Tekstil Bankası
Anonim Şirketi

Consolidated Financial Statements
As of December 31, 2004
Together With
Report of Independent Auditors

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ERNST & YOUNG

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To the Board of Directors of
Tekstil Bankası Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Tekstil Bankası Anonim Şirketi (the Bank - a Turkish corporation) and its subsidiaries (collectively the Group) as of December 31, 2004 and the related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2004. These consolidated financial statements are the responsibility of the Bank'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, 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

February 10, 2005
Istanbul, Turkey

Tekstil Bankası Anonim Şirketi

CONSOLIDATED BALANCE SHEET
As at December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

ASSETS

	Notes	2004	2003
Cash and balances with the Central Bank	4	**163,948**	249,038
Deposits with banks and other financial institutions	4	**87,095**	7,280
Other money market placements	4	**17,509**	65,653
Reserve deposits at the Central Bank	5	**68,349**	87,807
Trading securities	6	**103,445**	80,492
Investment securities	6	**533**	318
Originated loans and advances	7	**846,788**	717,964
Derivative financial instruments	15	**2,482**	3,633
Property and equipment	8	**72,871**	80,060
Intangible assets	9	**2,092**	4,024
Deferred tax asset	14	**18,315**	24,273
Other assets	10	**26,098**	29,663
Total assets		**1,409,525**	1,350,205

LIABILITIES AND EQUITY

	Notes	2004	2003
Deposits from other banks	11	**21,570**	8,621
Customers' deposits	11	**837,029**	883,361
Other money market deposits	11	**129,803**	127,921
Funds borrowed	12	**234,488**	159,294
Derivative financial instruments	15	**2,345**	902
Other liabilities and provisions	13	**51,911**	43,894
Income taxes payable	14	**-**	184
Total liabilities		**1,277,146**	1,224,177
Share capital issued	16	**122,500**	122,500
Adjustment to share capital	16	**16,954**	16,954
Net unrealized gain		**20**	-
Currency translation differences		**(318)**	(321)
Legal reserves and accumulated profits (deficit)	17	**(6,777)**	(13,105)
Total equity		**132,379**	126,028
Total liabilities and equity		**1,409,525**	1,350,205

The accompanying policies and explanatory notes on pages 6 through 39 form an integral part of the consolidated financial statements.

Tekstil Bankası Anonim Şirketi

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Notes	2004	2003
Interest income			
Interest on originated loans and advances		**118,804**	166,377
Interest on securities		**25,961**	32,489
Interest on deposits with banks and other financial institutions		**2,002**	1,273
Interest on other money market placements		**61**	310
Other interest income		**2,043**	2,537
Total interest income		**148,871**	202,986
Interest expense			
Interest on deposits		**(58,649)**	(77,906)
Interest on other money market deposits		**(28,938)**	(46,367)
Interest on funds borrowed		**(9,743)**	(11,028)
Other interest expense		**(161)**	(131)
Total interest expense		**(97,491)**	(135,432)
Net interest income		**51,380**	67,554
Provision for possible loan losses, net of recoveries	7	**(2,586)**	(182)
Net interest income (expense) after provision for possible loan losses		**48,794**	67,372
Foreign exchange gain (loss)		**3,402**	6,246
Net interest income after foreign exchange gain (loss) and provision for possible loan, lease and factoring receivables losses		**52,196**	73,618
Other operating income			
Fees and commissions income		**15,888**	12,157
Income from banking services		**5,995**	5,687
Trading income (loss)		**4,953**	7,180
Other income	21	**4,776**	4,615
Total other operating income		**31,612**	29,639
Other operating expense			
Fees and commissions expense		**(3,864)**	(2,945)
Salaries and employee benefits	20	**(31,014)**	(28,781)
Depreciation and amortization	8, 9	**(8,440)**	(10,274)
Taxes other than on income		**(1,408)**	(1,744)
Other expenses	21	**(25,619)**	(22,751)
Total other operating expense		**(70,345)**	(66,495)
Profit (loss) from operating activities		**13,463**	36,762
Income (loss) from associates		**-**	-
Profit (loss) from operating activities before income tax and monetary gain (loss)		**13,463**	36,762
Income tax provision	14	**(3,007)**	(3,255)
Monetary loss		**(4,128)**	(2,957)
Net profit		**6,328**	30,550
Earnings per share	18		
Basic		**52**	249

The accompanying policies and explanatory notes on pages 6 through 39 form an integral part of the consolidated financial statements.

Tekstil Bankası Anonim Şirketi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Share capital	Adjustment to share capital (Not:16)	Currency translation differences	Unrealized gains	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2003	122,500	36,398	(642)	-	(63,099)	95,157
Accumulated losses netted off (Note 16)	-	(19,444)	-	-	19,444	-
Currency translation differences	-	-	321	-	-	321
Net profit for the year	-	-	-	-	30,550	30,550
At December 31, 2003	**122,500**	**16,954**	**(321)**	**-**	**(13,105)**	**126,028**
Currency translation differences	-	-	3	-	-	3
Net gain (loss) in available-for-sale financial assets	-	-	-	20	-	20
Net profit for the year	-	-	-	-	6,328	6,328
At December 31, 2004	**122,500**	**16,954**	**(318)**	**20**	**(6,777)**	**132,379**

The accompanying policies and explanatory notes on pages 6 through 39 form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	2004	2003
Cash flows from operating activities		
Interest received	**150,338**	199,667
Interest paid	**(97,895)**	(137,269)
Fees and commissions received	**15,888**	12,157
Income from banking services	**5,995**	5,687
Trading income (loss)	**4,953**	7,180
Recoveries of loans previously written off	**1,240**	1,379
Fees and commissions paid	**(3,865)**	(2,945)
Cash payments to employees and other parties	**(30,543)**	(28,153)
Cash received from other operating activities	**3,536**	7,601
Cash paid for other operating activities	**(26,647)**	(24,441)
Income taxes paid	**(184)**	(364)
Cash flows from operating activities before changes in operating assets and liabilities	**22,816**	40,499
Changes in operating assets and liabilities		
Net (increase) decrease trading securities	**(26,504)**	105,689
Net (increase) decrease in reserve deposits at the Central Bank	**19,507**	(180)
Net (increase) decrease in originated loans and advances	**(127,843)**	175,791
Net (increase) decrease in other assets	**3,565**	949
Net increase (decrease) in deposits from other banks	**12,949**	(12,845)
Net increase (decrease) in customers' deposits	**(46,072)**	(102,111)
Net increase (decrease) in other money market deposits	**1,882**	19,134
Net increase (decrease) in other liabilities	**7,754**	8,510
Net cash from operating activities	**(131,946)**	235,436
Cash flows from investing activities		
Purchases of available for sale securities	**(504)**	(318)
Proceeds from redemption of available for sale securities	**318**	326
Purchases of property and equipment	**(1,295)**	(3,556)
Proceeds from the sale of property and equipment	**52**	494
Purchase of intangible assets	**(172)**	(722)
Proceeds from the sale of intangible assets	**-**	-
Net cash provided by (used in) investing activities	**(1,601)**	(3,776)
Cash flows from financing activities		
Proceeds from funds borrowed	**232,565**	154,970
Repayments of funds borrowed	**(157,227)**	(132,529)
Net cash provided by (used in) financing activities	**75,338**	22,441
Effect of net foreign exchanges difference and monetary gain (loss) on cash and cash equivalents	**4,794**	10,953
Net increase in cash and cash equivalents	**(58,209)**	254,101
Cash and cash equivalents at beginning of year (Note 4)	**321,832**	56,778
Cash and cash equivalents at end of year (Note 4)	**268,417**	321,832

The accompanying policies and explanatory notes on pages 6 through 39 form an integral part of the consolidated financial statements.

1. CORPORATE INFORMATION

General

Tekstil Bankası A.Ş. (a Turkish joint stock company – Tekstilbank, the Bank) is incorporated in Turkey. Certain ordinary shares of the Bank, representing 25.19% 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 Bank was originally incorporated on April 29, 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul and included in GSD Group.

The consolidated financial statements of the Bank were authorized for issue by the management on February 10, 2005. 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 Bank provides banking services through 38 (2003 - 38) branches and 938 (2003 – 908) employees excluding the employees of the subsidiaries as of December 31, 2004 in Turkey.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. The consolidated financial statements have been prepared on an historical cost convention except for the measurement at fair value of derivative financial instruments, trading securities and available-for-sale financial assets.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law and accounting standards promulgated by the other relevant laws and regulations. The Group's foreign subsidiary maintains its books of account and prepare its statutory financial statements in U.S. Dollars and in accordance with the regulations of the country in which it operates. In accordance with the accounting and reporting standards issued by Banking Regulation and Supervision Agency (BRSA) effective July 1, 2002 and October 1, 2002, the Bank is required to apply restatement for the changes in the general purchasing power of Turkish lira and other standards which aim to align statutory accounting standards with IFRS, in its statutory financial statements. The financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of deferred taxation (IAS 12) and employee termination benefits (IAS 19).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement and Reporting Currency and Translation Methodology

Measurement and Reporting Currency and Translation Methodology for the Bank and Its Subsidiaries Which Operate in Turkey:

Measurement currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). As a result of a long period of high inflation, the 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. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 through out the period until complete phase-out of TL. In accordance with the declaration of the Banking Regulation and Supervision Agency dated January 5, 2005, the Bank continued to use the Turkish Lira (TL) as the functional and presentation currency as of December 31, 2004. Effective January 1, 2005 the Bank's functional and presentation currency will be YTL and financial statements including comparative figures for the prior period / year(s) will be presented in thousands of YTL.

The restatement for the changes in the general purchasing power of TL as of December 31, 2004 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. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2004, the three year cumulative rate has been 70 % (2003 - 181%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three year period ended December 31, 2004 are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951.7	1.697
December 31, 2002	6,478.8	1.297
December 31, 2003	7,382.1	1.138
December 31, 2004	8,403.8	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, 2004.

- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2004 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 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 (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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).

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.

Measurement and Reporting Currencies of Foreign Subsidiary:

As of December 31, 2004 and 2003, the foreign subsidiary The Euro Textile Bank Ltd. has adopted USD as its measurement and reporting currency.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to December 31, 2004.

Subsidiaries are consolidated from 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 consolidated financial statements of the Group include the Bank and its subsidiaries, which it controls. 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 and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. 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.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The subsidiaries included in consolidation and their shareholding percentages at December 31, 2004 and 2003 are as follows :

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights %	
			2004	2003
Tekstil Menkul Değerler A.Ş.(Tekstil Menkul)	Istanbul/Turkey	Brokerage	**99.92**	99.92
The Euro Textile Bank Ltd. (Euro Textile Bank)	Lefkosa/Cyprus	Banking	**99.99**	99.99

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the 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:

Dates	TL (full) / USD	TL (full) / EUR
December 31, 2002	1,593,750	1,660,890
December 31, 2003	1,395,835	1,745,072
December 31, 2004	1,342,100	1,826,800

The assets and liabilities of the foreign subsidiary is translated 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, which is considered as a proxy to restate such income statement amounts at year-end purchasing power of TL. Differences resulting from the deviation between the inflation rate and the appreciation of foreign currencies against the Turkish Lira related to equity accounts of the consolidated subsidiary were taken to shareholders' equity as a translation gain (loss).

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

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

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

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

The carrying values of property and equipment are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized between 2%-33% on a straight-line basis.

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

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. The Group maintains three separate securities portfolio, as follows:

Trading Securities

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 exists. After initial recognition, trading securities are remeasured at fair value based on quoted bid prices. All related realized and unrealized gains or losses are recognized in trading income / (loss), net. Changes in fair value of assets between the trade date and the settlement date are accrued for.

Originated Loans and Advances to Government

Debt securities that are purchased from government at original issuance and not classified as trading are classified as originated loans and advances and carried at amortized cost using the effective yield method less any impairment in value. Interest earned on such securities is reported as interest income. Such securities are classified as "originated loans and advances" in the balance sheets.

Available- for- Sale Securities

All other investments are classified as available-for-sale. Available-for-sale securities are subsequently carried at fair value. Gains or losses on remeasurement to fair value are recognized in income.

Available-for-sale securities include debt securities primarily government bonds and treasury bills. Debt securities classified as 'available-for-sale' are stated at fair values, with resulting gain/(loss) and recognized in the statement of income. Fair value is determined by reference to their quoted market prices at the balance sheet date.

Foreign currency denominated debt securities are valued at their closing prices and translated at the foreign currency year-end rate of exchange on the balance sheet date.

Interest earned on available-for-sale investments is reported as interest income. Dividends received are included in dividend income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All regular way purchases and sales of financial assets are recognized on the settlement date. 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.

Repurchase and Resale Transactions

The Group enters into short-term sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement, 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. 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 using the effective interest method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) 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.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or 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 a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion financial asset. The Group derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expired.

Cash and Cash Equivalents

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

Originated Loans and Advances to Customers

Loans originated by the Group by providing funds directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by the Group and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers.

Provisions for Possible Loan Losses

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectable amounts in the Group's loan and receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan; such loans are considered impaired and classified as "loans in arrears". The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment is assessed individually for individually significant loans and individually or collectively for financial assets that are not individually significant. If there is no objective evidence of impairment at an individual level, the asset is grouped with assets with similar credit risk characteristics.

The Group ceases to accrue interest on those loans that are classified as "loans in arrears" and for which the recoverable amount is determined primarily by reference to fair value of collateral.

The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance for impairment account. A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write offs are charged against previously established allowances and reduce the principle amount of a loan. Recoveries of loans written off in earlier periods are included in income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense. Unwinding of the discount is treated as income and remaining provision is then reassessed.

Assets held for resale are obtained from the customers whose loans are in arrears. The impairment for those assets are valued through the lower of cost or net realizable value.

Deposits and Funds Borrowed

Deposits and funds borrowed are initially recognized at cost. After initial recognition, all interest bearing liabilities are subsequently measured at amortized cost using effective yield method, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Gain or loss is recognized in the income statement when the liability is derecognized or impaired as well as through the amortization process.

Employee Benefits

(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.

Full provision is made for the present value of the defined benefit obligation calculated using the Projected Unit Credit Method. All actuarial gains and losses are recognized in the income statement.

(b) Defined Contribution Plans:

The Group pays contributions to the Social Security Institution of Turkey 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Finance leases are depreciated over the shorter of estimated useful life and lease term unless there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over its useful life.

Operating leases

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

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 yield method based on the actual purchase price. Recognition of interest on loans in arrears is suspended. Interest income also includes coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments.

Commission income, fee for various banking services and dividends 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.

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, except for taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses. 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.

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. Current and deferred tax related to items that are credited or charged directly to equity are also credited or charged directly to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards, swaps, futures and options in the foreign exchange and capital markets. 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 in the balance sheet at cost and subsequently are remeasured at their fair value.

Fair values are calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

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.

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. SEGMENT INFORMATION

Segment information is prepared on the following bases:

Business segments

Year ended December 31, 2004 and 2003:

The Group conducts the majority of its business activities in the banking area. Since the portion of the brokerage company, which is subject to consolidation as of December 31, 2004, within the total consolidated assets is 0.2% (2003 – 0.3%), segment information is not provided.

Geographical segments

The Group conducts majority of its business activities with local customers and therefore, geographical segments are insignificant.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

4. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	**9,094**	10,631
Balances with the Central Bank	**154,854**	238,407
Cash and balances with the Central Bank	**163,948**	249,038
Deposits with banks and other financial institutions	**87,095**	7,280
Interbank placements	**17,509**	65,653
Other money market placements	**17,509**	65,653
Cash and cash equivalents in the balance sheet	**268,552**	321,971
Less: Time deposits with original maturities of more than three months	**-**	-
Less: Income Accruals	**135**	139
Cash and cash equivalents in the cash flow statement	**268,417**	321,832

As of December 31, 2004 and 2003, interest range of deposits and placements are as follows:

	2004				2003			
	Amount		**Effective interest rate**		Amount		Effective interest rate	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with the Central Bank	**17**	**154,837**	**13.04%**	**1.04%-0.99%**	27	238,380	18.81%	0.93% -0.53%
Deposits with banks and other financial institutions	**33,062**	**54,033**	**18.20%-20.80%**	**2.00%-3.00%**	5	7,275	-	1.00- 1.00%
Interbank placements	**17,509**	**-**	**18%**	**-**	65,653	-	26.00%	-
Total	**50,588**	**208,870**			65,685	245,655		

5. RESERVE DEPOSITS AT THE CENTRAL BANK

	2004	2003
- Turkish lira	**13,158**	11,642
- Foreign currency	**55,191**	76,165
Total	**68,349**	87,807

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

As of December 31, 2004, reserve deposit rates applicable for Turkish lira deposits were 6% (2003- 6%) and 11% (2003- 11%) for foreign currency deposits.

As of December 31, 2004, the interest rates applied for Turkish lira and foreign currency reserve deposits are 13.04% and 1.04% - 0.99% (December 31, 2003 – 18.81% and 0.93% - 0.53%), respectively.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

6. INVESTMENTS IN SECURITIES

Trading Securities

	2004		2003	
	Amount	**Effective Interest Rate (%)**	Amount	Effective Interest Rate (%)
Trading securities at fair value				
Debt instruments				
Turkish government bonds	**95,289**	**15.90-26.02**	66,077	25.51-26.47
Turkish treasury bills	**5,193**	**16.46-20.86**	11,496	24.83-26.74
Foreign currency government bonds	**908**	**3.48-3.82**	1,249	1.95-2.06
Eurobonds issued by the Turkish government	**1,984**	**3.71-7.76**	1,670	4.56-7.28
	103,374		80,492	
Others				
Equity securities (listed)	**71**	-	-	-
	71		-	
Total trading securities	**103,445**		80,492	

Investment Securities

	2004		2003	
	Amount	**Effective Interest rate (%)**	Amount	Effective Interest rate (%)
Available for sale securities at fair value				
Debt instruments				
Turkish treasury bills	**284**	**19.61%**	318	53.57
Eurobonds issued by Turkish government	**249**	**7.76%**	-	-
	533		318	

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

	2004	2003
Trading securities	**91,679**	68,707
Originated loans and advances to governments (Note 7)	**32,885**	66,018

As of December 31, 2004, the carrying value and the nominal amounts (in historical terms) of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are TL 11,973 and TL 12,533 (2003 – TL 4,178 and TL 4,326), respectively.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

7. ORIGINATED LOANS AND ADVANCES

	2004						
	Amount				**Effective interest rate (%)**		
	Turkish Lira	**Foreign currency**	**Foreign Currency indexed**	**Total**	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Corporate loans	**343,970**	**279,764**	**164,271**	**788,005**	**20.50-48.00**	**4.00-11.00**	**4.20-11.00**
Loans to government (*)	**-**	**-**	**38,108**	**38,108**	**-**	**-**	**11.49**
Consumer loans	**1,383**	**-**	**272**	**1,655**	**27.00-46.80**	**-**	**7.92-15.60**
Credit cards	**21,190**	**441**	**-**	**21,631**	**83.00**	**30.00**	**-**
Total loans	**366,543**	**280,205**	**202,651**	**849,399**			
Loans in arrears	**-**	**-**	**-**	**3,602**			
Less: Reserve for possible loan losses	**-**	**-**	**-**	**(6,213)**			
	366,543	**280,205**	**202,651**	**846,788**			

(*) Loans to government comprise government bonds that are purchased from government at original issuance

	2003						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	251,131	266,213	95,112	612,456	23.20 - 60.00	3.00 - 11.30	4.04 - 12.00
Loans to government (*)	-	5,011	85,413	90,424	-	8.26 - 8.26	10.18 - 10.52
Consumer loans	3,710	-	1,611	5,321	37.67 - 64.78	-	7.06 - 16.77
Credit cards	11,960	496	-	12,456	83.00	30.00	-
Total loans	266,801	271,720	182,136	720,657			
Loans in arrears	-	-	-	2,128			
Less: Reserve for possible loan losses	-	-	-	(4,821)			
	266,801	271,891	182,136	717,964			

(*) Loans to government comprise government bonds that are purchased from government at original issuance.

Movements in the reserve for possible loan losses:

	2004	2003
Reserve at beginning of year	**4,821**	6,871
Provision for possible loan losses	**2,885**	3,069
Recoveries	**(299)**	(2,887)
Provision, net of recoveries	**2,586**	182
Loans written off during the year	**(469)**	(1,026)
Monetary gain/loss	**(725)**	(1,206)
Reserve at end of year	**6,213**	4,821

As of December 31, 2004, loans and advances on which interest is not being accrued, amounted to TL 3,602. (2003 – 2,128 TL). There is no uncollected interest accrued on impaired loans.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

8. PROPERTY AND EQUIPMENT

	Land and Buildings	Leased Assets (computer equipments)	Motor Vehicles	Furniture, Office Equipment and Leasehold Improvements	Total
At January 1, 2004, net of accumulated depreciation	68,131	3,289	1,919	6,721	80,060
Additions	-	394	517	384	1,295
Disposals	-	-	(2)	(50)	(52)
Impairment	(2,096)	-	-	-	(2,096)
Depreciation charge for the year	(1,480)	(899)	(614)	(3,343)	(6,336)
At December 31, 2004, net of accumulated depreciatioi	64,555	2,784	1,820	3,712	72,871
At December 31, 2003					
Cost	73,836	4,187	3,682	45,238	126,943
Accumulated depreciation	(5,705)	(898)	(1,763)	(38,517)	(46,883)
Net carrying amount	68,131	3,289	1,919	6,721	80,060
At December 31, 2004					
Cost	**71,740**	**4,581**	**3,862**	**45,290**	**125,473**
Accumulated depreciation	**(7,185)**	**(1,797)**	**(2,042)**	**(41,578)**	**(52,602)**
Net carrying amount	**64,555**	**2,784**	**1,820**	**3,712**	**72,871**

9. INTANGIBLES

	Software Licenses and Other
At January 1, 2004, net of accumulated amortization	4,024
Additions	172
Amortization charge for the year	(2,104)
At December 31, 2004, net of accumulated amortization	**2,092**
At December 31, 2003	
Cost	13,176
Accumulated amortization	(9,152)
Net carrying amount	4,024
At December 31, 2004	
Cost	13,348
Accumulated amortization	(11,256)
Net carrying amount	**2,092**

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

10. OTHER ASSETS

	2004	2003
Asset held for resale, net of provision for impairment	**22,177**	27,292
Prepaid expenses	**1,812**	1,235
Office supply inventory	**399**	128
Payments for credit card settlements	**111**	57
Advances given	**67**	72
Collaterals given	**840**	197
Others	**692**	682
	26,098	29,663

Assets held for resale obtained from loan customers are stated at restated cost less any impairment in value identified by the valuation reports made by independent appraisal firms. As of December 31, 2004, an impairment of TL 6,925 (2003 – TL 5,541) was provided for the assets held for resale. The movement in assets held for resale is as follows:

The movement in impairment is as follows:

At January 1, 2003	4,071
Provision for impairment	1,470
At December 31, 2003	**5,541**
At January 1, 2004	5,541
Provision for impairment	1,384
At December 31, 2004	**6,925**

11. DEPOSITS

Deposits from other banks

	2004				2003			
	Amount		**Effective interest rate (%)**		Amount		Effective interest rate (%)	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	**3**	**47**	**-**	**-**	3	80	-	-
Time	**21,520**	**-**	**20.02 -21.52**	**-**	8,538	-	29.67	-
Total	**21,523**	**47**			8,541	80		

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

11. DEPOSITS (continued)

Customers' deposits

	2004				2003			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	6,825	31,013	-	-	4,214	29,527	-	-
Time	130,115	312,040	13.88-28.50	0.10-6.72	80,045	443,298	19.67 – 45.31	0.50 - 6.14
	136,940	343,053			84,259	472,825		
Commercial and other								
Demand	52,420	94,820	-	-	59,340	54,803	-	-
Time	114,396	95,400	13.88-28.50	0.10-6.72	86,668	125,466	19.67 – 45.31	0.50 - 6.14
	166,816	190,220			146,008	180,269		
Total	303,756	533,273			230,267	653,094		

Other money market deposits

	2004				2003			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	2,440	-	17.34-22.07	-	1,696	-	24.60 - 27.10	-
-Due to banks	113,459	-	19.12-19.70	-	126,225	-	29.66 - 29.66	-
	115,899	-			127,921	-		
Interbank deposits	13,904	-	19.70	-	-	-	-	-
Total	129,803	-			127,921	-		

12. FUNDS BORROWED

	2004				2003			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term								
Fixed interest	21,974	205,878	13.40-23.20	2.06-5.77	19,028	127,632	21.00 - 50.06	1.29 - 6.27
Floating interest	-	-	-	-	-	-	-	-
Medium/long term								
Fixed interest	-	5,598	-	2.06-2.99	-	10,378	-	1.36 - 4.88
Floating interest	-	-	-	-	-	-	-	-
Finance lease obligations	-	1,038	-	7.53-15.99	-	2,256	-	7.98 - 15.99
Total	21,974	212,514			19,028	140,266		

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

12. FUNDS BORROWED (continued)

Repayments of medium/long term borrowings are as follows:

	2004		2003	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
2004	-	-	10,378	-
2005	**940**	-	-	-
2006	**2,102**	-	-	-
2007	**2,556**	-	-	-
Thereafter	-	-	-	-
	5,598	-	10,378	-

	2004	2003
Finance lease repayment schedule		
Not later than 1 year	**633**	1,501
Later than 1 year and not later than 5 years	**493**	967
Later than 5 years	-	-
Total minimum finance lease obligations	**1,126**	2,468
Less amounts representing finance changes	**(88)**	(212)
Present value of minimum finance lease obligations	**1,038**	2,256
Representing finance lease liabilities, net	**1,038**	2,256
Current	**566**	1,360
Non-current	**472**	896
	1,038	2,256

13. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions

	2004	2003
Transfer orders	**22,218**	31,158
Taxes other than on income	**3,682**	4,162
Employee termination benefits	**2,165**	1,868
Other various accruals	**662**	1,081
Advances taken	**21,010** (*)	857
Others	**2,174**	4,768
	51,911	43,894

(*) Advances taken includes TL 20,200 for share capital increase which will be expected to be finalized by the end of March 2005.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

13. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiary 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 TL 1,575 and TL 1,390 as of December 31, 2004 and December 31, 2003 respectively-historical) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as of December 31, 2004 and 2003, 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 at the balance sheet date on government bonds.

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

	2004	2003
Discount rate	**16%**	25%
Expected rate of limit increases	**10%**	18%

Actuarial gains and losses arising from changes in discounts notes and expected rates of salary/limit increases that are recognized in the income amounting to TL 101, net.

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

At January 1, 2004	1,868
Interest cost	112
Paid during the year	(374)
Increase during the year	471
Monetary gain/loss	88
At December 31, 2004	**2,165**

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

14. INCOME TAXES PAYABLE

General Information

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

In 2003, the effective corporation tax rate was 30%. However, with Law No. 5035 published at January 2, 2004, only for the year 2004 the corporation tax is calculated at 33%.

The tax legislation provides for a temporary tax of 30% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, temporary taxes for the year 2004 is calculated and paid at the rate of 33%.

Tax returns are required to be filed until the fifteenth of the fourth month following the year-end and paid in one installment until the end of the related month.

In 2003 and prior years corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting. With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code, Income Tax Law and Corporation Tax Law, 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 deficit 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. Certain changes have been made in the application of the inflation adjustment to the statutory accounts with Law No. 5228 published on July 31, 2004. The Group has adjusted its statutory accounts at December 31, 2004 considering the requirements of the new law.

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.

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.

Major components of income tax expense for the periods ended December 31, 2004 and 2003 are :

	2004	2003
Consolidated income statement		
Current income tax		
Current income tax charge	-	(188)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(3,007)**	(535)
Relating to reduction in income tax rates	-	(2,532)
Income tax reported in consolidated income statement	**(3,007)**	(3,255)

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

14. INCOME TAXES PAYABLE (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the group's effective income tax rate for the years ended December 31, 2004 was as follows :

	2004	2003
Net profit/loss from ordinary activities before income tax	**9,335**	33,805
At Turkish statutory income tax rate of 33% as of December 31, 2004 (2003 – 30%)	**(3,081)**	(10,142)
Income not subject to tax	**1,535**	3,533
Expenditure not allowable for income tax purposes	**(3,355)**	(2,308)
Recognition/utilization of tax loss carryforwards	**(2,500)**	(3,074)
Effect of restatement and other	**4,394**	8,736
Current income tax charge	**(3,007)**	(3,255)

Deferred income tax

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

	Consolidated Balance Sheet	
	2004	2003
Deferred income tax liabilities		
Accounting for finance leases	**525**	86
Valuation difference of derivative instruments	**-**	819
Gross deferred income tax liabilities	**525**	905
Allowance for deferred tax liability	**(525)**	(905)
Net deferred income tax liability	**-**	-
Deferred income tax assets		
Deferred tax on tax loss carry forward	**27,623**	37,178
Loss on securities valuation	**800**	1,733
Employee termination benefits	**715**	569
Other	**56**	-
Gross deferred income tax assets	**29,194**	39,480
Allowance for deferred tax asset	**(10,879)**	(15,207)
Net deferred income tax asset	**18,315**	24,273

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 two year business plan covering years 2005 and 2006.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

14. INCOME TAXES PAYABLE (continued)

The key assumptions used in the projections of the Group is as follows:

	For Year 2005	For Year 2006
Projected increase in total assets	10%	13%
Projected increase of total operating income	13%	20%

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

	2004	2003
Balance at January 1	**24,273**	30,829
Deferred income tax recognized in income statement	**(3,007)**	(3,255)
Monetary gain/loss	**(2,951)**	(3,301)
Balance at December 31	**18,315**	24,273

15. 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 together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

	2004								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives held for trading									
Forward purchase contract	38	1,525	79,843	38,117	36,458	5,268	-	-	-
Forward sale contract	1,658	40	79,885	38,181	37,007	4,697	-	-	-
Currency swap purchase	120	485	13,497	13,497	-	-	-	-	-
Currency swap sale	512	-	13,332	13,332	-	-	-	-	-
Futures purchase contract	61	-	37,080	-	37,080	-	-	-	-
Futures sales contract	6	257	37,359	-	37,359	-	-	-	-
Option purchase contract	87	38	26,887	26,887	-	-	-	-	-
Option sale contract	-	-	26,149	26,149	-	-	-	-	-
	2,482	2,345	314,032	156,163	147,904	9,965	-	-	-

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

15. DERIVATIVES (continued)

	2003									
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	283	229	71,260	58,100	13,160	-	-	-	-
Forward sale contract	900	-	70,580	57,661	12,919	-	-	-	-
Currency swap purchase	-	502	38,715	38,715	-	-	-	-	-
Currency swap sale	420	-	38,596	38,596	-	-	-	-	-
Futures purchase contract	2,030	171	94,989	-	94,989	-	-	-	-
Futures sales contract	-	-	93,303	-	93,303	-	-	-	-
Option purchase contract	-	-	4,827	4,827	-	-	-	-	-
Option sale contract	-	-	4,804	4,804	-	-	-	-	-
	3,633	902	417,074	202,703	214,371	-	-	-	-

16. SHARE CAPITAL

	2004	2003
Number of common shares, TL 1,000 (in full TL), par value Authorized, issued and outstanding 122,500 million;	**122,500**	122,500

As of December 31, 2004 and 2003, the Bank's historical subscribed and issued share capital was TL 122,500 (historical terms).

There is no increase in share capital of the Bank during 2004 and 2003. According to Board of Directors Resolution no: 753 dated December 30, 2004, the Bank decided to increase its registered capital ceiling to TL 145,000 from TL 122,500. The increase will be finalized in March, 2005.

As of December 31, 2004 and 2003, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2004		2003	
	Amount	%	Amount	%
GSD Holding A.Ş.	**91,622**	**74.79**	91,622	74.79
Akın Tekstil A.Ş.	**-**	**-**	4,900	4.00
Edip İplik San.Ve Tic A.Ş.	**-**	**-**	4,288	3.50
Other shareholders	**30,878**	**25.21**	21,690	17.71
	122,500		122,500	
Restatement effect	**16,954**		16,954	
	139,454		139,454	

As allowed by the BRSA, the Bank has set off its accumulated deficit through deduction from its legal reserves, retained earnings and adjustment to share capital in 2003 at an amount of TL 19,444.

17. LEGAL RESERVES AND ACCUMULATED PROFITS (DEFICIT)

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2004, the Group's legal reserves, which were included within the legal reserves and accumulated deficit balance amount to TL 1,555 (2003 – TL 1,555).

The statutory general reserve and statutory current year profit are available for distribution, subject to the reserve requirements referred to above.

Dividends

There are no dividends declared and authorized in 2004. The profit appropriation for 2004 will be resolved in the annual general meeting of the shareholders to be held in February 2005.

18. EARNINGS PER SHARE

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

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, without consideration through December 31, 2004.

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

	2004	2003
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	**52**	249
Weighted average number of ordinary shares (in billions) for basic earnings per share	**122.5**	122.5

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

19. 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. which owns 74.79% (2003 – 74.79%) of ordinary shares, and included in GSD Group of companies. 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 and management and members of the Group's Board of Directors and their families.

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

The following transactions have been entered into with related parties:

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	**2004**	**3,374**	**20**	**-**	**-**	**57**	**109**	**-**	**-**
	2003	33	5,808	3,767	1,075	1	2	67	14
Others	**2004**	**40,097**	**16,955**	**33,154**	**-**	**2,045**	**5,760**	**304**	**-**
	2003	13,007	34,978	2,226	-	939	430	176	310
Directors' interests	**2004**	**-**	**-**	**2,292**	**-**	**-**	**546**	**-**	**912**
	2003	-	-	1,193	-	-	322	-	846

Directors' Remuneration

The executive and non-executive members of the Board of Directors and management received remuneration and fees totaling TL 912 (2003 - TL 846).

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

20. SALARIES AND EMPLOYEE BENEFITS

	2004	2003
Staff costs		
Wages and salaries	**22,745**	21,743
Other fringe benefits	**7,798**	6,410
Provision for employee termination benefits	**471**	628
Total	**31,014**	28,781

The average number of employees during the year is:

	2004	2003
The Bank	**905**	861
Subsidiaries	**37**	47
Total	**942**	908

21. OTHER INCOME/OTHER EXPENSES

Other income

	2004	2003
Collections from loans written off in prior years	**1,240**	1,379
Fund management income	**952**	304
Others	**2,584**	2,932
Total	**4,776**	4,615

Other expenses

	2004	2003
Operating lease charges	**4,262**	4,073
Transportation expenses	**1,229**	3,463
SDIF premium	**1,963**	3,050
Computer expenses	**504**	871
Loss on sale of fixed assets	**2,050**	385
Provision for impairment	**3,480** (*)	1,470
Various administrative expenses	**12,131**	9,439
Total	**25,619**	22,751

(*) The Bank has set provision for impairment at an amount of TL 2,096 (2003 – none) and TL 1,384 (2003 – TL 1,470) for the Head office building and assets held for resale, respectively.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

22. 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:

	2004	2003
Letters of guarantees	**857,543**	597,003
Letters of credit	**230,692**	219,814
Acceptance credits	**20,664**	17,767
Prefinancing given as guarantee	**4,325**	2,384
Other guarantees	**32,811**	54,636
Total non-cash loans	**1,146,035**	891,604
Other commitments	**54,351**	35,088
Credit card limit commitments	**102,410**	58,814
	1,302,796	985,506

Litigations

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 (TL 1,349). 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.

Other

The Group manages four open-ended investment funds which were established under the regulations of the Turkish Capital Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. As of December 31, 2004 and 2003, the total value of the investment funds managed by the Group amounted to TL 24,956 and TL 20,112 respectively.

23. 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.

23. FINANCIAL RISK MANAGEMENT (continued)

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

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

Credit Risk

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.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. FINANCIAL RISK MANAGEMENT (continued)

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

	2004		2003	
	Cash	**Non-cash**	Cash	Non-cash
Textiles	**134,369**	**133,994**	119,628	108,725
Government	**34,656**	**-**	86,467	-
Finance	**98,216**	**83,433**	21,813	74,294
Construction	**66,521**	**311,959**	53,043	245,275
Food	**81,118**	**79,329**	45,192	32,423
Export trade	**33,594**	**45,511**	24,249	36,923
Tourism	**28,877**	**19,158**	27,549	18,390
Iron & Steel	**35,669**	**61,775**	35,001	56,040
Service	**42,626**	**48,352**	31,670	21,762
Electronics	**24,293**	**36,811**	30,286	41,415
Metal	**13,930**	**19,992**	11,037	15,314
Energy	**37,511**	**92,140**	6,352	56,951
Agriculture	**21,167**	**19,165**	33,221	31,132
Chemical	**40,475**	**33,152**	29,457	20,614
Automotive	**35,307**	**37,554**	24,498	23,416
Manufacturing	**45,666**	**76,361**	87,773	92,970
Paper	**5,762**	**8,299**	7,006	5,817
Others	**45,111**	**35,720**	19,225	8,300
Corporate loans	**824,868**	**1,142,705**	693,467	889,761
Consumer loans	**22,910**	**3,330**	17,210	1,843
Interest accruals	**1,621**	**-**	9,980	-
Loans in arrears	**3,602**	**-**	2,128	-
Provision for possible loan losses	**(6,213)**	**-**	(4,821)	-
	846,788	**1,146,035**	717,964	891,604

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.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. 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.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 years	Total
As at December 31, 2004						
Assets						
Cash and balances with the Central Bank	163,948	-	-	-	-	163,948
Deposits with banks and other financial institutions	87,095	-	-	-	-	87,095
Other money market placements	17,509	-	-	-	-	17,509
Reserve deposits at the Central Bank	68,349	-	-	-	-	68,349
Trading securities	9,513	1,546	18,759	22,443	51,184	103,445
Investment securities	-	-	-	284	249	533
Originated loans and advances	260,151	226,538	248,676	64,470	46,953	846,788
Derivative financial instruments	1,155	1,120	207	-	-	2,482
Property and equipment	-	-	-	-	72,871	72,871
Intangible assets	-	-	-	-	2,092	2,092
Deferred tax asset	-	-	-	-	18,315	18,315
Other assets	3,417	-	-	-	22,681	26,098
Total assets	611,137	229,204	267,642	87,197	214,345	1,409,425
Liabilities						
Deposits from other banks	21,570	-	-	-	-	21,570
Customers' deposits	667,228	103,694	45,271	17,143	3,693	837,029
Other money market deposits	129,803	-	-	-	-	129,803
Funds borrowed	18,392	23,494	146,335	41,140	5,127	234,488
Derivative financial instruments	1,001	1,075	269	-	-	2,345
Other liabilities and provisions	29,446	-	-	-	22,465	51,911
Total liabilities	867,440	128,263	191,875	58,283	31,285	1,277,146
Net liquidity gap (*)	(256,303)	100,941	75,767	28,914	183,060	132,379
As at December 31, 2003						
Total assets	588,810	176,776	269,172	114,248	201,199	1,350,205
Total liabilities	939,353	154,257	88,269	39,119	3,179	1,224,177
Net liquidity gap (*)	(350,543)	22,519	180,903	75,129	198,020	126,028

(*) Minority interest and total equity are not included in net liquidity gap line.

23. 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 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.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. FINANCIAL RISK MANAGEMENT (continued)

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

	Turkish Lira	U.S. Dollars	Euro	Japanese Yen	Others	Total
As at December 31, 2004						
Assets						
Cash and balances with the Central Bank (or central banks)	3,096	158,367	2,269	-	216	163,948
Deposits with banks and other financial institutions	33,062	50,672	2,032	52	1,277	87,095
Other money market placements	17,509	-	-	-	-	17,509
Reserve deposits at the Central Bank (or central banks)	13,158	45	55,146	-	-	68,349
Trading securities	100,554	2,060	831	-	-	103,445
Investment securities	284	249	-	-	-	533
Originated loans and advances	363,932	322,144	159,902	-	810	846,788
Derivative financial instruments	2,482	-	-	-	-	2,482
Property and equipment	72,871	-	-	-	-	72,871
Intangible assets	2,092	-	-	-	-	2,092
Deferred tax asset	18,315	-	-	-	-	18,315
Other assets	25,283	815	-	-	-	26,098
Total assets	652,638	534,352	220,180	52	2,303	1,409,525
Liabilities						
Deposits from other banks	21,523	44	-	-	3	21,570
Customers' deposits	303,756	364,087	163,447	65	5,674	837,029
Other money market deposits	129,803	-	-	-	-	129,803
Funds borrowed	21,974	183,353	29,161	-	-	234,488
Derivative financial instruments	2,345	-	-	-	-	2,345
Other liabilities and provisions	37,521	8,613	5,453	-	324	51,911
Total liabilities	516,922	556,097	198,061	65	6,001	1,277,146
Net on-balance sheet position	135,716	(21,745)	22,119	(13)	(3,698)	132,379
Off-balance sheet position	6,836	11,519	(20,989)	8	3,208	582
Net notional amount of derivatives	6,836	11,519	(20,989)	8	3,208	582
Non- cash loans	404,880	524,876	186,714	1,197	28,368	1,146,035
At December 31, 2003						
Total assets	564,989	617,723	158,775	6,096	2,622	1,350,205
Total liabilities	406,081	579,156	230,833	586	7,521	1,224,177
Net on balance sheet position	158,908	38,567	(72,058)	5,510	(4,899)	126,028
Off-balance sheet position	(21,175)	(48,392)	72,245	(5,533)	5,363	2,508

As of December 31, 2004, the net short foreign currency position of the Banking Group at an amount of TL 9,591 (2003 – 9,197 TL) is composed of the net short on balance sheet position of TL 3,337 (2003 – TL 32,880) and net short off balance sheet position of TL 6,254 (2003 –net long position-balance sheet 23,683 TL).

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. FINANCIAL RISK MANAGEMENT (continued)

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.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non interest bearing	Total
As at December 31, 2004							
Assets							
Cash and balances with the Central Bank	154,854	-	-	-	-	9,094	163,948
Deposits with banks and other financial institutions	83,638	-	-	-	-	3,457	87,095
Other money market placements	17,509	-	-	-	-	-	17,509
Reserve deposits at the Central Bank	68,349	-	-	-	-	-	68,349
Trading securities	31,816	6,712	18,759	22,443	23,643	72	103,445
Investment securities	-	-	-	284	249	-	533
Originated loans and advances	461,035	129,339	194,542	50,946	10,926	-	846,788
Derivative financial instruments	1,155	1,120	207	-	-	-	2,482
Property and equipment	-	-	-	-	-	72,871	72,871
Intangible assets	-	-	-	-	-	2,092	2,092
Deferred tax asset	-	-	-	-	-	18,315	18,315
Other assets	-	-	-	-	-	26,098	26,098
Total assets	**818,356**	**137,171**	**213,508**	**73,673**	**34,818**	**131,999**	**1,409,525**
Liabilities							
Deposits from other banks	21,520	-	-	-	-	50	21,570
Customers' deposits	482,157	103,694	45,271	17,143	3,693	185,071	837,029
Other money market deposits	129,803	-	-	-	-	-	129,803
Funds borrowed	18,392	23,494	146,335	41,140	5,127	-	234,488
Derivative financial instruments	1,001	1,075	269	-	-	-	2,345
Other liabilities and provisions	-	-	-	-	-	51,911	51,911
Total liabilities	**652,873**	**128,263**	**191,875**	**58,283**	**8,820**	**237,032**	**1,277,146**
On balance sheet interest sensitivity gap	165,483	8,908	21,633	15,390	25,998		
Off balance sheet interest sensitivity gap	-	-	-	-	-		
Total interest sensitivity gap	**165,483**	**8,908**	**21,633**	**15,390**	**25,998**		

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. FINANCIAL RISK MANAGEMENT (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non interest bearing	Total
As at December 31, 2003							
Assets:							
Cash and balances with the Central Bank	249,038	-	-	-	-	-	249,038
Deposits with banks and other financial institutions	7,280	-	-	-	-	-	7,280
Other money market placements	65,653	-	-	-	-	-	65,653
Reserve deposits at the Central Bank	87,807	-	-	-	-	-	87,807
Trading securities	992	1,108	26,740	41,398	10,254	-	80,492
Investment securities	-	318	-	-	-	-	318
Originated loans and advances	300,157	134,462	217,750	53,883	11,712	-	717,964
Derivative financial instruments	1,221	2,412	-	-	-	-	3,633
Property and equipment	-	-	-	-	-	80,060	80,060
Intangible assets	-	-	-	-	-	4,024	4,024
Deferred tax asset	-	-	-		-	24,273	24,273
Other assets	2,127	-	-	-	-	27,536	29,663
Total assets	714,275	138,300	244,490	95,281	21,966	135,893	1,350,205
Liabilities:							
Deposits from other banks	8,621	-	-	-	-	-	8,621
Customers' deposits	596,981	107,180	19,144	11,853	319	147,884	883,361
Other money market deposits	127,921	-	-	-	-	-	127,921
Funds borrowed	16,365	45,827	68,940	27,266	896		159,294
Derivative financial instruments	732	170	-	-	-	-	902
Other liabilities and provisions	-	-	-	-	-	43,894	43,894
Income taxes payable	-	-	-	-	-	184	184
Total liabilities	750,620	153,177	88,084	39,119	1,215	191,962	1,224,177
On balance sheet interest sensitivity gap	(36,345)	(14,877)	156,406	56,162	20,751		
Off balance sheet interest sensitivity gap	-	-	-	-	-		
Total interest sensitivity gap	(36,345)	(14,877)	156,406	56,162	20,751		

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events. Operational risk management is being performed by Operational Risk Committee, which has been established in 2001.

Operational Risk Committee categorized operational risk as follows: (This categorization is being taken into consideration while collecting lost data.)

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process management

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. FINANCIAL RISK MANAGEMENT (continued)

Operational risk lost database has been developed in 2001 and loss information related to 2002, 2003 years exist at this database. Committee continues to collect loss data.

Major areas that Operational Risk Committee works on are as follows:

- Determination of operational risk points and prevention of exposures
- Making the Bank employees conscious of operational risk.
- Lost database
- Information security
- Workplace safety
- Contingency planning, business continuity planning
- Operational risk measurement
- Best compliance with all national and international rules and regulations, esp. Basel II standards

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by 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, 2004, the Bank's capital adequacy ratio on an unconsolidated basis is 12.68% (2003- 12.23%).

24. 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	
	2004	2003	**2004**	2003
Financial assets				
Originated loans and advances to customers	**808,680**	627,540	**807,256**	627,072
Investments securities - originated loans and advances to governments	**38,108**	90,424	**42,877**	99,719
	846,788	717,964	**850,133**	726,791
Financial liabilities				
Deposits from other banks	**21,570**	8,621	**21,570**	8,621
Customer deposits	**837,029**	883,361	**837,380**	883,255
Funds borrowed (excluding finance lease obligations)	**233,450**	157,038	**235,314**	157,304
	1,092,049	1,049,020	**1,094,264**	1,049,180

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristics or by discounting the expected future cash flows at prevailing interest rates.

The interest used to determine the fair values of financial instruments, applied on the balance sheet date to reflect active market price quotations are as follows:

	Originated loans and advances		Deposits		Funds borrowed	
	Interest Rates Applied (%)					
Currency	**December 31, 2004**	December 31, 2003	**December 31, 2004**	December 31, 2003	**December 31, 2004**	December 31, 2003
Turkish lira	**26.82**	35.00	**20.08**	28.28	**14.60**	-
US$	**7.13**	7.50	**3.00**	3.76	**3.20**	2.49
EURO	**8.58**	5.80	**3.10**	4.22	**3.10**	4.33