	–	–	–

35.2.b *Interest rate risk*

The notes to the financial statements include (remaining) contractual maturity calendars for most financial instruments.

A large number of financial instruments carry a variable rate of interest and therefore the interest reset date, which is the first date after 31 December 2006 that interest conditions will be reset to market conditions, is more important than the contractual maturity date to assess the interest rate risk inherent in these financial instruments.

The following table provides a maturity calendar of interest-bearing financial instruments, including interest rate derivatives, by interest date as at 31 December 2006:

	Variable EUR 1 mln	< = 3 months EUR 1 mln	< = 1 year EUR 1 mln	< = 5 years EUR 1 mln	> = 5 years EUR 1 mln	Total EUR 1 mln
Assets	9	1,484	635	392	4	2,524
Liabilities	(682)	(1,123)	(335)	(141)	(10)	(2,291)
Derivatives	–	88	(25)	(59)	–	4
Net interest position 31 Dec. 2006	**(673)**	**449**	**275**	**192**	**(6)**	**237**
Net interest position 31 Dec. 2005	(840)	550	224	142	23	99

The calculation of the sensitivity analysis as at 31 December 2006 shows that, assuming an unchanged structure of assets, liabilities and off-balance sheet items and an interest increase with one percent, taking into account a parallel movement of the yield curves for all currencies as per 1 January 2007, would result in a decrease of the interest margin amounting to approximately EUR 3.5 million in 2007.

35.3 *Liquidity risk*

The following table provides a maturity analysis of assets and liabilities according to their remaining maturity:

	On demand EUR 1,000	< 3 months EUR 1,000	> 3 months - < 1 year EUR 1,000	> 1 year - < 5 years EUR 1,000	> 5 years EUR 1,000	Total EUR 1,000
Assets						
Cash	55,987	–	–	–	–	55,987
Banks	8,879	430,739	424,791	154,463	–	1,018,872
Loans and advances	8,726	569,227	143,556	290,042	3,287	1,014,838
Interest-bearing securities	–	3,804	140,421	275,862	3,465	423,552
Shares	–	–	–	–	5,675	5,675
Participating interests	318	–	–	–	–	318
Property and equipment	–	–	–	–	39,154	39,154
Other assets	2,590	–	–	–	–	2,590
Prepayments and accrued income	62,780	–	–	–	–	62,780
31 Dec. 2006	**139,280**	**1,003,770**	**708,768**	**720,367**	**51,581**	**2,623,766**
31 Dec. 2005	231,623	692,844	728,857	560,451	65,791	2,279,566

	On demand	< 3 months	> 3 months - < 1 year	> 1 year - < 5 years	> 5 years	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Liabilities						
Banks	**74,374**	**292,724**	**155,063**	**106,493**	**–**	**628,654**
Funds entrusted	**725,145***	**723,504**	**173,177**	**66,751**	**512**	**1,689,090**
Debt securities	**–**	**–**	**1,262**	**393**	**–**	**1,655**
Other liabilities	**6,562**	**–**	**–**	**–**	**–**	**6,562**
Accruals and deferred income	**34,115**	**–**	**–**	**–**	**–**	**34,115**
Provisions	**–**	**–**	**–**	**–**	**2,338**	**2,338**
Subordinated liabilities	**–**	**–**	**–**	**43,035**	**34,969**	**78,004**
Shareholders' equity	**–**	**–**	**–**	**–**	**183,348**	**183,348**
31 Dec. 2006	**840,196**	**1,016,228**	**329,502**	**216,672**	**221,167**	**2,623,766**
31 Dec. 2005	820,747	754,862	352,046	167,612	184,299	2,279,566

* This includes on demand retail funding which has a longer term characteristic.

36 **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 is best evidenced by a quoted market price.

The fair value of certain financial instruments is not materially different from their carrying values except for the interest-bearing securities in the investment portfolio.

These financial instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks and other short-term assets and liabilities which are of a contractual nature. The carrying amount of these particular assets and liabilities approximates their fair value, partially due to the fact that it is market practice to renegotiate interest rates to reflect current market conditions. The fair value of the interest-bearing securities in the investment portfolio amounts to EUR 433.5 million (2005: EUR 488.0 million). In the balance sheet, the interest-bearing securities in the investment portfolio are stated at the redemption value of EUR 401.9 million (2005: EUR 449.6 million).

37 **Related parties**

Related parties include the 100 percent shareholder Türkiye Garanti Bankası A.Ş., its major shareholders Doğuş Holding A.S,. and GE Capital Corporation, which have a joint control of Türkiye Garanti Bankası A.S,., all its subsidiaries and the Supervisory and Managing Board of Directors of GBI and all the entities on which the shareholders have a significant influence. During the course of the business, GBI has made placements with and granted loans to related parties and also received deposits from them at commercial terms.

37.1 *Outstanding balances*

GBI has the following balances outstanding from and transactions with related parties:

	As at 31 December 2006		As at 31 December 2005	
	Related parties with a participating interest in the Bank	**Other related parties**	Related parties with a participating interest in the Bank	Other related parties
	EUR 1,000	**EUR 1, 000**	**EUR 1,000**	**EUR 1,000**
Banks (assets)	**18,368**	**18,983**	28,461	21,192
Loans and advances	**–**	**81,622**	421	68,792
Shares	**–**	**5.675**	–	7,309
Banks (liabilities)	**2,615**	**18,988**	2,399	22,379
Funds entrusted	**–**	**288,216**	–	103,412
Subordinated liabilities	**–**	**325**	–	320
Interest income	**2,237**	**8,194**	1,347	11,958
Interest expense	**335**	**7,955**	872	(35)
Commission income	**482**	**466**	413	3,072

37.2 *Remunerations of Managing Board Directors and Supervisory Board Directors*

In accordance with the Articles of Association, the remuneration of the members of the Managing Board is subject for approval by the shareholder at the annual general shareholders' meeting.

The remuneration policy for the members of the Managing Board will be submitted to the annual shareholders' meeting for adoption on 21 March 2007. The objective of the remuneration policy is to attract, motivate and retain a qualified Managing Board with an international mindset and background.

Therefore, the remuneration policy for the Managing Board is composed to combine short-term operational performance with long-term objectives of the company.

The remuneration (including pension costs) of current and former members of the Managing Board amounted to EUR 1,570,372 in 2006 (2005: EUR 1,643,147).

The remuneration of current and former members of the Supervisory Board amounted to EUR 628,753 in 2006 (2005: EUR 861,843).

Amsterdam, 7 March 2007

Board of Managing Directors:
Mr. B. Ateş
Mr. M.P. Padberg

Board of Supervisory Directors:
Mr. S. Sözen (Chairman)
Mr. A. Acar
Mr. H. Akhan
Mr. T. Gönensin
Mr. E. Özen
Mr. F. Şahenk

Profit appropriation

In the Annual General Shareholders' meeting, it will be proposed to convert the net profit of 2006 (EUR 24,720,000) into nominal share capital by issuing 24,720 shares.

The profit appropriation has been proposed in conformity with article 31 of the Articles of Association, which states:

Article 31

1. The profits shall be at the disposal of the general meeting.
2. Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets.
3. Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.
4. The general meeting may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law.
5. The general meeting may be subject to due observance of the provision of paragraph 2 resolve to make distributions to the charge of any reserve which need not be maintained by virtue of the law.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2006 as included on page 22 to page 54, which are part of the annual report of GarantiBank International N.V., Amsterdam, which comprise the balance sheet as at 31 December 2006, the profit and loss account and the cash flow statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the report of the Managing Board, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of GarantiBank International N.V. as at 31 December, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Managing Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 7 March 2007

KPMG ACCOUNTANTS N.V.
E. Bleekrode RA

Supervisory Board

Mr. S. Sözen
Director since 1998. Chairman of GBI Supervisory Board since 2006. Vice-Chairman of Türkiye Garanti Bankası A.Ş. Supervisory Board.

Mr. A. Acar
Director since 2002. Chairman of Doğuş Otomotiv. Holds several Board Member positions in various Doğuş Group companies. Previously served as CEO of Ottoman Bank in Turkey and as CEO of Bank Ekspres.

Mr. H. Akhan
Director since 2003. CEO of Doğuş Holding A.Ş.. Previously served as CEO of Körfezbank in Turkey.

Mr. T. Gönensin
Director since 2000. Holds Senior Management position in Türkiye Garanti Bankası A.Ş.. Previously served as CEO of Ottoman Bank in Turkey and as Senior Managing Director of GBI.

Mr. E. Özen
Director since 2001. CEO of Türkiye Garanti Bankası A.Ş. since April 2000. Previously held several Senior Management positions at Türkiye Garanti Bankası A.Ş..

Mr. F. Şahenk
Director since 2002. Previously held the position of Chairman between 2002 and 2006.
Presently Chairman of Türkiye Garanti Bankası A.Ş..

Managing Board

Mr. B. Ateş
CEO, since 24 March 2000.

Mr. M. P. Padberg
Managing Director, since 1 January 1993.

GarantiBank International N.V. The Netherlands (Head Office)

Trade Finance
Mr. C.O. Draman
Executive Director

Financial Institutions
Mrs. Ö. Etker-Simons
Executive Director

Information & Communication Technology
Mr. G. Salman
Executive Director

Compliance & Internal Audit Services
Mr. E. Kangal
Manager

Treasury
Mrs. Ö. Etker-Simons
Executive Director

Credits
Mr. E. Zeyneloglu
Executive Director

Financial Control & Reporting
Mrs. M.F.C. Koomen
Manager

Retail Banking
Mr. O. Küpçü
Manager

Private Banking
Mrs. Ö. Etker-Simons
Executive Director

Operations
Mr. G. Salman
Executive Director

Risk Management
Mr. M.Ö. Sisman
Manager

Human Resources
Ms. S. Tanriöver
Manager

Head Office

Keizersgracht 569-575
1017 DR Amsterdam
The Netherlands
Tel: +31-20-553 97 00
Fax: +31-20-624 24 66
Swift: ugbinl2a
Internet: www.garantibank.eu
E-mail: info@garantibank.eu

Branches

Romania
Mr. B. Içinsel
Executive Director
Country Manager

Main Branch
Str. Banu Antonache 40-44
Floreasca II Business Center
Parter, Sector 1
Bucharest, 011663
Romania
Tel: +40-21-208 92 60
Fax: +40-21-208 92 86
Swift: ugbirobu
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Dorobanti Agency
134, Calea Dorobantilor,
Ground Floor, Sector 1,
Bucharest,
Romania
Tel: +40-21-230 84 30
Fax: +40-21-318 56 90
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Unirii Agency
1, Nerva Traian Street, BL K6,
Sc. 1, Sector 3
Bucharest, 031041
Romania
Tel: +40-21-301 77 10
Fax: +40-21-301 77 11
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Constanta Agency
136, Tomis Blvd, BL TLB,
Parter, Constanta
Constanta County
Romania
Tel: +40-241-660 400
Fax: +40-241-661 111
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Cluj Agency
1A, Motilor Street, AP 56A-56B
Cluj Napoca
Cluj County
Romania
Tel: +40-264-560 060
Fax: +40-264-560 061
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Brasov Agency
Str. Zizinului, nr. 1-3-5
Brasov
Judetul Brasov
Romania
Tel: +40-268-314 480
Fax: +40-268-314 470
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Timisoara Agency
Intr. Doinei, nr. 19,21,31
Timisoara
Judetul Timis
Tel: +40-256-314 477
Fax: +40-256-314 478
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

Germany
Mr. F. Birincioğlu
Executive Director
Country Manager

Heinrich Heine Allee 1
40213 Düsseldorf, Germany
Tel: +49-211-86 22 20
Fax: +49-211-86 22 23 50
Swift: ugbidedd
Internet: www.garantibank.de
Email: info@garantibank.de

Representative offices

Turkey
Mr. Pusat Zorlu
Representative

Ayazaga Yolu No: 4
Iz Plaza Giz Kat: 18
34398 Maslak/Sisli Istanbul Turkey
Tel +90-212-290 71 60
Fax +90-212-290 71 69

Switzerland
Mr. P.A. Polikar
Representative

Avenue de Rumine 34, CP 135
CH-1000 Lausanne 6
Switzerland
Tel: +41-22-909 12 00
Fax: +41-22-909 12 09