

# **Tekstil Bankası Anonim Şirketi**

**Consolidated Financial Statements  
Together With  
Report of Independent Auditors  
December 31, 2005**

## **Tekstil Bankası Anonim Şirketi**

### **TABLE OF CONTENTS**

	<b>Page</b> -----
Report of Independent Auditors	1
Consolidated Balance Sheet	2
Consolidated Income Statement	3
Consolidated Statement of Changes in Equity	4
Consolidated Cash Flow Statement	5
Notes to the Consolidated Financial Statements	6-49

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of  
Tekstil Bankası Anonim Şirketi:

We have audited the accompanying financial statements of Tekstil Bankası Anonim Şirketi (the Bank - a Turkish corporation) and its subsidiaries (collectively the Group), which comprise the consolidated balance sheet as of December 31, 2005, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, all expressed in the equivalent purchasing power of New Turkish Lira as of December 31, 2005. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

February 27, 2006  
Istanbul, Turkey

**Tekstil Bankası Anonim Şirketi**

**CONSOLIDATED BALANCE SHEET**

**At December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

	Notes	2005	2004
<b>ASSETS</b>			
Cash and balances with the Central bank	4	107,611	168,309
Deposits with other banks and financial institutions	4	81,160	89,412
Other money market placements	4	52,039	17,974
Reserve deposits at the Central bank	5	171,365	70,165
Trading securities	6	67,865	12,079
Derivative financial instruments	17	1,820	2,548
Loans and advances	8	1,290,191	835,547
Investment securities-available for sale	7	256	547
Loaned securities	6,7,8	140,726	127,877
Investment property	9	21,181	22,767
Property and equipment	10	72,626	74,809
Intangible assets	11	1,002	2,148
Deferred tax asset	16	13,155	18,803
Other assets	12	3,156	2,634
<b>Total assets</b>		<b>2,024,153</b>	<b>1,445,619</b>
<b>LIABILITIES</b>			
Deposits from other banks	13	44,258	22,144
Customer's deposits	13	1,171,142	859,288
Other money market deposits	13	164,421	133,255
Derivative financial instruments	17	1,727	2,407
Funds borrowed	14	387,495	239,333
Other liabilities	15	55,087	30,331
Provisions	15	2,708	2,223
<b>Total liabilities</b>		<b>1,826,838</b>	<b>1,288,981</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital issued	18	145,000	122,500
Share capital advance		30,000	20,200
Adjustment to share capital		13,557	21,200
Share capital premium		89	-
Unrealized gains in available for sale investments		192	21
Translation reserve		(294)	(325)
Other reserves and retained earnings		8,771	(6,958)
		<b>197,315</b>	<b>156,638</b>
<b>Minority interest</b>		<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>197,315</b>	<b>156,638</b>
<b>Total equity and liabilities</b>		<b>2,024,153</b>	<b>1,445,619</b>

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of these consolidated financial statements.

**Tekstil Bankası Anonim Şirketi**

**CONSOLIDATED INCOME STATEMENT**

**For the year ended December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

	Notes	2005	2004
<b>Interest income</b>			
Interest on loans and advances		139,231	121,963
Interest on securities		21,871	26,244
Interest on deposits with other banks and financial institutions		3,558	2,056
Interest on other money market placements		61	63
Other interest income		2,746	2,097
<b>Total interest income</b>		<b>167,467</b>	<b>152,423</b>
<b>Interest expense</b>			
Interest on deposits		(71,727)	(60,209)
Interest on other money market deposits		(18,333)	(29,707)
Interest on funds borrowed		(17,411)	(10,963)
Other interest expense		-	(165)
<b>Total interest expense</b>		<b>(107,471)</b>	<b>(101,044)</b>
<b>Net interest income</b>		<b>59,996</b>	<b>51,379</b>
Provision for impairment of loans and advances	8	(8,119)	(2,655)
<b>Net interest income after provision for impairment of loans and advances</b>		<b>51,877</b>	<b>48,724</b>
Foreign exchange gain	23	4,517	3,492
<b>Net interest income after foreign exchange gain and provision for impairment of loans and advances</b>		<b>56,394</b>	<b>52,216</b>
<b>Other operating income</b>			
Fees and commissions income	25	16,453	16,310
Income from banking services		6,712	6,154
Gains less losses from investment securities	7	2,188	407
Net trading income	24	5,220	5,085
Other income	27	5,622	4,903
		<b>36,195</b>	<b>32,859</b>
<b>Other operating expenses</b>			
Fees and commissions expense	25	(3,048)	(3,006)
Salaries and employee benefits	26	(39,228)	(31,839)
Depreciation and amortization	9,10,11	(6,290)	(9,224)
General and administrative expenses	28	(20,193)	(17,373)
Taxes other than on income		(1,528)	(1,446)
Other expenses	29	(3,539)	(8,367)
		<b>(73,826)</b>	<b>(71,255)</b>
<b>Profit from operating activities before income tax and monetary loss</b>		<b>18,763</b>	<b>13,820</b>
Income tax – deferred	16	(5,160)	(3,087)
Monetary loss		(3,217)	(4,237)
<b>Net profit for the year</b>		<b>10,386</b>	<b>6,496</b>
<b>Attributable to:</b>			
Equity holders of the parent		10,386	6,496
Minority interest		-	-
<b>Net profit</b>		<b>10,386</b>	<b>6,496</b>
<b>Earnings per share (YTL)</b>	21	<b>7,16</b>	<b>5,30</b>

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of these consolidated financial statements.

**Tekstil Bankası Anonim Şirketi**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

	Notes	Attributable to equity holders of the parent						Minority Interest	Total Equity
		Share capital	Share capital advance	Adjustment to share capital	Share capital premium	Unrealized gain (loss) in available for sale investments	Currency translation differences	Legal and other reserves and Retained Earnings / accumulated deficit	
<b>At January 1, 2004</b>		122,500		20,663	-	-	(329)	(13,454)	129,380
Net change in unrealized gain on available- for -sale investments		-	-	-	-	21	-	-	21
Currency translation difference		-	-	-	-	-	4	-	4
<b>Total income and expense for the year recognized directly in equity</b>		-	-	-	-	21	4	-	25
<b>Net profit for the year</b>		-	-	-	-	-	-	6,496	6,496
<b>Total income for the year</b>		-	-	-	-	21	4	6,496	6,521
<b>Share capital advance</b>	18	-	20,200	537	-	-	-	-	20,737
<b>At December 31, 2004 / January 1, 2005</b>		122,500	20,200	21,200	-	21	(325)	(6,958)	156,638
Net change in unrealized gain on available- for -sale investments		-	-	-	-	171	-	-	171
Currency translation difference		-	-	-	-	-	31	-	31
<b>Total income and expense for the year recognized directly in equity</b>		-	-	-	-	171	31	-	202
<b>Net profit for the year</b>		-	-	-	-	-	-	10,386	10,386
<b>Total income for the year</b>		-	-	-	-	171	31	10,386	10,588
Increase in paid in capital	18	22,500	(20,200)	(2,300)	-	-	-	-	-
Share capital advance	18	-	30,000	-	89	-	-	-	30,089
Accumulated losses netted off	18	-	-	(5,343)	-	-	-	5,343	-
<b>At December 31, 2005</b>		145,000	30,000	13,557	89	192	(294)	8,771	197,315

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of these consolidated financial statements.

# Tekstil Bankası Anonim Şirketi

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004
<b>Cash flows from operating activities</b>			
Interest received		149,741	154,336
Interest paid		(98,535)	(100,498)
Fees and commissions received		16,453	16,310
Income from banking services		6,712	6,154
Trading income		5,220	5,085
Recoveries of loans previously written off and impaired loans		1,167	1,580
Fees and commissions paid		(3,048)	(3,968)
Cash payments related to employee benefits and similar items		(37,240)	(31,401)
Cash received from other operating activities		4,891	3,630
Cash paid for other operating activities		(25,029)	(27,616)
Income taxes paid		-	(189)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>20,332</b>	<b>23,423</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in trading securities		(54,617)	(27,209)
Net (increase) decrease in reserve deposits at Central Bank		(102,683)	20,026
Net (increase) in loans and advances		(484,830)	(131,243)
Net (increase) decrease in other assets		(1,180)	3,660
Net increase in deposits from other banks		22,688	13,293
Net increase (decrease) in customers' deposits		330,048	(47,297)
Net increase in other money market deposits		34,618	1,932
Net increase (decrease) in other liabilities		24,029	(14,598)
<b>Net cash used in operating activities</b>		<b>(211,595)</b>	<b>(158,013)</b>
<b>Cash flows from investing activities</b>			
Purchases of available for sale securities		(10,935)	(518)
Proceeds from sale and redemption of available for sale securities	7	283	326
Proceeds from sale of investment property	9	466	821
Purchases of property and equipment	10	(1,743)	(1,329)
Proceeds from the sale of property and equipment		1,498	53
Purchase of intangible assets	11	(155)	(176)
Proceeds from the sale of intangible assets		-	-
<b>Net cash used in investing activities</b>		<b>(10,586)</b>	<b>(823)</b>
<b>Cash flows from financing activities</b>			
Proceeds from funds borrowed		247,687	238,750
Repayments of funds borrowed		(98,196)	(161,408)
Proceeds from of share capital advance and share capital premium		30,089	20,737
<b>Net cash provided by (used in) financing activities</b>		<b>179,580</b>	<b>98,079</b>
Effect of net foreign exchanges difference and monetary gain (loss) on monetary items		7,722	5,921
Net (decrease) in cash and cash equivalents		(34,879)	(54,836)
Cash and cash equivalents at beginning of year		275,556	330,392
<b>Cash and cash equivalents at end of year</b>	<b>4</b>	<b>240,677</b>	<b>275,556</b>

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**1. CORPORATE INFORMATION**

**General**

Tekstil Bankası A.Ş. (a Turkish joint stock company – Tekstilbank, the Bank) is incorporated on April 29, 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul. Certain ordinary shares of the Bank, representing 24.57% of the total, are listed on the Istanbul Stock Exchange since May 1990.

The registered office address of the Bank is located at Büyükdere Caddesi, No. 63, Maslak 34398 Istanbul/Turkey.

The consolidated financial statements of the Bank were authorized for issue by the management on February 27, 2006. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

**Nature of Activities of the Bank / Group**

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

The operations of the Group consist of corporate and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The subsidiaries included in consolidation and effective shareholding percentages of the Group at December 31, 2005 and 2004 are as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			2005	2004
The Euro Textile Bank Ltd. (ETB)	Lefkosa/Cyprus	Banking	99.99	99.99
Tekstil Menkul Değerler A.Ş. (Tekstil Menkul)	Istanbul/Turkey	Brokerage	99.92	99.92

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Preparation**

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation. The foreign subsidiary maintains its books of account and prepares its statutory financials in U.S. Dollars and in accordance with the regulations of the country in which it operates. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira (YTL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of YTL, deferred taxation, impairment provision on loans, valuation of securities classified under loans, accrual for unused vacation pay liability and employee termination benefits.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Changes in Accounting Policies**

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

The changes in accounting policies result from the adoption of the following new or revised standards which are relevant to the Group's operations:

IAS 1	(revised)	Presentation of Financial Statements
IAS 8	(revised)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	(revised)	Events after the Balance Sheet Date
IAS 16	(revised)	Property, Plant and Equipment
IAS 17	(revised)	Leases
IAS 21	(revised)	The Effects of Changes in Foreign Exchange Rates
IAS 24	(revised)	Related Party Disclosures
IAS 27	(revised)	Consolidated and Separate Financial Statements
IAS 32	(revised)	Financial Instruments-Disclosure and Presentation
IAS 33	(revised)	Earnings per Share
IAS 36	(revised)	Impairment of assets
IAS 38	(revised)	Intangible Assets
IAS 39	(revised)	Financial Instruments: Recognition and Measurement
IAS 40	(revised)	Investment Property
IFRS 5		Non-current Assets Held for Sale and Discontinued Operations

**In summary:**

IAS 1 (revised) has affected the presentation of minority interest and other disclosures.

IAS 24 (revised) has affected the identification and definition of related parties and some other related party disclosures.

Moreover, the Group had reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38 (revised). No adjustment resulted from this assessment.

IAS 8, 10, 16, 17, 21, 27, 32, 33, 36, 39 and 40 (all revised), and IFRS 5 had no material effect on the Group's accounting policies.

***IFRSs and IFRIC Interpretations not yet effective***

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

IFRS 6 "Exploration for and Evaluation of Mineral Resources"- This Standard does not apply to the activities of the Group.

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

IFRIC 4 "Determining Whether an Arrangement Contains a Lease"- This Interpretation is required to be applied for annual periods beginning on or after January 1, 2006 but is not expected to be relevant for the activities of the Group.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”- This Interpretation is required to be applied for annual periods beginning on or after January 1, 2006 but is not expected to be relevant for the activities of the Group.

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

**Reclassification of Comparative Information**

The Group has made certain reclassifications in the consolidated financial statements as of December 31, 2004 to be consistent with the current year presentation. Major reclassifications are as follows:

- YTL 127,877 representing available-for-sale securities and loans to government accounted under loans and advances given as collateral for repurchase agreements has been reclassified from investment securities and loans and advances to loaned securities.
- YTL 407 representing gains less losses from available-for-sale securities has been reclassified from interest on securities to gains less losses from investment securities.
- YTL 22,767 representing investment properties has been reclassified from other assets to investment properties.
- YTL 1,390 representing prepaid commission expense has been reclassified from other asset to funds borrowed.
- YTL 20,737 representing share capital advance has been reclassified from other liabilities to equity.
- YTL 961 representing accrued commission expense has been reclassified from fees and commission expense to interest on funds borrowed.

**2.3 Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Judgments**

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

**(a) Application of IAS 29:**

Although there is a declining trend in inflation rates and the rulings of the regulatory authorities governing the reporting requirements of the Group in Turkey ceased the application of restatement, the Group concluded that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 were still applicable in Turkey in 2005 and consequently continued to apply such restatement for IFRS reporting purposes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Impairment of available-for-sale equity instruments:**

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

**(c) Impairment on property and equipment**

After recognition the Group assesses the recoverable amount of its property and equipment. In assessing whether there is any indication that an impairment loss recognized in prior periods for the property and equipment may no longer exists or may have decreased, the Group considers the asset's value in use and the expected cash inflows that are largely independent of the cash inflows from other assets.

**Estimation Uncertain**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**(a) *Impairment Losses on Loans and Advances***

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of such loans, advances and receivables as of December 31, 2005 1,290,191 YTL (2004 - YTL 835,547 net of impairment allowance of YTL10,981 (2004 - YTL 6,378).

**(b) *Fair Value of Derivatives and Other Financial Instruments***

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 17 and Note 32.

**(c) *Income Taxes***

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly. As of December 31, 2005, the Group carries a net deferred tax asset amounting to YTL 13,155 (2004 - YTL 18,803).

*(d) Employee Termination Benefits*

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 15 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2005 is YTL 2,708 (2004 - YTL 2,223).

**2.4 Summary of Significant Accounting Policies**

**Functional and Presentation Currency**

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

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted in January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), as the new currency unit for the Republic of Turkey effective January 1, 2005. The conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 (full) through out the period of one year until complete phase-out of TL. Effective January 1, 2005, the Group's functional and presentation currency is YTL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of YTL.

The restatement for the changes in the general purchasing power of YTL as of December 31, 2005 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

Determining whether an economy is hyperinflationary in accordance with IAS 29 requires judgment as the standard does not establish an absolute rate, instead it considers the following characteristics of the economic environment of a country to be strong indicators of the existence of hyperinflation: (a) the general population prefers to keep its wealth in non monetary assets or in a relatively stable currency; amounts of local currency held are immediately invested to maintain purchasing power, (b) the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable currency; prices may be quoted in that currency, (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, (d) interest rates, wages and prices are linked to a price index and (e) the cumulative inflation rate over three years is approaching, or exceeds 100%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

As of December 31, 2005, the three-year cumulative rate has been 33% (December 31, 2004 – 70%) based on the indices published by the State Institute of Statistics (SIS), and local authorities, which govern the reporting requirements of the Group in Turkey, ceased the requirements for application of inflation accounting effective from January 1, 2005. However, IAS 29 is continued to be applied in the preparation of the IFRS financial statements until the positive trends are confirmed as “other than temporary”. This is also consistent with the conclusion of the Internal Practices Task Force of the American Institute of Certified Public Accountants (AICPA) for reporting purposes under generally accepted principles accounting principles in the United States of America. Based on the current trends of and developments, Turkey is expected to come off hyperinflationary status effective from January 1, 2006. Until December 31, 2004, the Bank used the Turkish Countrywide Wholesale Price Index (WPI) for the purpose of IAS 29 restatement. From January 1, 2005 onwards, the SIS started to publish the Producers’ Price Index (PPI) which is aimed to replace the WPI in order to have a more meaningful index that is also more comparable and in line with the international price indices, however it still continues to publish WPI for a temporary period of time for indicative purposes. Accordingly, the Group started to use the changes in the PPI for restatement in 2005 as management considers that this will reflect more relevant and reliable financial information. The changes in PPI and WPI during the year ended December 31, 2005 as published by the SIS are 2.7 % and 4.5%, respectively and the estimated effects of this change in index in the 2005 financial statements has been to increase net income for the year then ended by approximately YTL 1,200.

Index and conversion factors as of the end of the three year period ended December 31, 2005 are given below:

Dates	Index	Conversion Factors
December 31, 2002	6,478.8	1.332
December 31, 2003	7,382.1	1.169
December 31, 2004	8,403.8	1.027
December 31, 2005	8,627.3	1.000

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

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2005.
- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2005 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of equity investments and property transferred to share capital from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity are restated by applying the relevant conversion factors.
- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).
- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets, which have been calculated based on the restated gross book values and accumulated depreciation/amortization.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

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

As of December 31, 2005 and 2004, ETB's functional currency is U.S. Dollars.

**Basis of Consolidation**

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

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill.

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

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights.

**Foreign Currency Translation**

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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

	YTL/ EUR (full)	YTL/ USD (full)
December 31, 2003	1.7450	1.3958
December 31, 2004	1.8268	1.3421
December 31, 2005	1.5478	1.3083

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The assets and liabilities of the foreign subsidiary (of which does not have the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (YTL) at the rate of exchange ruling at the balance sheet date. The income statement of the foreign subsidiary is also translated at year-end exchange rates as the impact of translation at the weighted average exchange rates for the year is not material. On consolidation exchange differences arising from the translation of the net investment in foreign entity is included in equity as currency translation differences until the disposal of the net investment.

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

**Property and Equipment**

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

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

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

Expenses for repairs and maintenance are charged to expenses as incurred.

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

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

**Investment Property**

Investment properties are stated at cost less accumulated depreciation and any impairment in value. Investment properties are depreciated on a straight-line basis over the estimated useful life of 50 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible Assets**

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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

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

**Investments and Other Financial Assets**

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

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

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

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in income.

***Loans and receivables***

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Available for sale financial assets***

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity's right to receive payment is established.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

**Repurchase and Resale Transactions**

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

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

**Offsetting Financial Instruments**

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

**Recognition and Derecognition of Financial Instruments**

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

**Cash and Cash Equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

**Impairment of Financial Assets**

**a) *Assets carried at amortized cost***

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - (i) adverse changes in the payment status of borrowers; or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the group

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

***b) Assets carried at cost***

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

***c) Available-for-sale financial assets***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

**Interest-bearing Deposits and Borrowings**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employee Benefits**

The Group has both defined benefit and defined contribution plans as described below:

**(a) Defined Benefit Plans:**

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

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

**(b) Defined Contribution Plans:**

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

**Leases**

**The Group as Lessee**

***Finance leases***

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Operating Leases***

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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

**Income and Expense Recognition**

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

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

Dividends are recognized when the shareholders' right to receive the payments is established.

**Income Tax**

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

***Current Tax***

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

***Deferred Tax***

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

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

**Derivative Financial Instruments**

The Group enters into transactions with derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

**Fiduciary Assets**

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

**Segment Reporting**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**3. SEGMENT INFORMATION**

*Business Segments*

The Group is organized into 3 main business segments which are organized and managed separately according to the nature of the products and services provided

**Year ended December 31, 2005**

	Retail banking	Corporate banking	Investment Banking/ Treasury	Others	Group
External revenues	16,485	76,594	6,437	1,192	100,708
Revenues from other segments	(3,800)	(12,170)	9,529	6,441	-
<b>Total revenues</b>	<b>12,685</b>	<b>64,424</b>	<b>15,966</b>	<b>7,633</b>	<b>100,708</b>
Segment result (A)	936	15,748	1,084	995	18,763
Unallocated costs (B)	-	-	-	-	-
<b>Operating profit (A-B)</b>	<b>936</b>	<b>15,748</b>	<b>1,084</b>	<b>995</b>	<b>18,763</b>
Profit before income tax and monetary loss	936	15,748	1,084	995	18,763
Income tax	-	-	-	(5,160)	(5,160)
Monetary loss	-	-	-	(3,217)	(3,217)
<b>Net profit</b>	<b>936</b>	<b>15,748</b>	<b>1,084</b>	<b>(7,382)</b>	<b>10,386</b>
<b>Assets and Liabilities</b>					
Segment assets	34,683	1,286,143	575,716	127,611	2,024,153
Unallocated assets	-	-	-	-	-
<b>Total assets</b>	<b>34,683</b>	<b>1,286,143</b>	<b>575,716</b>	<b>127,611</b>	<b>2,024,153</b>
Segment liabilities	3,056	1,257,177	593,337	170,583	2,024,153
Unallocated liabilities	-	-	-	-	-
<b>Total liabilities</b>	<b>3,056</b>	<b>1,257,177</b>	<b>593,337</b>	<b>170,583</b>	<b>2,024,153</b>
<b>Capital expenditures</b>					
Tangible fixed assets	-	-	-	1,743	1,743
Intangible fixed assets	-	-	-	155	155
<b>Depreciation</b>	<b>277</b>	<b>776</b>	<b>42</b>	<b>3,439</b>	<b>4,534</b>
<b>Amortization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,301</b>	<b>1,301</b>
<b>Non-cash expense(*) other than depreciation and amortization</b>	<b>3,436</b>	<b>3,659</b>	<b>-</b>	<b>1,643</b>	<b>8,738</b>

(\*) Non-cash expense relates to the impairment and depreciation of investment property and allowance for losses on loans and advances.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**3. SEGMENT INFORMATION (continued)**

**Year ended December 31, 2004**

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking/ Treasury</b>	<b>Others</b>	<b>Group</b>
External revenues	8,850	65,006	683	13,191	87,730
Revenues from other segments	(2,553)	(13,004)	15,593	(36)	-
<b>Total revenues</b>	<b>6,297</b>	<b>52,002</b>	<b>16,276</b>	<b>13,155</b>	<b>87,730</b>
Segment result (A)	1,033	11,479	2,211	(903)	13,820
Unallocated costs (B)	-	-	-	-	-
<b>Operating profit (A-B)</b>	<b>1,033</b>	<b>11,479</b>	<b>2,211</b>	<b>(903)</b>	<b>13,820</b>
Profit before income tax and monetary loss	1,033	11,479	2,211	(903)	13,820
Income tax	-	-	-	(3,087)	(3,087)
Monetary loss	-	-	-	(4,237)	(4,237)
<b>Net profit</b>	<b>1,033</b>	<b>11,479</b>	<b>2,211</b>	<b>(8,227)</b>	<b>6,496</b>
<b>Assets and Liabilities</b>					
Segment assets	23,969	810,695	505,377	105,578	1,445,619
Unallocated assets	-	-	-	-	-
<b>Total assets</b>	<b>23,969</b>	<b>810,695</b>	<b>505,377</b>	<b>105,578</b>	<b>1,445,619</b>
Segment liabilities	2,828	964,757	318,012	160,022	1,445,619
Unallocated liabilities	-	-	-	-	-
<b>Total liabilities</b>	<b>2,828</b>	<b>964,757</b>	<b>318,012</b>	<b>160,022</b>	<b>1,445,619</b>
<b>Capital expenditures</b>					
Tangible fixed assets	-	-	-	1,329	1,329
Intangible fixed assets	-	-	-	176	176
<b>Depreciation</b>	<b>283</b>	<b>1,223</b>	<b>50</b>	<b>4,948</b>	<b>6,504</b>
<b>Amortization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,160</b>	<b>2,160</b>
<b>Non-cash expense (*) other than depreciation and amortization</b>	<b>154</b>	<b>2,501</b>	<b>-</b>	<b>3,572</b>	<b>6,227</b>

(\*) Non-cash expense relates to the impairment and depreciation of investment property and allowance for losses on loans and advances.

***Geographical Segments***

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

The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment assets, segment liabilities and revenue from customers outside of Turkey do not exceed 10% of total entity assets, total entity liabilities and total entity revenue.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**4. CASH AND CASH EQUIVALENTS**

	2005	2004
Cash on hand	12,269	9,337
Balances with Central Bank	95,342	158,972
<b>Cash and balances with central banks</b>	<b>107,611</b>	<b>168,309</b>
<b>Deposits with other banks and financial institutions</b>	<b>81,160</b>	<b>89,412</b>
<b>Other money market placements</b>	<b>52,039</b>	<b>17,974</b>
<b>Cash and cash equivalents in the balance sheet</b>	<b>240,810</b>	<b>275,695</b>
Less: Time deposits with original maturities of more than three months	-	-
Less: Income Accrual	133	139
<b>Cash and cash equivalents in the cash flow statement</b>	<b>240,677</b>	<b>275,556</b>

As of December 31, 2005 and 2004, deposits and placements are as follows:

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with central banks	74	95,268	10.25%	2.03% - 1.09%	17	158,955	13.04%	1.04%-0.99%
Deposits with other banks and financial institutions	2,830	78,330	14.45% - 16.80%	2.53% - 4.65%	33,941	55,471	18.20%-20.80%	2.00%-3.00%
Interbank & other money market placements	52,039	-	14.45%	-	17,974	-	18%	-
<b>Total</b>	<b>54,943</b>	<b>173,598</b>			<b>51,932</b>	<b>214,426</b>		

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

	2005	2004
- Turkish lira	103,805	13,508
- Foreign currency	67,560	56,657
	<b>171,365</b>	<b>70,165</b>

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day to day operations.

As of December 31, 2005 and 2004, reserve deposit rates applicable for Turkish lira and foreign currency liability accounts with the Central Bank are 6% and 11%, respectively.

As of December 31, 2005, the interest rates applied for Turkish lira and USD reserve deposits by the Central Bank are 10.25% and 2.03% – 1.09% (2004 13.04% and 1.04% - 0.99%), respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**6. TRADING SECURITIES**

**Trading Securities:**

	2005		2004	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
<b>Trading securities at fair value</b>				
<b>Debt instruments</b>				
Turkish government bonds	37,745	15.05-19.79	8,620	17.66-26.02
Turkish treasury bills	26,805	14.48-17.76	417	16.46-20.86
Foreign currency government bonds	265	5.29-6.25	932	3.48-3.82
Eurobonds issued by the Turkish government	3,050	3.28-7.28	2,037	3.71-7.76
	<b>67,865</b>		<b>12,006</b>	
<b>Others</b>				
Equity securities (listed)	-	-	73	-
	<b>-</b>		<b>73</b>	
<b>Total trading securities</b>	<b>67,865</b>		<b>12,079</b>	

YTL 53,891 of trading securities have floating interest rates and the rest have fixed rates.

Market value of trading securities pledged under repurchase agreements and related liability are as follows:

	2005	2004
Trading securities	93,051	94,117
Related liability	84,397	86,872

Repurchase agreements mature within one month.

As of December 31, 2005, the carrying value and the nominal amounts of to government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 63,572 and YTL 62,239 (2004 - YTL 6,637 and YTL 7,451), respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**7. INVESTMENT SECURITIES**

**Available for Sale Securities**

	2005		2004	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
<b>Available for sale securities at fair value</b>				
<b>Debt instruments-YTL</b>				
Turkish government bonds	-	-	292	19.61
Eurobonds issued by Turkish government	256	7.28	255	7.76
<b>Total available for sale securities at fair value</b>	<b>256</b>		<b>547</b>	

All available for sale debt securities have fixed interest rates.

Gains and losses from investment securities comprise:

	2005	2004
Derecognition of available-for-sale securities	2,188	407
	<b>2,188</b>	<b>407</b>

Carrying value of investment securities pledged under repurchase agreements and related liabilities are:

	2005	2004
Investment securities	10,465	-
Related liability	9,612	-

Repurchase agreements mature within one month.

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

	2005	2004
	Available for Sale	Available for Sale
At January 1	547	326
Exchange differences and monetary gain (loss) on monetary assets	(8)	2
Additions	10,465	545
Transfer to loaned securities	(10,465)	-
Disposals (sale and redemption)	(283)	(326)
<b>At December 31</b>	<b>256</b>	<b>547</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**8. LOANS AND ADVANCES**

2005							
	Amount			Total	Effective interest rate		
	New Turkish Lira	Foreign Currency	Foreign Currency Indexed		New Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	531,061	371,694	337,658	1,240,413	14.70 - 31.10	4.00 - 9.03	5.00-9.00
Loans to government	-	-	1,990	1,990	-	-	13.98
Consumer loans	8,048	-	1,427	9,475	12.84-27.60	-	7.20-9.48
Credit cards	31,142	308	-	31,450	63	30	-
<b>Total loans</b>	<b>570,251</b>	<b>372,002</b>	<b>341,075</b>	<b>1,283,328</b>			
Loans in arrears	-	-	-	17,844			
Less: Allowance for losses on loans and advances	-	-	-	(10,981)			
	<b>570,251</b>	<b>372,002</b>	<b>341,075</b>	<b>1,290,191</b>			

  

2004							
	Amount			Total	Effective interest rate		
	New Turkish Lira	Foreign Currency	Foreign Currency Indexed		New Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	353,117	287,204	168,640	808,961	20.50-48.00	4.00-11.00	4.20-11.00
Loans to government	-	-	5,361	5,361	-	-	11.49
Consumer loans	1,420	-	278	1,698	27.00-46.80	-	7.92-15.60
Credit cards	21,754	453	-	22,207	83.00	30.00	-
<b>Total loans</b>	<b>376,291</b>	<b>287,657</b>	<b>174,279</b>	<b>838,227</b>			
Loans in arrears	-	-	-	3,698			
Less: Allowance for losses on loans and advances	-	-	-	(6,378)			
	<b>376,291</b>	<b>287,657</b>	<b>174,279</b>	<b>835,547</b>			

Loans and advances with variable rates are YTL 265,420 (2004 – YTL 165,156) and the rest have fixed rates.

Loans to government include floating rate foreign currency indexed bonds directly purchased from Turkish Treasury amounting to YTL 39,200 (2004 - YTL 39,121) that are not quoted in an active market and with maturities up to one year.

Carrying value of debt instruments pledged under repurchase agreements and related liabilities are:

	2005	2004
Investment securities	37,210	33,760
Related liability	36,903	32,109

As of December 31, 2005, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 1,950 YTL 1,780 (2004 - YTL 5,654 and YTL 5,415), respectively.

The portfolio reserve amounting to YTL 5,364 (2004 – YTL 5,229) for impairment is provided based on past experience, management's assessments of the current economic conditions, the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)****8. LOANS AND ADVANCES (continued)**

Movements in the impairment allowance:

	2005	2004
Allowance at beginning of year	6,378	4,949
Impairment allowance	8,519	2,962
Recoveries	(400)	(307)
Provision net of recoveries	8,119	2,655
Loans written off during the year	(3,351)	(481)
Monetary gain	(165)	(745)
Allowance at end of year	10,981	6,378

As of December 31, 2005, loans and advances on which interest is not being accrued, or where interest is suspended amounted to YTL 17,844 (2004 - YTL 3,698).

**9. INVESTMENT PROPERTY**

Investment properties comprise property that are acquired from defaulted loan customers and will be mainly realized through sale.

	2005	2004
Opening balance at January 1	22,767	28,017
Additions	672	67
Disposals	(1,639)	(3,897)
Depreciation charge for the year	(455)	(560)
Provision for impairment	(164)	(860)
Closing balance at December 31	21,181	22,767

The fair value of the investment property as of December 31, 2005 is based on an independent expertise report and is YTL 21,181(2004- YTL 22,767)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**10. PROPERTY AND EQUIPMENT**

	Land and Buildings	Furniture and office equipment	Leasehold improvements	Motor Vehicles	Total
At January 1, 2005, net of accumulated depreciation and impairment	66,272	3,811	2,857	1,869	74,809
Additions	-	1,079	469	195	1,743
Disposals	-	(23)	-	(1,521)	(1,544)
Impairment reversal	2,152	-	-	-	2,152
Depreciation charge for the year	(1,616)	(1,821)	(1,028)	(69)	(4,534)
<b>At December 31, 2005, net of accumulated depreciation and impairment</b>	<b>66,808</b>	<b>3,046</b>	<b>2,298</b>	<b>474</b>	<b>72,626</b>
<b>At January 1, 2005</b>					
Cost	75,800	46,495	4,702	3,965	130,962
Accumulated depreciation	(7,376)	(42,684)	(1,845)	(2,096)	(54,001)
Accumulated impairment	(2,152)	-	-	-	(2,152)
<b>Net carrying amount</b>	<b>66,272</b>	<b>3,811</b>	<b>2,857</b>	<b>1,869</b>	<b>74,809</b>
<b>At December 31, 2005</b>					
Cost	75,800	47,186	5,171	1,066	129,223
Accumulated depreciation	(8,992)	(44,140)	(2,873)	(592)	(56,597)
<b>Net carrying amount</b>	<b>66,808</b>	<b>3,046</b>	<b>2,298</b>	<b>474</b>	<b>72,626</b>
	Land and Buildings	Furniture and office equipment	Leasehold improvements	Motor Vehicles	Total
At January 1, 2004, net of accumulated depreciation and impairment	69,943	6,900	3,376	1,970	82,189
Additions	-	394	404	531	1,329
Disposals	-	(51)	-	(2)	(53)
Impairment	(2,152)	-	-	-	(2,152)
Depreciation charge for the year	(1,519)	(3,432)	(923)	(630)	(6,504)
<b>At December 31, 2004, net of accumulated depreciation and impairment</b>	<b>66,272</b>	<b>3,811</b>	<b>2,857</b>	<b>1,869</b>	<b>74,809</b>
<b>At January 1, 2004</b>					
Cost	75,800	46,441	4,298	3,780	130,319
Accumulated depreciation	(5,857)	(39,541)	(922)	(1,810)	(48,130)
<b>Net carrying amount</b>	<b>69,943</b>	<b>6,900</b>	<b>3,376</b>	<b>1,970</b>	<b>82,189</b>
<b>At December 31, 2004</b>					
Cost	75,800	46,495	4,702	3,965	130,962
Accumulated depreciation	(7,376)	(42,684)	(1,845)	(2,096)	(54,001)
Accumulated impairment	(2,152)	-	-	-	(2,152)
<b>Net carrying amount</b>	<b>66,272</b>	<b>3,811</b>	<b>2,857</b>	<b>1,869</b>	<b>74,809</b>

The carrying value of property and equipment held under finance leases at December 31, 2005 was YTL 2,298. (2004-YTL 2,857). Additions during the year include YTL 469 (2004-YTL 404) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**11. INTANGIBLE ASSETS**

<b>December 31, 2005</b>	<b>Software Licenses and Other</b>
At January 1, 2005 net of accumulated amortization and impairment	2,148
Additions	155
Disposals	-
Amortization charge for the year	1,301
<b>At December 31, 2005 net of accumulated amortization</b>	<b>1,002</b>
At January 1, 2005	
Cost (gross carrying amount)	13,703
Accumulated amortization and impairment	11,555
<b>Net carrying amount</b>	<b>2,148</b>
At December 31, 2005	
Cost (gross carrying amount)	13,858
Accumulated amortization and impairment	12,856
<b>Net carrying amount</b>	<b>1,002</b>

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

<b>December 31, 2004</b>	<b>Patents and Licenses</b>
At January 1, 2004 net of accumulated amortization and impairment	4,132
Additions	176
Amortization charge for the year	(2,160)
<b>At December 31, 2004 net of accumulated amortization</b>	<b>2,148</b>
At January 1, 2004	
Cost (gross carrying amount)	13,527
Accumulated amortization and impairment	(9,395)
<b>Net carrying amount</b>	<b>4,132</b>
At December 31, 2004	
Cost (gross carrying amount)	13,703
Accumulated amortization and impairment	(11,555)
<b>Net carrying amount</b>	<b>2,148</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**12. OTHER ASSETS**

	2005	2004
Prepaid expenses	200	469
Advances given	241	68
Collaterals given	79	862
Office supply inventory	572	410
Payments for credit card settlements	176	114
Payments for mutual funds	1,004	2
Others	884	709
	<b>3,156</b>	<b>2,634</b>

**13. DEPOSITS**

**Deposits from other banks**

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Demand	116	-	-	-	3	48	-	-
Time	15,840	28,302	15.30-18.68	2.42-4.50	22,093	-	20.02 -21.52	-
Total	15,956	28,302			22,096	48		

**Customers' deposits**

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Saving								
Demand	14,309	45,007	-	-	7,007	31,838	-	-
Time	220,651	307,521	12.18-20.80	1.51-5.52	133,575	320,338	13.88-28.50	0.10-6.72
	234,960	352,528			140,582	352,176		
Commercial and other								
Demand	68,365	77,035	-	-	53,814	97,342	-	-
Time	265,434	172,820	12.18-20.80	1.51-5.52	117,438	97,936	13.88-28.50	0.10-6.72
	333,799	249,855			171,252	195,278		
Total	568,759	602,383			311,834	547,454		

Included in customer accounts were deposits of YTL 73,808 (2004-YTL 19,168) held as collateral for cash and non-cash loans.



**Tekstil Bankası Anonim Şirketi**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**13. DEPOSITS (continued)**

**Other money market deposits**

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency	New Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
- Due to customers	3,803	-	13.59-16.43	-	2,505	-	17.34-22.07	-
- Due to banks	127,109	-	15.59-16.58	-	116,476	-	19.12-19.70	-
	130,912	-			118,981	-		
Interbank deposits	33,509	-	15.83-16.17	-	14,274	-	19.70	-
<b>Total</b>	<b>164,421</b>	<b>-</b>			<b>133,255</b>	<b>-</b>		

Deposits have fixed interest rates.

**14. FUNDS BORROWED**

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
<b>Short term</b>								
Fixed interest	21,937	103,415	11.30-18.81	2.97-6.51	22,558	106,608	13.40-23.20	2.06-5.77
Floating interest		238,618	-	4.37	-	103,354	-	3.58
<b>Medium/long term</b>								
Fixed interest	-	22,733	-	3.82-5.88	-	5,747	-	2.06-2.99
Finance lease	-	792	-	8.69-7.42	-	1,066	-	7.53-15.99
<b>Total</b>	<b>21,937</b>	<b>365,558</b>			<b>22,558</b>	<b>216,775</b>		

Repayments of medium/long term borrowing are as follows:

	2005	2004
	Fixed rate	Fixed rate
2005	-	965
2006	6,522	2,158
2007	16,211	2,624
	<b>22,733</b>	<b>5,747</b>

Funds borrowed are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for period of 6 months.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**14. FUNDS BORROWED**

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2005 (2004-none)

	2005	2004
<b>Finance lease repayment schedule</b>		
No later than 1 year	730	650
Later than 1 year and no later than 5 years	104	506
<b>Total minimum finance lease obligations</b>	<b>834</b>	<b>1,156</b>
Less amounts representing finance charges	(42)	(90)
<b>Present value of minimum finance lease obligations</b>	<b>792</b>	<b>1,066</b>
Representing finance lease liabilities, net	792	1,066
Current	690	581
Non-current	102	485
	<b>792</b>	<b>1,066</b>

**15. OTHER LIABILITIES AND PROVISIONS**

	2005	2004
<b>Other liabilities</b>		
Transfer orders	46,065	22,978
Advances taken	511	832
Taxes and funds payable	4,580	3,780
Payables for credit card settlements	1,442	1,262
Blocked checks	373	11
Transitory payables	264	400
Others	1,852	1,068
	<b>55,087</b>	<b>30,331</b>
<b>Provisions</b>		
Employee termination benefits	2,708	2,223
	<b>2,708</b>	<b>2,223</b>
<b>Total</b>	<b>57,795</b>	<b>32,554</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)****15. OTHER LIABILITIES AND PROVISIONS (continued)**

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

	2005	2004
At January 1, 2005	2,223	1,918
Interest cost	129	115
Paid during the year	(340)	(384)
Increase during the year	418	484
Exchange differences/ Monetary gain	278	90
<b>At December 31, 2005</b>	<b>2,708</b>	<b>2,223</b>

**Employee Termination Benefits**

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 1.727 and YTL 1.575 at December 31, 2005 and 2004, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2005 and 2004, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The annual ceiling has been increased to 1,771 effective January 1, 2006.

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2005	2004
Discount rate	12.0	16.0
Expected rates of salary/limit increases	6.2	10.0

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the income statement in the period they occur.

**16. INCOME TAXES****General Information**

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and other countries in which the Group operate.

In Turkey, the corporation tax rate for the fiscal year ended December 31, 2005 is 30% (2004 - 33%).

Corporate tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month.

The tax legislation provides for a temporary tax of 30% (2004 - 33%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

**16. INCOME TAXES (continued)**

In 2003 and prior years corporation tax was computed on the statutory income tax base determined in accordance with the Tax Procedural Code without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet is not subject to corporation tax and similarly accumulated deficits arising from such application is not deductible for tax purposes. Moreover, accumulated tax loss carry forwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years. In 2005, inflation accounting application for tax purposes was ceased by the Ministry of Finance based on the decline in the inflation rate.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchases of the brand-new fixed assets having economic useful life and exceeding YTL 10 (2004 – YTL 6) and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at the will of companies. All investment allowances can be carried forward indefinitely with indexed amounts.

10% withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Capital gains derived from cash sales of participation shares that have been held for at least two years are exempt from corporation tax if the gains are added to share capital. Furthermore, in the event the profit arising from the dividend receipt is not distributed or is included in capital, no withholding tax shall be applicable. As a result of the above exemption, the Company did not recognize a deferred tax liability on the undistributed profits of subsidiaries and other temporary differences pertaining to other investments in shares issued by Turkish companies.

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

As of December 31, 2005 and 2004, effective tax rate of consolidated foreign subsidiary established in Cyprus is 2%.

Major components of income tax expense for the years ended December 31 2005 and 2004 are:

	2005	2004
<b>Consolidated income statement</b>		
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	5,160	3,087
<b>Income tax expense reported in consolidated income statement</b>	<b>5,160</b>	<b>3,087</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**16. INCOME TAXES (continued)**

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the parent for the years ended December 31 2005 and 2004 is as follows:

	2005	2004
Profit before income tax after monetary loss	15,546	9,583
At Turkish statutory income tax rate of 30% (2004 – 33 %)	(4,664)	(3,162)
Effect of tax rate change	-	1,880
Income not subject to tax	1,467	1,576
Expenditures not allowable for income tax purposes	(4,280)	(3,424)
Unrecognized portion for deferred tax assets	350	2,338
Others, net	1,947	(2,295)
Income tax	(5,160)	(3,087)

**Deferred Income Tax**

Deferred income tax at December 31 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2005	2004	2005	2004
<b>Deferred income tax liabilities</b>				
Valuation and depreciation differences of premises and equipment and restatement effect	406	-	(406)	(461)
Accounting for finance leases	437	539	88	-
Valuation differences of securities	36	-	(36)	-
Valuation differences of derivatives	29	-	(29)	738
Gross deferred income tax liabilities	908	539	(383)	277
<b>Deferred income tax assets</b>				
Liability for defined benefit plans and unused vacation pay liability	869	734	154	221
Reserve for loan losses	307	-	307	-
Valuation differences of securities	-	821	(800)	(742)
Deferred tax on tax loss carry forward	21,403	28,357	(6,220)	(5,181)
Others	1,488	57	1,432	-
Gross deferred income tax assets	24,067	29,969	(5,127)	(5,702)
Net deferred income tax asset	23,159	29,430	(5,510)	(5,425)
Unrecognized portion for net deferred tax asset	(10,004)	(10,627)	350	2,338
Deferred income tax asset / (expense), net	13,155	18,803	(5,160)	(3,087)

The Group recognized the deferred tax asset for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized and supported this by their business plans for 2006. The unrecognized deferred tax asset will expire in a year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**16. INCOME TAXES (continued)**

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

	2005	2004
Deferred tax asset, net at January 1	18,803	24,918
Deferred income tax recognized in income statement	(5,160)	(3,087)
Monetary loss	(488)	(3,028)
Deferred tax asset (liability), net at December 31	13,155	18,803

**17. DERIVATIVES**

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

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

	2005			2004		
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
<b>Derivatives held for trading</b>						
Forward purchase contract	1	1,347	114,572	39	1,566	81,966
Forward sale contract	1,112	168	115,013	1,702	41	82,009
Currency swap purchase	30	28	132,167	123	498	13,856
Currency swap sale	673	51	130,986	526	-	13,687
Options purchase contract	-	133	35,654	89	38	27,602
Options sale contract	4	-	35,654	-	-	26,844
Future purchase contract	-	-	-	63	-	38,066
Future sales contracts	-	-	-	6	264	38,353
	1,820	1,727	564,046	2,548	2,407	322,383

As of December 31, 2005 and 2004, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**18. SHARE CAPITAL**

	2005	2004
<b>Number of common shares, YTL 0.1 (in full YTL), par value</b>		
(Authorized and issued)	<b>1,450,000,000</b>	1,225,000,000

As of December 31, 2005 and 2004, the Bank's subscribed and issued share capital in historical terms is YTL 145,000 and 122,500 respectively.

The movement of the share capital of the Bank (in numbers and in historical YTL) is as follows:

	2005		2004	
	Number	YTL	Number	YTL
At January 1	1,225,000,000	122,500	1,225,000,000	122,500
Shares issued in				
- cash	202,000,000	20,200	-	-
- bonus shares from adjustment to share capital	23,000,000	2,300	-	-
At December 31	1,450,000,000	145,000	1,225,000,000	122,500

According to Board of Directors Resolution numbered 753 dated December 30, 2004, the Bank has decided to increase its registered capital to YTL 145,000 from YTL 122,500. YTL 20,737 share capital advance has been paid by the major shareholder GSD Holding A.Ş. by cash as of December 30, 2004.

The Board of Directors of the Bank has convened on December 9, 2005 and decided to increase the registered paid-in capital of the Bank to YTL 300 million from YTL 145,000. The total increase will be completed as a cash injection and this resolution has already been proclaimed to the Capital Markets Board as well as the BRSA for their approvals. YTL 30,000 share capital advance has been already paid by the major shareholder GSD Holding A.Ş. on December 30, 2005.

The afore-mentioned capital increase for an amount of YTL 155 million represents 107% upsurge and the respective process for completion of the approval procedure is expected to be finalized within the next three to four months, however it will appear on the Bank's balance sheet as of June 30, 2006.

As of December 31, 2005 and 2004, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2005		2004	
	Amount	%	Amount	%
GSD Holding A.Ş.	109,380	75.43	91,622	74.79
Other Shareholders	35,620	24.57	30,878	25.21
	145,000	100.00	122,500	100.00
Restatement effect (*)	13,557		21,200	
	158,557		143,700	

(\*) As allowed by the BRSA, the Bank has set off its accumulated deficit from its legal reserves, retained earnings and adjustment to share capital in 2005 at an amount of YTL 5,343.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**19. LEGAL AND OTHER RESERVES AND RETAINED EARNINGS**

Movement in legal and other reserves are as follows:

	2005			2004		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At January 1,	1,596	(8,554)	(6,958)	1,596	(15,050)	(13,454)
Net profit for the year	-	10,386	10,386	-	6,496	6,496
Accumulated losses netted off	-	5,343	5,343	-	-	-
<b>At December 31,</b>	<b>1,596</b>	<b>7,175</b>	<b>8,771</b>	<b>1,596</b>	<b>(8,554)</b>	<b>(6,958)</b>

**Legal Reserves**

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

**20. DIVIDENDS PAID AND PROPOSED**

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

The Group did not declare or pay dividends out of profits for the 2005 as of the date of preparation of these financials. As of December, 31 2004, the Group did not distribute any dividends to shareholders in respect of 2004 profit.

**21. EARNINGS PER SHARE**

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

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through December 31, 2005

There is no dilution of the shares of the December, 2005 and 2004.

The following reflects the income ( in YTL) and share data used in the basic earnings per share computations

	2005	2004
Net profit attributable to ordinary equity holders of the parents for basic earnings per share	7.16	5.30
Weighted average number of ordinary shares for basic earnings per share	1,450,000,000	1,225,000,000



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**22. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by GSD Holding A.Ş. and owns 75.43% (2004- 74.49%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and GSD Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates

Related party		Cash loans	Non-cash loans	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Shareholders	<b>2005</b>	<b>6,308</b>	<b>20</b>	<b>9,783</b>	-	<b>506</b>	<b>855</b>	-	-
	2004	3,464	21	-	-	59	112	-	-
Others(*)	<b>2005</b>	<b>40,252</b>	<b>6,563</b>	<b>65,292</b>	<b>6,389</b>	<b>756</b>	<b>5,964</b>	<b>217</b>	<b>158</b>
	2004	41,164	17,406	34,036	-	2,099	5,913	312	-
Directors' interests	<b>2005</b>	-	-	<b>3,543</b>	-	-	<b>38</b>	-	<b>1,297</b>
	2004	-	-	2,353	-	-	561	-	937

(\*) Others represent the group companies of GSD Holding.

**Compensation of key management personnel of the Group**

The executive and non-executive member of Board of Directors and management received remuneration and fees totaling approximately YTL 1,297 (2004 - YTL 937) comprising salaries and other short-term benefits.

**23. FOREIGN EXCHANGE GAIN (LOSS)**

	<b>2005</b>	2004
Foreign exchange gains less losses relating to derivatives	<b>1,060</b>	1,186
Other foreign exchange gains less losses	<b>3,457</b>	2,306
<b>Total</b>	<b>4,517</b>	3,492

Other foreign exchange gain (loss) includes gains and losses from translated foreign currency assets and liabilities, arbitrage and swap transactions.

**24. NET TRADING INCOME**

	<b>2005</b>	2004
Equities	<b>122</b>	12
Fixed income	<b>5,098</b>	5,073
<b>Total</b>	<b>5,220</b>	5,085

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**25. FEE AND COMMISSION INCOME AND EXPENSE**

	2005	2004
<b>Fee and commission income</b>		
Loans	1,097	1,156
Letters of guarantee	12,930	11,777
Letters of credit	2,426	3,377
<b>Total</b>	<b>16,453</b>	<b>16,310</b>
<b>Fees and commission expense</b>		
Corresponding bank fees	3,048	3,006
<b>Total</b>	<b>3,048</b>	<b>3,006</b>

**26. SALARIES AND EMPLOYEE BENEFITS**

	2005	2004
<b>Staff costs</b>		
Wages and salaries	29,393	23,350
Other fringe benefits	3,307	4,229
Provision for employee termination benefits and unused vacation pay liability	1,988	484
Cost of defined contribution plan (employers' share of social security premiums)	4,540	3,776
<b>Total</b>	<b>39,228</b>	<b>31,839</b>

The number of employees for the years is:

	2005	2004
The Bank	1,112	938
Subsidiaries	41	40
<b>Total</b>	<b>1,153</b>	<b>978</b>

**27. OTHER INCOME**

	2005	2004
Collections from loans written off in prior years	767	1,273
Recovery from prior year property and equipment impairment	2,152	-
Fund management fee	1,040	977
Others	1,663	2,653
<b>Total</b>	<b>5,622</b>	<b>4,903</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)****28. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2005</b>	<b>2004</b>
Rent expenses	<b>4,783</b>	4,376
Communication expenses	<b>2,484</b>	1,984
Advertising expenses	<b>2,310</b>	2,146
Transportation expenses	<b>1,759</b>	1,262
Maintenance expense	<b>1,277</b>	1,212
Heating lighting expenses	<b>1,149</b>	1,117
Insurance expenses	<b>865</b>	823
Computer expenses	<b>356</b>	518
Others	<b>5,210</b>	3,935
<b>Total</b>	<b>20,193</b>	17,373

**29. OTHER EXPENSE**

	<b>2005</b>	<b>2004</b>
Saving deposit insurance fund premium	<b>1,229</b>	2,015
Audit expenses	<b>344</b>	379
Loss on sale of fixed assets	<b>644</b>	2,105
Provision for impairment of head office building and investment property	<b>164</b>	3,012
Credit card expenses	<b>670</b>	381
Other expenses	<b>488</b>	475
<b>Total</b>	<b>3,539</b>	8,367

**30. COMMITMENTS AND CONTINGENCIES**

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

	<b>2005</b>	<b>2004</b>
Letters of Guarantee	<b>967,042</b>	880,354
Letters of Credit	<b>229,982</b>	236,828
Acceptance Credits	<b>24,038</b>	21,214
Other Guarantees	<b>54,807</b>	38,124
<b>Total Non Cash Loans</b>	<b>1,275,869</b>	1,176,520
Other Commitments	<b>63,045</b>	55,797
Credit Card Limits	<b>128,972</b>	105,134
	<b>1,467,886</b>	1,337,451

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

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

**Operating Lease Commitments - Group as Lessee**

The Group has entered into commercial leases on branch premises. These leases have an average life of between 1 and 5 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non cancelable operating leases.

**Litigation**

- (i) A customer has sued the Bank in year 1998 with the claim that his deposit money has been withdrawn from his account with false documents. The amount is 1,299,213 Australian Dollars (YTL 1,244). The trial is still in progress and no provision has been made as professional advice indicates that it is unlikely that any loss will arise.
- (ii) In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice

**Fiduciary Activities**

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group also manages 4 open-ended investment funds (2004 - 4 open-ended investment funds) which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. Management fee and commission income received from investment funds amounted to YTL 1,040 (2004 – YTL 977.).

As of December 31, 2005, the Group had investment custody accounts amounting to YTL 79,015 (2004 – YTL 106.262)

**31. FINANCIAL RISK MANAGEMENT**

**General**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

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

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

**Credit Risk**

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports those control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically in accordance with the “Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks, is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity, is performed daily. The risk concentration of the off-balance sheet transactions are followed up by the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

The share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 49% (2004 – 54%).

The share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 60% (2004 – 59%).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

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

Industry exposure information for cash loans and non-cash loans is as follows:

	2005		2004	
	Cash	Non-cash	Cash	Non-cash
Finance	161,931	93,142	100,828	85,652
Iron&Steel	59,279	93,191	36,618	63,418
Main metal product, processed materials	33,799	6,909	14,300	20,524
Textile, Fabrics, Yarn Industry	151,192	118,383	137,942	137,557
Construction	133,757	383,049	68,290	320,255
Government	1,990	-	1,818	-
Service	71,320	46,503	43,760	49,638
Food and Beverage, Tobacco	99,547	89,635	83,275	81,439
Energy	79,147	76,770	38,509	94,590
Automotive Industry	43,024	51,484	36,246	38,553
Optics and Electrical Equipments	61,455	56,421	24,939	37,790
Chemical Industry	59,214	30,557	41,551	34,034
Paper Production and Publishing	9,607	13,294	5,915	8,520
Agriculture	41,551	24,801	21,730	19,675
Manufacturing	56,926	63,450	46,880	78,392
Foreign Trade	36,166	56,066	34,487	46,721
Tourism	35,641	20,765	29,645	19,667
Others	94,223	45,142	46,311	36,676
Corporate loans	1,229,769	1,269,562	813,044	1,173,101
Consumer loans	40,397	6,307	23,519	3,419
Interest accruals	13,162	-	1,664	-
Loans in arrears	17,844	-	3,698	-
Provision for possible loan losses	(10,981)	-	(6,378)	-
	1,290,191	1,275,869	835,547	1,176,520

**Liquidity Risk**

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the ISE Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the balance sheet, the maximum limits have been set by the Board of Directors.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

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

Major part of the liquidity has been maintained by the saving deposits in the Bank. Additionally, the volume of saving deposits has retained a stable path during the period. On the contrary, the Bank executes the strategy of increasing long-term loans from international markets rather than loans from domestic secondary market.

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

	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Unallocated	Total
<b>As at December 31, 2005</b>								
<b>Assets</b>								
Cash and balances with central banks	12,344	95,267	-	-	-	-	-	107,611
Deposits with other banks and financial institutions	4,116	77,044	-	-	-	-	-	81,160
Other money market placements	-	52,039	-	-	-	-	-	52,039
Reserve deposits at central banks	-	171,365	-	-	-	-	-	171,365
Trading securities	-	21,344	4,294	5,037	4,132	33,058	-	67,865
Derivative financial instruments	-	1,082	297	-	441	-	-	1,820
Loans and advances	-	345,423	304,312	342,077	192,544	98,972	6,863	1,290,191
Investment securities	-	-	-	-	-	256	-	256
Loaned securities	-	643	1,118	47,565	28,679	62,721	-	140,726
Investment property	-	-	-	-	-	-	21,181	21,181
Property and equipment	-	-	-	-	-	-	72,626	72,626
Intangible assets	-	-	-	-	-	-	1,002	1,002
Deferred tax asset	-	-	-	-	-	13,155	-	13,155
Other assets	-	2,477	-	-	-	-	679	3,156
<b>Total assets</b>	<b>16,460</b>	<b>766,684</b>	<b>310,021</b>	<b>394,679</b>	<b>225,796</b>	<b>208,162</b>	<b>102,351</b>	<b>2,024,153</b>
<b>Liabilities</b>								
Deposits from other banks	116	44,142	-	-	-	-	-	44,258
Customers deposits	204,716	801,856	127,291	21,629	12,126	3,524	-	1,171,142
Other money market deposits	-	164,421	-	-	-	-	-	164,421
Derivative financial instruments	-	797	359	-	571	-	-	1,727
Funds borrowed	-	24,269	16,940	44,195	283,382	18,709	-	387,495
Other liabilities	4,804	50,283	-	-	-	-	-	55,087
Provisions	-	-	-	-	-	-	2,708	2,708
<b>Total liabilities</b>	<b>209,636</b>	<b>1,085,768</b>	<b>144,590</b>	<b>65,824</b>	<b>296,079</b>	<b>22,233</b>	<b>2,708</b>	<b>1,826,838</b>
<b>Net liquidity gap</b>	<b>(193,176)</b>	<b>(319,084)</b>	<b>165,431</b>	<b>328,855</b>	<b>(70,283)</b>	<b>185,929</b>	<b>99,643</b>	<b>197,315</b>
<b>As at December 31, 2004</b>								
Total assets	13,066	612,932	235,299	274,760	89,516	145,250	74,796	1,445,619
Total liabilities	193,246	697,262	131,674	196,978	58,442	9,651	1,728	1,288,981
<b>Net liquidity gap</b>	<b>(180,180)</b>	<b>(84,330)</b>	<b>103,625</b>	<b>77,782</b>	<b>31,074</b>	<b>135,599</b>	<b>73,068</b>	<b>156,638</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

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

**Market Risk**

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

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

"Value at Risk" is calculated on a daily basis by employing Standard Approach, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99 % confidence level is used regarding one-day holding period. The results have been reported to the Senior Level Risk Committee and Asset-Liability Committee in regular periods. By regarding the VaR results, the risk of maturity mismatch has been examined in the Asset-Liability Management Committee and the necessary measures have been taken by the ALCO.

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

**Currency Risk**

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net asset position in foreign currencies, almost entirely in US Dollar, EURO and New Turkish Lira.

The Group's foreign currency position risk is measured by "Standard Approach" and Internal Models. Level of share capital requirement is calculated by using Standard Approach.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

**(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)**

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

The concentrations of assets, liabilities and off balance sheet items.

	New Turkish Lira	US Dollars	Euro	Others	Total
<b>As At December 31, 2005</b>					
<b>Assets</b>					
Cash and balances with central banks	5,748	29,647	72,032	184	107,611
Deposits with other banks and financial institutions	2,830	41,438	35,752	1,140	81,160
Other money market placements	52,039	-	-	-	52,039
Reserve deposits at central banks	103,805	118	67,442	-	171,365
Trading securities	38,011	29,019	835	-	67,865
Derivative financial instruments	1,820	-	-	-	1,820
Loans and advances	577,114	531,172	181,408	497	1,290,191
Investment securities	-	256	-	-	256
Loaned securities	103,526	37,200	-	-	140,726
Investment property	21,181	-	-	-	21,181
Property and equipment	72,626	-	-	-	72,626
Intangible assets	1,002	-	-	-	1,002
Deferred tax asset	13,155	-	-	-	13,155
Other assets	2,885	269	2	-	3,156
<b>Total assets</b>	<b>995,742</b>	<b>669,119</b>	<b>357,471</b>	<b>1,821</b>	<b>2,024,153</b>
<b>Liabilities</b>					
Deposits from other banks	15,956	22,400	5,900	2	44,258
Customers deposits	568,759	403,020	195,575	3,788	1,171,142
Other money market deposits	164,421	-	-	-	164,421
Derivative financial instruments	1,727	-	-	-	1,727
Funds borrowed	21,937	329,465	36,093	-	387,495
Other liabilities	18,215	28,092	7,035	1,745	55,087
Provisions	2,708	-	-	-	2,708
<b>Total liabilities</b>	<b>793,723</b>	<b>782,977</b>	<b>244,603</b>	<b>5,535</b>	<b>1,826,838</b>
<b>Net balance sheet position</b>	<b>202,019</b>	<b>(113,858)</b>	<b>112,868</b>	<b>(3,714)</b>	<b>197,315</b>
<b>Off-balance sheet position</b>					
Net notional amount of derivatives	(2,139)	113,787	(114,605)	3,696	739
<b>Net Position</b>	<b>199,880</b>	<b>(71)</b>	<b>(1,737)</b>	<b>(18)</b>	<b>198,054</b>
<b>At December 31, 2004</b>					
Total assets	668,605	548,562	226,035	2,417	1,445,619
Total liabilities	508,539	570,886	203,328	6,228	1,288,981
Net balance sheet position	160,066	(22,324)	22,707	(3,811)	156,638
Off-balance sheet position	7,018	11,825	(21,547)	3,301	597
Net Position	167,084	(10,499)	1,160	(510)	157,235

**Cash Flow and Fair Value Interest Rate Risk**

Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

31. FINANCIAL RISK MANAGEMENT (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
<b>As at December 31, 2005</b>								
<b>Assets</b>								
Cash and balances with central banks	95,267	-	-	-	-	-	12,344	107,611
Deposits with other banks and financial institutions	77,044	-	-	-	-	-	4,116	81,160
Other money market placements	52,039	-	-	-	-	-	-	52,039
Reserve deposits at central banks	171,365	-	-	-	-	-	-	171,365
Trading securities	21,344	19,157	18,266	3,106	5,992	-	-	67,865
Derivative financial instruments	1,082	297	-	441	-	-	-	1,820
Loans and advances	610,843	202,301	205,630	168,653	95,901	-	6,863	1,290,191
Investment securities	-	-	-	-	256	-	-	256
Loaned securities	641	30,657	47,555	19,240	42,633	-	-	140,726
Investment property	-	-	-	-	-	-	21,181	21,181
Property and equipment	-	-	-	-	-	-	72,626	72,626
Intangible assets	-	-	-	-	-	-	1,002	1,002
Deferred tax asset	-	-	-	-	-	-	13,155	13,155
Other assets	-	-	-	-	-	-	3,156	3,156
<b>Total assets</b>	<b>1,029,625</b>	<b>252,412</b>	<b>271,451</b>	<b>191,440</b>	<b>144,782</b>	<b>-</b>	<b>134,443</b>	<b>2,024,153</b>
<b>Liabilities</b>								
Deposits from other banks	44,142	-	-	-	-	-	116	44,258
Customers deposits	801,856	127,291	21,629	12,126	3,524	-	204,716	1,171,142
Other money market deposits	164,421	-	-	-	-	-	-	164,421
Derivative financial instruments	797	359	-	571	-	-	-	1,727
Funds borrowed	262,887	16,940	44,195	44,764	18,709	-	-	387,495
Other liabilities	-	-	-	-	-	-	55,087	55,087
Provisions	-	-	-	-	-	-	2,708	2,708
<b>Total liabilities</b>	<b>1,274,103</b>	<b>144,590</b>	<b>65,824</b>	<b>57,461</b>	<b>22,233</b>	<b>-</b>	<b>262,627</b>	<b>1,826,838</b>
<b>Balance sheet interest sensitivity gap</b>	<b>(244,478)</b>	<b>107,822</b>	<b>205,627</b>	<b>133,979</b>	<b>122,549</b>	<b>-</b>	<b>(128,184)</b>	<b>197,315</b>
<b>As at December 31, 2004</b>								
<b>Total assets</b>	<b>840,114</b>	<b>140,819</b>	<b>219,187</b>	<b>75,632</b>	<b>35,745</b>	<b>-</b>	<b>134,122</b>	<b>1,445,619</b>
<b>Total liabilities</b>	<b>670,235</b>	<b>131,675</b>	<b>196,977</b>	<b>58,442</b>	<b>9,054</b>	<b>-</b>	<b>222,598</b>	<b>1,288,981</b>
<b>Balance sheet interest sensitivity gap</b>	<b>169,879</b>	<b>9,144</b>	<b>22,210</b>	<b>17,190</b>	<b>26,691</b>	<b>-</b>	<b>(88,476)</b>	<b>156,638</b>

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2005, the Group's capital adequacy ratio on a consolidated basis is 12.15% (2004-12.85%).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2005**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

**32. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Fair Values**

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2005	2004	2005	2004
<b>Financial assets</b>				
Loans and advances	1,290,191	835,547	1,290,345	834,762
	<b>1,290,191</b>	<b>835,547</b>	<b>1,290,345</b>	<b>834,762</b>
<b>Financial liabilities</b>				
Deposits from other banks	44,258	22,144	44,258	22,144
Customer deposits	1,171,142	859,288	1,171,515	859,646
Funds borrowed	387,495	239,333	387,579	241,571
	<b>1,602,895</b>	<b>1,120,765</b>	<b>1,603,352</b>	<b>1,123,361</b>

**Loans and Advances**

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**Deposits and Borrowings**

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

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

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