ANADOLUBANK

WE ARE EMBRACING THE FUTURE WITH A NEW LOOK

Annual Report 2004

Contents

Anadolubank branches have been renovated.

To reflect our identity more fully, we put on a new face and upgraded our branches where we offer our services sparing our Head Office for other tasks in 2005.

Financial Highlights

(TL billions)

	2004	2003
For the Year		
Net interest income	93,179	55,971
Non-interest income	49,894	63,893
Total income	143,073	119,864
Non-interest expense	(74,710)	(69,819)
Provision for loan losses	(5,642)	(7,540)
Taxation charge	(1,073)	(16,071)
Minority interest	(214)	54
Monetary loss due to inflation	(13,884)	(20,283)
Net income	47,550	6,205
At Year-End		
Assets	2,046,598	1,857,449
Loans	854,725	667,821
Securities	754,913	732,710
Total earning assests	1,784,334	1,781,258
Customer deposits	1,298,036	1,372,468
Short-term borrowings	189,255	154,051
Total shareholders' equity	160,558	115,387
Free capital	137,515	96,805

Financial Ratios (%)

Return on average equity (ROE)	34.46	17.31
Return on average assets (ROA)	2.44	1.09
Net interest margin (NIM)	4.77	3.69
Efficiency ratio	51.16	57.45
Capital adequency ratio (BIS)	14.53	12.76
Total equity to average assets	8.23	6.88

Anadolubank's Ratings

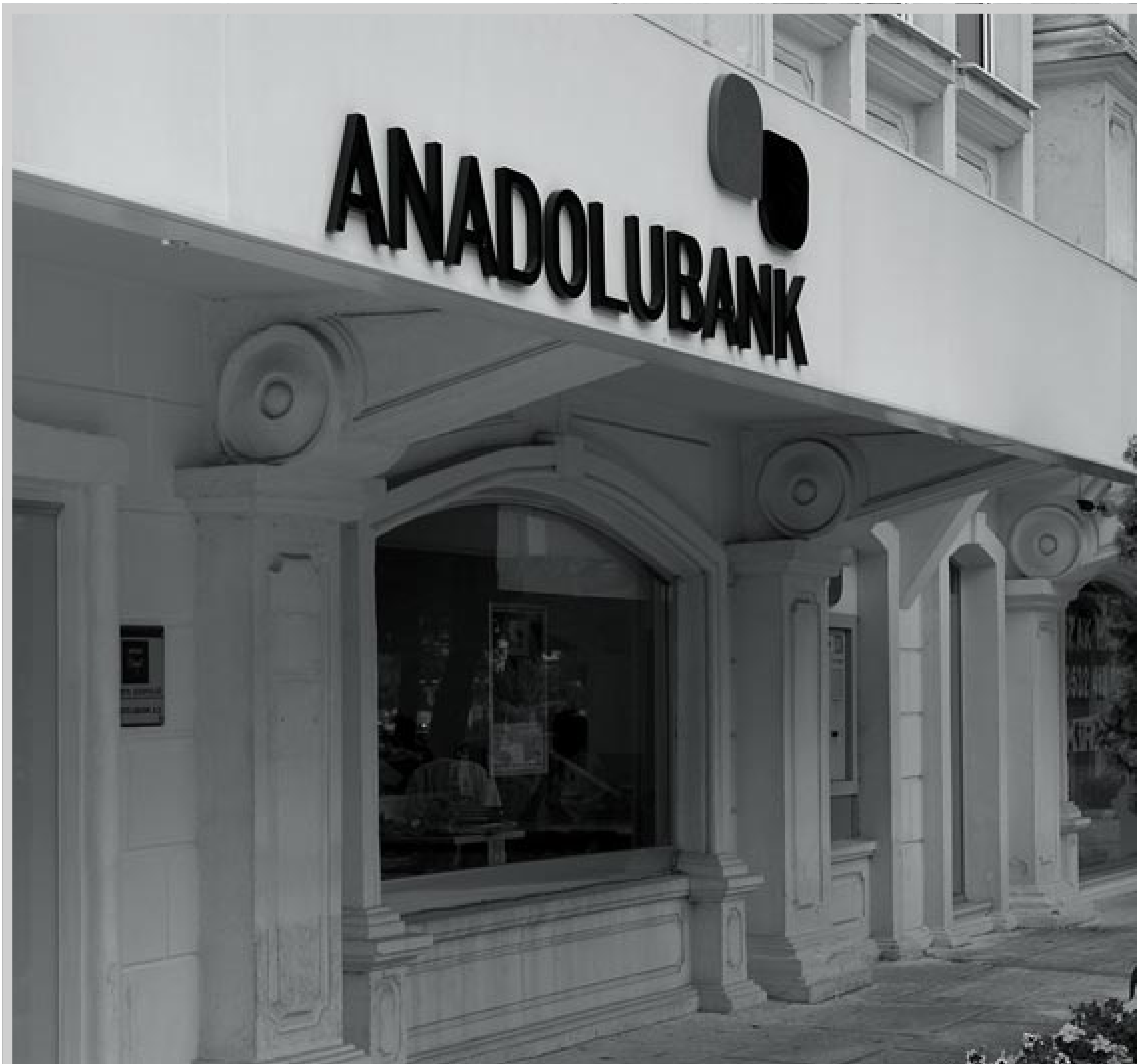
Anadolubank was re-rated by FitchRatings on July 29, 2004 and following ratings were assigned:

Foreign Currency	
Long-Term	B
Short-Term	B
Outlook	Stable

Local Currency	
Long-Term	B
Short-Term	B
Outlook	Stable

National	
Long-Term	BBB
Outlook	Stable

Individual	D
Support	4



Anadolubank, owned by the Habaş Group, is a commercial bank with
50 branches covering all major regions in Turkey.

About Anadolubank

Anadolubank, owned by the Habaş Group, is a commercial bank with 50 branches covering all major regions in Turkey. Acquired from the Privatisation Administration in 1997, the Bank is comparatively young in the industry to which it owes its dynamism. Its resilience was demonstrated during turbulent times of the last seven years. A successful restructuring process was achieved during that period where the strength of the shareholders, a well-chosen and experienced management team plus a dedicated staff ensured the Bank a distinct standing in the industry. Anadolubank provides small to medium-size enterprises with short-term working capital and trade finance facilities. The strategies and operations of the Bank are discussed in detail in the related sections of this report.

About the Shareholders

Habaş is one of Turkey's leading industrial groups ranking 19th by sales volume and 9th in export sales at the end of 2003 (2004 rankings have not been published yet). The Group's major activities are the production and distribution of industrial and medicinal gases and steel production. A third major line of activity, electricity production, started in the third quarter of 2004.

Established in 1956 to produce and distribute industrial and medicinal gases (oxygen, carbon dioxide, acetylene etc.), Habaş in time acquired approximately 82% of that segment's market share in Turkey. It has further enhanced its competitive capacity over the years through investments in the manufacture of storage tanks and cylinders, spirally welded pipes, distribution of LPG, auto gas and natural gas. Currently, gases are produced and stored in ten different locations throughout Turkey to serve the needs of over 5,000 customers via 70 distributors and 500 dealers and with a fleet of more than 400 vehicles.

In 1983, investments in steel production began; today Habaş is the market leader with the capacity to produce 2.4 million tons of liquid steel in Turkey; 78 to 80% of the production (billets, debars and wire rods) has traditionally been exported to various countries around the world. Total exports in 2004 reached US$ 731 million while scrap imports were US$ 625 million. Its steel mills are located at Aliağa/İzmir (an industrial town in Western Turkey) complete with investments in the latest technology and with pier facilities owned by the Group.

In addition to the already existing 36 MWH power plant, the investment in a new plant with a 240 MWH capacity for electricity generation was recently completed; production began in the third quarter of 2004.

The Group's total turnover exceeded US$ 1,053 million in 2004. Habaş has been assessed by the rating agency FitchRatings and assigned a National Currency Rating of A+, Long-Term Foreign and Local Currency Ratings of B+ (restricted by Turkey's rating)/with stable outlooks.

Chairman's Letter

The net income growth from US$ 4.6 million to US$ 35.4 million with an increase of 666% that carried the shareholders' equity to US$ 119.6 million from US$ 86.0 million at the end of 2003 was a spectacular achievement.

Growth: Can we resist it?

Last year on these pages, I tried to convey the underlying philosophy of Anadolubank's strategies to give some clues about the way we shape, review and change the decisions we make. I purposefully refrained from using banking jargon as I wanted my words to be perceived not only in the minds but also in the hearts of our staff, our clientele and correspondent banks to which this report is more or less directed. The message that I tried to convey was focused on two basic topics i.e. human needs and the way we interpreted the economic environment in which we operate. By this, I wanted to make clear that Anadolubank will stick to conservative principles of commercial banking in the sense that it will act as an intermediary for the satisfaction of human needs as reflected in industrial and commercial activities. The reason was simple - to define and outline the widest perimeters of risk which the shareholders and the Bank's Board of Directors were prepared to accept.

Now, the concepts of conservatism and growth at first glance, may sound contradictory to some since growth generally means new horizons and risk limitations that need to be identified and controlled. But is it? Or is it just to shift the existing horizons further apart in an effort to create a wider sphere? Can any mechanism afford to stay static or can it survive without changing itself according to internal and external factors that keep changing constantly? The Bank's Board of Directors, especially in the second half of 2004, discussed these issues extensively and concluded that horizontal growth was now needed. They also discussed the way the Bank should reach an asset growth of US$ 2.6 billion and an equity growth of US$ 200 million in three years - by the end of the year 2007. Ten new branches will be added to the existing network in 2005 and the Bank will expand to a maximum of 80 branches by the end of 2007. In what follows, I will explain briefly the internal factors that affected the Bank's performance in 2004; the external factors will be explained in sections of this report dealing with economic trends and developments.

In 2004, Anadolubank recorded its best performance of the last three years where assets grew by 10.2% to reach US$ 1,525 million. More spectacular than that was the net income growth from US$ 4.6 million to US$ 35.4 million with an increase of 666% that carried the shareholders' equity to US$ 119.6 million from US$ 86.0 million at the end of 2003. These figures correspond to a ROA of 2.44% and ROE of 34.46% for the year. According to the Habaş Group's principle of "invest what you earn", net income will not be distributed but will be added to

Board of Directors

Mehmet Rüştü Başaran: Chairman and Executive Member, **Pulat Akçin:** Vice Chairman and Executive Member, **Engin Türker:** Member, **Fikriye Filiz Haseski:** Member, **Erol Altıntuğ:** Member, **Yusuf Gezgör:** Member, **İbrahim Kazancı:** Statutory Auditor, **Murat Koçoğlu:** Statutory Auditor

the capital in the coming months. Anadolubank's financials have now assumed a more mature and stable character with the income statement dominated by interest income from loans with an increased contribution from non-interest income. The balance sheet structure is dominated by short-term loans; a quality indicator of which is a non-performing loan ratio of 1.64%. This is one of the lowest NPL ratios in the banking industry. Needless to say, non-performing loans were again 100% provisioned. In addition to well established and followed strategies, this relative maturity was achieved by the management and the staff of a young Bank who strive hard to mould their dynamism and flexibility into the creation of these figures. In 2004, a new concept was adopted and applied starting from the branches to better represent the character of the Bank. Training programs were further accelerated to make the Bank a leader in the industry. Each employee attended 80 hours of training varying from technical aspects of banking to more human aspects such as personal development, teamwork, leadership and a series of other areas to further increase the Bank's competitive capacity in operational and marketing areas. This was one of the two pillars the Board of Directors was convinced to be firm enough to sustain the future growth.

In 2004 again, the Turkish economy performed beyond our expectations. The first half of the year in the banking industry elapsed in the shade of uncertainties resulting from the government's lifting of 100% guarantee on bank deposits. Anadolubank passed the test quite successfully albeit at the cost of some unusual excess liquidity. In the second half of the year however, widespread optimism prevailed and reached its apex in December when Turkey was nominated as a candidate for the EU. Primary surplus figures reached 6.1% of the GNP, well within the required limit set by the IMF-backed economic program. Inflation was lower at 9.32%, the third consecutive year where a downturn was recorded. With the introduction of the new Turkish lira (YTL), six zeros from the old currency were dropped. Consumer confidence rose, foreign trade volume reached new highs totalling US$ 160,436 million and resulting in a trade deficit of US$ 23,792 million and a current deficit of US$ 15,410 million. The Bank interprets these developments with a cautious optimism, a major cause of concern is the current deficit and its financing. Therefore, the Bank will again stick to the commercial banking principles which allow it to manage market risk - interest rate, foreign exchange and price risk.

I am happy to be a member of this institution that I tried to summarise as mature, conservative, yet young and dynamic. I would especially like to extend my thanks to the staff, clientele and correspondent banks of Anadolubank whose contributions have given the human soul to this entity that I love.

Mehmet R. Başaran
Chairman

Management's Assessment of Operations

Anadolubank's financials have now assumed a more mature and stable character with the income statement dominated by interest income from loans with an increased contribution from non-interest income.

We reviewed and perfected our workflow and communicative channels and took action to lay a common ground where customer satisfaction was maximised in a bank whose members were more aware of and responsible for their performance.

Anadolubank's Strategies

This is the third consecutive year that we are starting to write our annual report by defining Anadolubank as a commercial bank. Our perceptions, definitions and limitations of risk to which we are exposed during the normal course of operations have been set forth by our Board of Directors and clearly confine us to this definition.

Hackneyed as it may sound to the readers of this report, we will again repeat what it means to us to be a commercial bank; a secure loan portfolio, adequate liquidity, diversified funding sources and sustained profitability. We certainly know that the best messages are impounded in figures in banking, but we will still leave aside at this stage the figures discussed in length in the coming sections of this report and concentrate on communicative and organisational mechanisms instead.

Because, as we promised, we worked hard to achieve the targets set for us by the Board of Directors which translated into vertical growth for 2004, we did not open new branches nor did we have any major changes in management. Meanwhile, we did three things:

→ We concentrated on the customer relationship increasing the number of our deposit and loan customers, on the one hand, and cultivated our existing relationships in the direction of creating and improving customer loyalty on the other, although this concept is said to be almost non-existent in Turkey.

→ We reviewed and perfected our workflow and communicative channels and took action to lay a common ground where customer satisfaction was maximised in a bank whose members were more aware of and responsible for their performance.

→ To reflect our identity more fully, we put on a new face and upgraded our branches where we offer our services sparing our Head Office for other tasks in 2005.

Management's Assessment of Operations

Apart from the quality of the loan portfolio as measured by non-performing loan trends, Anadolubank's lending policy is shaped under two additional considerations: (a) avoid interest rate risk and (b) reach maximum diversity.

The result of our efforts crystallised in the three most meaningful criteria – the achievement of ROA of 2.44%, ROE of 34.46 % and an improvement in operational efficiency to 51.2%.

Balance Sheet Analysis

Loans

Lending, especially to medium and small-size companies for their working capital needs, constitutes the backbone of Anadolubank's strategies. This major product is further complemented by retail (mostly housing and vehicle) loans at a percentage not to surpass 10% of the total loan portfolio. Apart from the quality of the loan portfolio as measured by non-performing loan trends, Anadolubank's lending policy is shaped under two additional considerations: (a) avoid interest rate risk and (b) reach maximum diversity.

As a consequence of a long history in an inflationary economy where bank deposits are very short-term in Turkey, Anadolubank seeks to build assets to match such liabilities by tenor which is the major reason why relatively short-term working capital financing is favoured. The other consideration, the need for diversity, stems directly from the very nature of the banking profession and the Bank is not willing to allocate more than 10% of its total loan portfolio to a particular industry. Textiles and domestic trade are exceptions since they have an outstanding share in Turkey's productive capacity. The following chart shows the share of different industries to which the Bank is exposed:

Loans by industry
(%)

Textiles	14.7
Domestic trade	13.0
Metals and mining	10.1
Consumer loans	8.1
Construction	6.1
Services	6.0
Non-bank financial institutions	5.7
Chemicals	5.6
Food	5.3
Others*	25.1

* Others cover agriculture, iron and steel, electronics, automotive and finance sectors as well as exporter companies.

One of the Bank's major goals is to increase the share of loans to 50% of its total assets - year 2004 was no exception to this target. The loan portfolio grew, albeit at a slower pace compared to previous years, by 28% to 42% of total assets in 2004. The breakdown by products is shown below:

Outstanding loan balances

(TL billions)

	Year ended December 31,		Percent to total	
	2004	2003	2004	2003
TL short-term loans	367,056	324,898	42.9	48.6
FX short-term loans	344,753	260,260	40.3	39.0
Retail loans	43,658	28,449	5.1	4.3
Credit card receivables	15,750	11,398	1.9	1.7
Medium to long-term loans	83,508	42,816	9.8	6.4
Total	854,725	667,821	100.0	100.0

Non-performing loans

The control mechanisms established for the monitoring of lending activities have always been very important to Anadolubank, given the economic volatility of the environment it operates in. Concentrated at the Head Office level, assessment, allocation and follow-up of credits are scrutinized by four different departments headed by an Executive Board Member. The result of such practices has been traditionally low non-performance that showed a steady trend well under 2% in the last three years. This ratio in 2004 was 1.64%. Further details are supplied in the following charts:

Developments in non-performing loans

(TL billions)

	Year ended December 31, 2004	Year ended December 31, 2003
Balance at the beginning of the year	11,460	12,750
Additions	5,160	6,208
Reductions	2,635	7,498
Payments	1,009	3,701
Collaterals liquidated	-	838
Re-scheduled	-	2,959
Inflation adjustment	1,626	-
Balance at the end of the year	13,985	11,460

Related party transactions

As there are no easy answers to banking problems, past bank failures in Turkey were irrationally attributed to large exposures to related parties, particularly the shareholders. Therefore, we feel obliged to specifically report on the relationship with related parties such as subsidiaries and shareholders. As a general rule, we are not the sole bankers for our shareholders and we occasionally enter into transactions with them when it is deemed profitable by the management. The results of such relationships in 2004 were as follows:

Related party transactions
(TL billions)

	Average balances	
	2004	2003
Loans	14,877	11,965
Off-balance sheet exposure	4,399	1,993
Deposits	82,671	28,709

Liquidity

Liquidity is generally used to fund assets and to take advantage of investment opportunities that may arise in the markets. In Turkey's volatile economic climate, this item takes on further significance when used as a safe harbour in times of cyclic uncertainties, indeed often difficult to manage. It is a thorny issue for management, trying to decide between making a profit and using discretion. Anadolubank considers core liquidity as balances with the Central Bank and other banks. Added to that are the unused credit limits with other banks, repurchase agreements and very short-term loans to, and investments with, financial institutions. Liquidity is aided by the short-term character of the loan portfolio in general. Its broad base relies on customer deposits, a well-established and diversified funding source.

Liquid assets
(TL billions)

	Year ended December 31,		Percent to total assets	
	2004	2003	2004 (%)	2003 (%)
Cash and due from banks	19,019	220,002	0.9	11.8
Central Bank deposits	197,393	35,582	9.6	1.8
Interbank placements	-	79,883	-	4.3
Placements with banks	99,771	10,011	4.9	0.5
Legal reserves	86,729	90,475	4.2	4.9
Securities for trading	302,916	173,527	14.8	9.3
Total liquid assets	**705,828**	**606,480**	**34.5**	**32.7**

Liquidity is aided by the short-term character of the loan portfolio in general. Its broad base relies on customer deposits, a well-established and diversified funding source.

Securities

We have stated in our previous reports as well as in the present one that we endeavour to decrease the share of securities in the composition of our assets and this we did. The securities constituted 49.3% of total assets in 2002, decreasing further down to 39.4% in 2003 and 36.9% in 2004. Anadolubank's activities in this area are confined to the Turkish Treasury bills and government bonds. The portfolio trends, in time, changed in favour of trading securities in line with the increases in the loan portfolio. The message we are trying to convey is that securities are not considered to be an investment area strategically but rather for storing liquidity and to take advantage of profit-making opportunities that may emerge in the markets. Exposure to government bonds are frequently funded through repurchase agreements for very short periods, therefore such exposure may now vary from one reporting period to another. The consequence is that the Bank relies more on interest income from loans and non-interest income from banking services. Apart from a relatively lower investment portfolio that provides the Bank with a regular interest income, the Bank's core assets are increasingly made up of loans and liquid assets and, in continuity, the loans in the total balance sheet assume further importance and higher shares than reported at year-ends when such core assets are considered. The following table shows a breakdown of securities at the end of 2004.

Breakdown of securities

(TL billions)

	Year ended December 31,		Percent to total assets	
	2004	2003	2004 (%)	2003 (%)
Held-for-trading	**302,916**	**173,527**	**14.8**	**9.3**
TL government bonds	295,354	167,815	14.4	9.0
Equity securities	1,789	-	0.1	-
FX domestic bonds	200	5,712	-	0.3
Eurobonds	5,573	-	0.3	-
Held-to-maturity	**451,997**	**559,183**	**22.1**	**30.1**
TL government bonds	201,468	70,479	9.8	3.8
FX domestic bonds	103,679	337,691	5.1	18.2
Eurobonds	146,850	151,013	7.2	8.1
Total	**754,913**	**732,710**	**36.9**	**39.4**

Management's Assessment of Operations

Anadolubank plans to open ten additional branches to offer mainly retail products that further reinforce the Bank's funding base and to better manage cost pressures via numerous smaller deposits mainly from households.

Deposits

While we have stressed our commercial character continuously in this report where assets are mentioned, retail banking and especially deposits, as the major retail product, gain precedence over commercial customers in our efforts to build a reliable and diversified funding base. Our commercial loan customers and their related parties still have a 48% share of total deposits. Again, although we would prefer to see a 70% ratio of deposits over total liabilities, the relatively longer term borrowing from overseas markets on the one hand and the funding of cyclical exposure to trading securities through repurchase agreements on the other, resulted in a decreased ratio of 66.2% at the end of 2004. Customer deposits however, still more than covered the total loan portfolio at a loan to total deposits ratio of 49.8%. As expressed in Chairman's Letter, Anadolubank plans to open ten additional branches (three had already been opened while this report was being prepared) to offer mainly retail products that further reinforce the Bank's funding base and to better manage cost pressures via numerous smaller deposits mainly from households. Our efforts are outlined in the following table.

Composition of deposits
(TL billions)

	Year ended December 31,		Percent to total assets	
	2004	2003	2004 (%)	2003 (%)
Turkish Lira Deposits	**527,416**	**463,752**	**25.8**	**25.0**
Non-interest bearing demand	74,645	84,786	3.7	4.6
Time	452,771	378,966	22.1	20.4
FX Deposits	**826,964**	**933,533**	**40.4**	**50.2**
Non-interest bearing demand	180,869	103,052	8.8	5.5
Time	646,095	830,481	31.6	44.7
Total	**1,354,380**	**1,397,285**	**66.2**	**75.2**

Shareholders' equity

Compared to 2003, a major leap was recorded in 2004 in shareholders' equity by a 39.15% growth, totally through profits, which raised the capital adequacy ratio to 14.53% at the end of the year. Another important aspect of the equity was the free liquid portion that made up 85.65% of total equity in 2004 higher than in 2003 which was 83.90%. At Anadolubank, profit traditionally is not distributed and will again be added to the Bank's capital in the coming months of 2005. As a general rule, a 12% capital adequacy ratio is the level where the management feels comfortable; it will strive to maintain the ratio at this minimum level as it has in the past.

Capital adequacy
(TL billions)

	Year ended December 31,	
	2004	2003
Total shareholders' equity	160,558	115,387
Risk weighted assets	1,108,534	863,157
Tier 1 capital ratio	14.48%	13.37%
Capital adequacy ratio	14.53%	12.76%

Compared to 2003, a major leap was recorded in 2004 in shareholders' equity by a 39.15% growth, totally through profits, which raised the capital adequacy ratio to 14.53% at the end of the year.

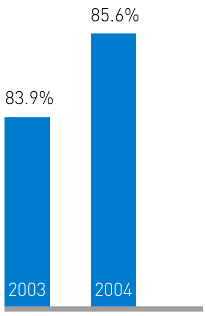
Management's Assessment of Operations

At Anadolubank, profit traditionally is not distributed and will again be added to the Bank's capital in the coming months of 2005.

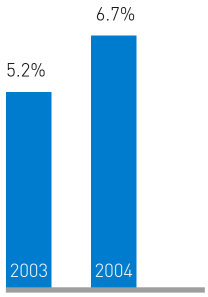
Shareholders' equity growth
(TL billions)

	2004	2003	Change	Percentage Change
	160,558	115,387	45,171	39.15%

Free capital ratios



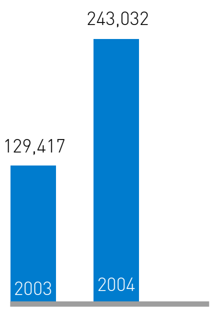
Percentage to total equity



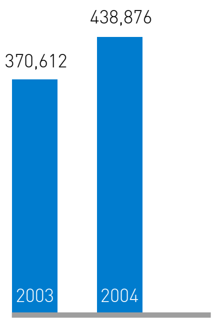
Percentage to total assets

Commitments and Contingencies

Classified under commitments and contingencies, two major instruments i.e. letters of credit for trade finance operations and letters of guarantee for various tenders both issued by banks on behalf of their customers and still widely used in business deals, assumed even further importance in the banks' efforts to increase their non-interest income to compensate for the contraction in their interest income - the result of declining interest rates and hence narrower spreads. The following chart shows Anadolubank's increased performance in these two instruments; income generated is referred to in the pages ahead under the income statement section.



Letters of credit (TL billions)



Letters of guarantee (TL billions)

Income Statement Analysis

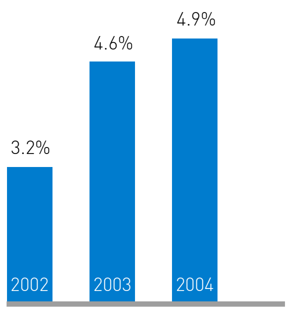
Interest income

Much was said about the interest rates in Turkey during 2004 and among all the rhetoric, banks this time had to accommodate themselves to the fact of declining interest rates followed naturally by a steady contraction of interest margins. Remedies were different ranging from increasing non-interest income to further controlling the costs and trying to change lending preferences toward retail loans and smaller size businesses. Anadolubank, comforted by the medium- to small-size customer portfolio it has built up over time, was able to increase interest income at a rate of 20% in 2004. Further success was achieved as a result of tight controls on the funding costs that grew by only 4%, a major fact that explains the relatively modest growth in customer deposits. The result of our efforts are summarised in the tables that follow.

Before referring to the charts however, some explanation will be needed as to some of the adjustments we made to prevent the reader from misjudging interest income. Otherwise our success would have been magnified enormously. In 2004, a change in local regulations governing accounting principles required banks to post the capital income from bond trades (interest income accrued for the holding period included) under the interest income whereas the same was classified under trading income in 2003. We adjusted our interest income for 2003 according to the current regulations i.e. decreased it by an amount of TL 14,562 corresponding to capital gains from traded securities which was posted under trading income in 2003.

Interest income (adjusted)

(TL billions)	2004	2003	% Change
Interest on loans	133,757	126,945	5.4
Interest on securities	121,946	93,342	30.6
Other interest income	11,896	17,923	(33.6)
FX gain	3,145	5,942	(47.1)
Total interest income	**270,744**	**244,152**	**10.9**
Interest on customer deposits	124,752	130,834	(4.6)
Interest on borrowings from banks	49,453	36,088	37.0
Other interest expense	215	755	(71.5)
Total interest expense	**174,420**	**167,677**	**4.0**
Net interest income	**96,324**	**76,475**	**26.0**



Net Interest Margin (adjusted)

Non-interest income

Anadolubank's efforts to manage non-interest income were concentrated in three main areas during 2004: (a) strict control of costs, (b) generation of commissions under off-balance sheet items such as letters of guarantee and letters of credit, (c) enhancing existing non-risk products and new product development. The first two items are self-evident in the figures below, however, we must emphasise that our efforts to increase our performance in mutual funds and stock brokerage were further complemented by income from a new product Anadolubank introduced for the first time in Turkey. This product called Paritem permits spot FX deals to be made for the Bank's customers on a real time online basis via a sophisticated Internet based trading platform.

Again, before proceeding to the chart below, we must refer to our explanation regarding changes in accounting principles in 2004 and add that the trading income for 2003 dropped by TL 14,562 billion for the same reason.

Non-interest income (adjusted)

(TL billions)

	2004	2003	Change %
Banking fees and commissions	23,950	15,784	51.7
Other non-interest income	19,695	25,866	(23.9)
Total non-interest income	**43,645**	**41,650**	**4.8**
Personnel expense	39,015	27,539	41.7
Other non-interest expense	32,590	40,541	(19.6)
Total non-interest expense	**71,605**	**68,080**	**5.2**
Net non-interest expense	**(27,960)**	**(26,430)**	**5.8**

Net income

When based on the figures in the audited report, the final episode of this analysis would have been brilliant indeed. For the sake of proper analysis however, we will again diverge from those figures and resort to some adjustments. As explained in our 2003 annual report, our figures for that year were adjusted by TL 10,613 billion due to a capital increase during that year. Therefore, the figures for 2003 will again include this amount (this time TL 12,082 billion as inflation adjusted) and hence differs from the balance sheet figure.

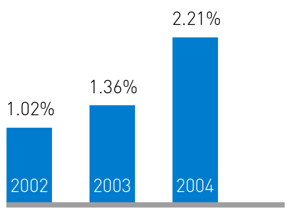
The tax advantage (non-recurring) that we obtained as a result of a lawsuit was reclassified in the figures of the year and as it relates to the tax charge, differs again. After the adjustments, we are still pleased to report a 89.6% increase in net income in 2004 over that of the 2003, corresponding to ROA of 2.21% and ROE of 31.24% whereas the operational efficiency ratio was successfully lowered to 51.16% as the following charts demonstrate.

After the adjustments, we are still pleased to report a 89.6% increase in net income in 2004 over that of the 2003, corresponding to ROA of 2.21% and ROE of 31.24% whereas the operational efficiency ratio was successfully lowered to 51.16%.

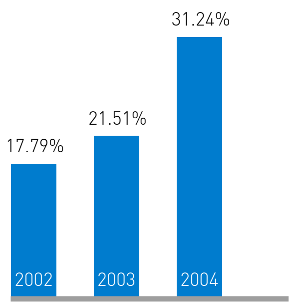
Management's Assessment of Operations

Net income (adjusted)
(TL billions)

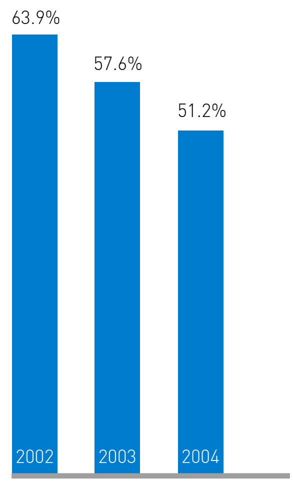
	2004	2003	Change %
Interest income net	96,324	76,475	26.0
Non-interest income net	(27,960)	(26,430)	5.8
Gross income	**68,364**	**50,045**	**36.6**
Provision for loan losses	(5,642)	(7,540)	(25.2)
Income before taxation and monetary position loss	**62,722**	**42,505**	**47.6**
Tax charge	(5,517)	(11,627)	(52.6)
Loss on net monetary position	(13,884)	(8,201)	69.3
Minority interest	(214)	54	
Net income	**43,107**	**22,731**	**89.6**



ROA (Return on Assets)



ROE (Return on Equity)



Operational Efficiency (Cost/Income)

Risk Management

Aware that risk is the raw material of banking, the risk management function is regarded as an integral part of Anadolubank's corporate culture and all employees are considered as risk managers.

The Risk Management Department establishes tools and measures to assess and manage market, credit and operational risk encountered during the normal course of business, in order to ensure that the risks are taken under control.

Aware that risk is the raw material of banking, the risk management function is regarded as an integral part of Anadolubank's corporate culture and all employees are considered as risk managers.

In this concept, The Risk Management Department establishes tools and measures to assess and manage market, credit and operational risk encountered during the normal course of business, in order to ensure that the risks are taken under control. Accumulation of past data is vital for effective risk management. Therefore, the Department also tries to gather and store past data and experiences in a statistically usable format for future analysis and assessments.

Organisation of the Risk Management Function

The risk management function at Anadolubank is conducted by the Executive Risk Committee and the Credit, Market and Operational Risk Committees reporting to the Executive Risk Committee. The Risk Management Department carries out the decisions made by these committees and handles the necessary quantitative studies to assess the risks faced by the Bank. This Department keeps risk management processes active throughout the organisation and ensures that they are effectively and efficiently utilised.

Market Risk Management

The market risk management process oversees the calculation of the capital adequacy requirement according to directives from BRSA's standard method following the Bank's operations in money and capital markets. Additionally, methods encompassing historical simulation, stress testing and scenario analysis are also used to assess market risk. An efficient system has been developed and implemented to follow-up daily trading limits that protect the Bank from even minute losses. The following-up of maturity and interest rate mismatches also falls within the duties of this Department.

Risk Management

VaR as at December 31, 2004
(TL billions)

TL-denominated bonds and bills	63%
FX-denominated bonds and bills	23%
FX Book	12%
Equities	2%

Interest Margin Simulation - December 31, 2004
(Average TL billions)

Currency	Interest Change	Estimated Exposure	Effect on Net Interest Margin
FX	+ 1.00	(47,931)	(0.07)%
TL	+ 1.00	189,020	(0.20)%
FX	(1.00)	(47,931)	0.07%
TL	(1.00)	189,020	0.20%

Credit Risk Management
While assessing the creditworthiness of the borrowers, the types and sources of risks taken on are also determined and reported to the Board of Directors, in line with rules and regulations.

In order to be able to assess the credit risk involved in the lending process and to ensure that risk-adjusted pricing has been applied, all commercial loans were rated at the end of 2004. This helped the credit risk officers evaluate the credit risk according to company size, region, limits and other criteria. Anadolubank's rating system assesses borrowing companies for their financial and operational results as well as for their ethical values of business conduct. The results are used to calculate the probability of default (PD) and statistical analyses are carried out comparable to best global practices. Currently, a study is being carried out to adapt the Bank's rating methodology to Basel II standards.

Anadolubank is among the banks implementing the Quantitative Impact Study under the New Basel Capital Accord (Basel II). Basel II calculates the Capital Adequacy Ratio by taking the credit risk, market risk and operational risk into account. In-house studies include the risk weighting and classification of the loan portfolio and adaptation of the Bank's reporting system accordingly.

Additionally, sector analyses are conducted to assess and prevent risk concentrations in industries while country risk is monitored closely and reported to the Board of Directors.

Operational Risk Management

The Risk Management Department, the Board of Internal Auditors, Internal Control Unit, Organisation and Business Development Department and the Information Technology Department co-ordinate and co-operate in the management of operational risk.

Operational risk at Anadolubank has been defined and reported within three different methods by the Risk Management Department in compliance with the New Basel Capital Accord and according to the studies conducted within the Quantitative Impact Study under the guidance of the BRSA.

The Board of Internal Auditors and the Internal Control Centre ensure that all banking transactions comply with legal enforcement and regulations as they monitor misconduct or employee errors. These audit and control bodies, in addition to ensuring conformity of transactions to regulations and bank policies, also monitor branch performances and advise on efficiency improvements.

Workflow, directives, policies and procedures prepared by the Organisation and Business Development Department are examined by the Risk Management Department to ensure their applicability and conformity with risk management guidelines. Any system or procedure deemed to fall short of meeting risk aversion criteria are corrected or developed further and then approved by the Risk Management Department for implementation.

The Information Technology Department assesses potential risk that might be associated with core banking application software, other software running on the Bank's hardware and networks. These controls and analyses are an on-going task at the IT Department which measures potential risk on three levels. In previous years, existing hardware and core banking application system have been renewed adding further strength to the Bank's IT infrastructure. Additionally, the Information Security Management infrastructure has been developed under the BS 7799 principles and applications have been developed and put into effect by the Information Security Management Group in co-operation with expert advisers.

In 2004, studies on Anadolubank's Business Contingency Plan continued and scheduled to be completed in 2005. The scenarios constituted under these studies were used to develop the Emergency Plan that is already in practice.

In 2004, Anadolubank launched a pioneering Internet-based product called Paritem, which enables investors to buy and sell the world's 17 most traded currencies 7 days a week, 24 hours a day in the comfort of their offices or houses.

Helping investors benefit from currency trading

In 2004, Anadolubank launched a pioneering Internet-based product called Paritem, which enables investors to buy and sell the world's 17 most traded currencies 7 days a week, 24 hours a day in the comfort of their offices or houses. To benefit from this service, Anadolubank customers have to deposit a minimum of US$ 4,000 in a foreign currency deposit account. They may start fx margin trading as soon as they get a personal code to enable them to access the Bank's web site at www.anadolubank.com.tr. Investors subscribing to the Paritem service may trade an amount equivalent to 25 times their balance in their deposit account.

As currency rates change minute by minute, Paritem enables Turkish investors not only execute TL-FX trades but also FX-FX trades in world's leading currencies. Although not an alternative investment tool to equity trading, Paritem gained wide popularity in a very short time helping Anadolubank attain new customers.

Organisation

Anadolubank is organised at the Head Office level in Istanbul and has
50 branches spread throughout Turkey.

In 2004, three new branches were opened, two in Istanbul and one in Ankara and two branches were closed, both in Istanbul. Five collection offices were opened; three in Istanbul, one in Kayseri and one in Ankara.

Anadolubank is organised at the Head Office level in Istanbul and has 50 branches spread throughout Turkey. Of these, 40 are authorised to handle all banking transactions with three specialised in large-scale corporate customers and 37 in small and medium–scale companies. The remaining ten branches handle retail banking instruments only, mainly customer deposits, consumer loans, treasury products, insurance and credit cards. In addition to the branches, there are also six collection offices. In 2004, three new branches were opened, two in Istanbul and one in Ankara and two branches were closed, both in Istanbul. Five collection offices were opened; three in Istanbul, one in Kayseri and one in Ankara.

Our management believes that Anadolubank has a comparative advantage in serving traditional commercial activities with banking products - the source of most of the Bank's income. Therefore, we decided to open new branches but not more than ten per year in the next three years. We believe that the number of branches we currently have is sufficient to cover all industrially and commercially active centres and can adequately supply optimal funding sources for assets. Enhancing visibility in the marketplace by stressing corporate identity elements, new competitive products and elevating service quality through standardisation of operations will continue in 2005.

As we mentioned before in this report, branch organisations are separated into three units: Commercial, Small Business and Retail Marketing and Operations. These units are headed by managers who report to the branch manager. This segmentation allows further specialisation for the needs of different business groups and facilitates the speed and quality of banking services to them. The same structure is reflected at the Head Office level by the Marketing and Support Departments, headed by Assistant General Managers who report to the General Manager. The exceptions are the Credits, Internal Audit and Risk Management Departments, which report directly to the Board. Co-operation between the branches and Head Office are based on workflows aided by temporary and permanent committees constituted through the participation of different branches and departments.

Organisation

The following is an abridged organisational chart of the Head Office:

Marketing	Support
Corporate and Commercial	Internal Audit
Retail	Credits
International	Treasury
	IT
	Financial Affairs
	Operations
	Human Resources

The Corporate and Commercial Banking Department is mainly responsible for streamlining and monitoring the Bank's customer-related assets such as commercial loans and off-balance sheet commitments. Organised into three units, it puts budget targets into effect in close co-operation with the branches and senior management. Officers from The Corporate and Commercial Banking Department also make in an effort to keep pace with developments in the marketplace, as well as to share their views with senior management and different committees such as the ALCO and the Credit Committee.

The Credits Department, as outlined in the loans section of this report, consists of three units that assess and monitor loans and commitments. A measure of this Department's success is evidenced by the low level of non-performing loans. Although a support unit, its officers pay regular visits to the branches as well as to customers when necessary and shares information with other banks and financial institutions.

The Credits Department, in addition to its duty to assess credit applications and assign limits, acts as an adviser to other departments of the Bank as well as to some customers who seek advice on credit assessment and debt management. This enables the Department to have a solution-oriented approach toward customers and facilitates correct evaluation of needs.

Acquiring a date to start accession talks with the EU, declining interest rates, the weakening of the US dollar in international markets, the sustainability of the IMF sponsored stabilisation programme, declining profit margins in all business segments including banking and emphasising small and medium-size companies in lending activities were the major items on the 2004 agenda of the Credits Department.

In 2004, work on customer segmentation was completed and marketing channels as well as credit assessment processes were differentiated according to new segmentation. The segments created were Corporate Business, which was composed of manufacturing companies with annual sales turnover of more than US$ 25 million and multinational companies; Commercial Business with annual sales turnover of between US$ 2 to US$ 25 million and; Small Companies Business with annual sales turnover of less than US$ 2 million. The segmentation has facilitated service quality, speed and accurate assessment of customer needs.

The small business module was initiated and integrated into the banking application software in 2004. The addition of this segment will help the Bank expand its medium-size companies weighted credit portfolio into small businesses from 2005 onward. As before, there will be no concentration on any business lines and only those creditworthy companies, irrespective of their industry and segment, will be assigned credit limits.

Separate credit scorecards are employed for these business segments. All scorecards were developed by the expert staff of Anadolubank and are capable of assessing financial performance (credibility) as well as conformity to ethical rules of business conduct. Additionally, value creation potentials of the customers are measured to help boost profit.

The Retail Banking Department follows a similar approach for the liabilities of the Bank. It is responsible for the management of the Bank's major funding source; customer deposits at an optimal cost, size and diversity. Without targeting the mass market, Anadolubank offers a select group of individuals, who are usually shareholders or executives of the Bank's corporate customers, a wide array of retail banking services and products that include debit and credit cards. Capitalising on cross-selling opportunities is a vital source of client acquisition in Anadolubank's retail banking strategy.

At the end of 2004, ten of the 50 Anadolubank branches were designated as retail branches. The Retail Banking Department at Anadolubank is divided into three units: Deposits and Retail Marketing Unit, Retail Credit Allocation and Risk Follow-up Unit and Credit Cards and Alternative Distribution Channels Unit.

The Deposits and Retail Marketing Unit is responsible for providing guidance and support to the branch offices in the marketing of retail products such as term deposits, mutual funds and credit cards. Additionally, the Unit develops new retail services and products, assisting the branches in their implementation and launch. Co-ordination and marketing of insurance policies by Anadolubank in the capacity of agents to two insurance companies (Başak Sigorta and Aviva) is also overseen by this Unit.

Retail Credit Allocation and Risk Follow-up Unit is responsible for limit allocations and follow-ups for car, housing and consumer loans as well as credit cards. Retail credits consist of car loans (58%), housing loans (15%), credit cards (23%) and consumer loans (4%). Customers are usually owners, executives or employees of Anadolubank's corporate customers. In the upcoming years, the weight of TL-based mortgage loans within the retail loan book is expected to increase following new regulations on mortgage loans.

Credit Cards and Alternative Distribution Channels Unit is responsible for the management of credit card, POS, ATM, telephone and Internet banking operations. In 2004, Anadolubank's credit cards (Visa and MasterCard) in active use, totalling 75,000, achieved a turnover of TL 154 trillion; an 18% increase over the figure for 2003. In addition to regular credit cards, Anadolubank is also offering co-branded and affinity credit cards issued through agreements made with various associations and Chambers of Commerce. Additionally, region-specific credit cards are also launched. Profitability in credit card operations increased 129% over the previous year.

At the end of 2004, the total of debit cards issued reached 47,535, representing an increase of 42% over the end of 2003. Anadolubank's debit cards (Maestro and Electron) can be used at ATMs located in 50 Anadolubank branches plus two off-site Anadolubank ATMs as well as at ATMs belonging to the Ortak Nokta banks (Ortak Nokta is an ATM sharing venture among 16 banks in Turkey). As a member of the "Ortak Nokta" group, Anadolubank is able to reach all parts of Turkey and the Turkish Republic of Northern Cyprus.

Anadolubank launched its Internet banking operations in January 2004 and by the end of the year active usage reached 65%. Additionally in 2004, the Bank added a voice-response system to its Call Centre services where customers may obtain information on their account statements and credit cards. Buying and selling mutual funds through the ATMs on a 7/24 basis was added as a new feature in 2004. The Platinum card was launched and credit card acquiring services began in 2004 with the installation of POS terminals at member merchants. Platinum Card holders are given a Priority Pass Card which enables them to have access to VIP lounges located at 450 airports across the world.

Anadolubank offers three types of mutual funds, each catering to different investor risk-taking appetites. Aiming to provide the highest return in each category, Anadolubank follows an asset management strategy that is focused on efficiency and transparency. Sales of Treasury bills and government bonds, repo transactions and automatic payment orders are also included in the retail product range.

The Retail Banking Department is currently working on a project that will eliminate the usage of post-dated checks between merchants. The Trade Card, when used by buyers, will give the vendors Anadolubank's payment guarantee while offering the buyers the chance to negotiate price on cash purchases. It will offer vendors additional liquidity and eliminate the burden of collection. This project will be launched by Anadolubank in 2005.

The International Banking Department plays a major role in Anadolubank's trade finance activities, managing the Bank's relationship with 500 correspondents abroad; as of the end of 2004.

The correspondent bank network covers all major economic regions of the globe; mainly located in the USA and Europe. Correspondent banks are usually the region's largest banking institutions with world-wide branches. This network enables Anadolubank also to reach any part of the world where business opportunities exist.

The total foreign trade volume handled by Anadolubank in 2004 reached US$ 2.2 billion, up from US$ 1.7 billion in 2003. The International Banking Department aims to increase the volume further through intensified activities. The Department works together with branches and other departments and offers technical assistance through customer visits. All Anadolubank branches are authorised to handle international transactions and all of these transactions are centralised at the Headquarters for increased efficiency and specialisation.

In July 2004, as a result of the assessment by FitchRatings, the Bank's rating was upgraded to B with stable outlook for both long-term and short-term consideration. Individual and support ratings also improved to D and 4, respectively, allowing further enhanced credit relationships with correspondents around the globe.

Among the highlights of 2004, the US$ 50 million one-year term syndicated loan facility for pre-export financing raised from the international market was of primary significance, appealing to a participant list comprising names with profound expertise in such trade. The deal was successfully closed, even scaling back over-subscription.

The Department prides itself on the close relationships it has developed with foreign correspondents abroad. In an effort to establish mutually beneficial relationships with correspondent banks, the International Banking Department pursues a solution-oriented approach at all times while displaying a detailed point-of-view and offering alternative routes to decisions.

The Bank also has access to the facilities of major Export Credit Agencies such as the US Exim, Hermes, SACE and ERG, as well as CCC, by which the medium and long-term financing requirements of clients due to cross-border trade can be met.

The Internal Audit Department is responsible for the seamless running of the Bank's operations. Risk Committees have already been discussed in previous sections of this report. The Internal Audit Department is made up of seven inspectors and nine assistant inspectors, two of whom are authorised. Additionally, there are two officers and a manager at the Internal Control Centre. In 2004, these two Departments carried out a total of 30,776 hours of on-site inspections at branches and at Head Office departments.

The Treasury Department oversees the asset and liability mix of the Bank through analysing all possible banking risk and market opportunities. With a team of competent treasury experts, the Department provides the basis for the Bank's liquidity. The Treasury Department is comprised of three units: Turkish Lira and Fixed Income Securities Unit, Foreign Currency and Derivatives Unit and Treasury Marketing Unit.

The Department is one of the foremost members of the Bank's Assets & Liabilities Committee. In addition to managing the Bank's liquidity, the Department also oversees the effects of interest and FX rate volatility in domestic and international markets on the Bank's balance sheet.

The Treasury Department is responsible for the daily monitoring of risk that the Bank might encounter with during its routine operations while providing the necessary liquidity to the branches. To accomplish its tasks, the Department trades Turkish lira and foreign currency, Treasury bills, government bonds and other domestic and foreign securities on a spot and term basis. Additionally, the Department actively trades in Turkish and other countries' eurobonds.

Sharing its success in treasury management with its customers, Anadolubank offers its corporate and large-scale customers some tailor-made investment products that may include a combination of deposits, mutual funds, Treasury bills, government bonds, eurobonds, repo, reverse repo, stocks and gold contracts.

The Treasury Department follows domestic and international markets closely for the best possible portfolio mixes while considering the Bank's risk and opportunities prevailing in the markets. The Department benchmarks its products against those of other domestic and international banks and improves its products accordingly while also taking into account risk for the Bank and its customers. Reports containing facts and comments on domestic and international economies are periodically prepared and distributed to branches and customers through the Bank's distribution channels.

In the mutual funds markets, Anadolubank strives to consolidate its position with three highly successful funds. Addressing investors with different risk profiles, B-Type Liquid, B-Type Variable and A-Type Variable funds continuously increase their market share and offer relatively high returns in their respective categories.

Pursuing prudent trading practices, Anadolubank's Treasury Department takes on only calculated risk and manages a diversified portfolio. Product diversification has enabled growth on both sides of the balance sheet. An increased usage of derivative products has enabled more efficiency in current trading portfolios.

The Financial Affairs Department is where the control of all financial data is carried out. Through the management information system (MIS), this Department is extremely

Organisation

important in decision-making processes and assists the senior management in setting strategy. All reporting in the Bank is centralised in this Department. The balance sheet and income statement are compiled daily and departments and branches are supplied with much needed data to help guide them with policy implementation. This Department is responsible for preparing the groundwork for the quarterly performance appraisals of all departments and branches.

The IT Department supports all other departments within the Bank to accomplish their business goals with fast, cost efficient, flexible and user-friendly solutions. Since its inception, Anadolubank has attached great importance to its IT infrastructure and now has one of the most capable and up-to-date IT Departments in the banking industry. The Bank has a Disaster Recovery Centre in Izmir, which is able to conduct all banking activities without interruption in case a disaster occurs affecting the Headquarters in Istanbul.

The Operations Department, in an effort to standardise transactions and rationalise operational costs, has centralised the Bank's major operational processes, including FX, credit, cashier and check settlement transactions. Centralisation facilitates the swift handling of routine banking transactions and helps to foster customer satisfaction through increased service quality. Centralisation greatly reduces the workload of branch offices and allows them to concentrate more on marketing and customer relations.

Human Resources: The Human Resources Department is composed of the Personnel and Training Units. Since human resources are considered Anadolubank's most valued asset, the recruitment process is subject to very carefully designed selection and interview processes, where the senior management is usually involved directly.

Personnel Statistics*

Number of Staff	2004	2003	2002
Headquarters	382	312	256
Branches	717	671	569
Total	1,099	983	825
Number of staff per branch	22	20	17
Male	47%	48%	48%
Female	53%	52%	52%
Educational Backgrounds of the Staff			
Post-Graduate Degree	34	27	18
University Degree	711	609	497
High School Graduate	340	332	298
Primary Education	14	15	12

* Including subsidiaries

At the end of 2004, Anadolubank had a total staff of 1,099, of which 382 served at the Headquarters and 717 at the branches.

Participation in training programmes is actively promoted in the belief that training is the only way to foster both personal and corporate development and enhancement. Participants in training programmes and length of training are determined through a well-planned yearly survey of training requirements. Training programmes cover a number of diverse subjects that enhance the technical capacity and personal competence of the staff. In 2004, 83,437 hours of training were given to a total number of 3,897 participants. A total of 288 training programmes were conducted, of which 145 were organised in-house and 143 were led by professional training institutions. The number of training hours per staff increased to 80.2 hours per staff, up by 105% over figures from the previous year.

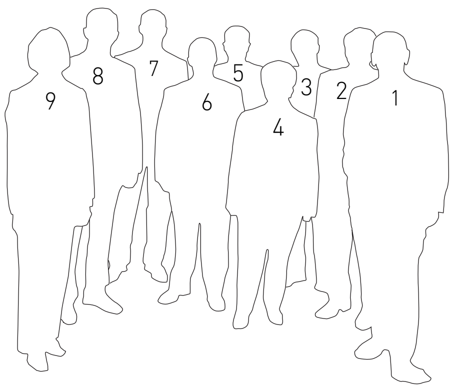
The Bank aims to create a team of bankers who are up-to-date in their knowledge of the profession and multi-dimensional in their careers. Anadolubank always favours filling vacant positions from within their ranks, preparing its personnel to be ready for the upper ranks when the time comes.

Training Statistics

	Number of Training Programmes		Number of Participants		Number of Training Hours	
	2004	2003	2004	2003	2004	2003
In-house training	145	110	3,590	2,226	78,926	34,755
External training	143	87	307	140	4,511	1,925
Total	**288**	**197**	**3,897**	**2,366**	**83,437**	**36,680**

Executive Management

1) Pulat AKÇİN, Vice Chairman and General Manager, **2) Hakan ATİTÜRK,** Assistant General Manager - Corporate Banking, **3) İsmet DEMİR,** Assistant General Manager - Human Resources and Internal Audit, **4) Merih YURTKURAN,** Assistant General Manager - International Banking, **5) Cem ATİK,** Coordinator - Information Technologies, **6) Cengiz DOĞRU,** Assistant General Manager - Operations, **7) B. Gökhan GÜNAY,** Assistant General Manager - Treasury, **8) Zafer AYBARTÜRK,** Assistant General Manager - Financial Affairs, **9) Çiğdem ÖZKARDEŞ,** Assistant General Manager - Retail Banking.



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

Ernst & Young

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To the Board of Directors of
Anadolubank Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Anadolubank 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

The consolidated financial statements of the Group as of and for the year ended December 31, 2003 were audited by other auditors, who in their report dated February 18, 2004, expressed an unqualified opinion on such financial statements.

During 2003 and 2004 and subsequently in January 2005, the Bank sold a percentage of its held-to-maturity investment securities portfolio held at the beginning of the respective years. Based on the provisions of IAS 39 (Financial Instruments: Recognition and Measurement), an entity is not allowed to classify any financial assets as held-to-maturity if the entity has, during the current financial year or the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than the specific exceptions provided in the Standard. The Standard does not set a specific percentage to define insignificant. In our view, the track record of the sales made by the Bank from its held-to-maturity investment securities portfolio during 2003, 2004 and 2005 indicate that the Bank stands ready to sell its held-to-maturity investment securities in response to changes in market interest rates, and therefore, the positive intention to hold these securities to maturity does not exist. Consequently, we believe that the entire held-to-maturity portfolio of the Group reflected in the accompanying consolidated financial statements should be reclassified as available-for-sale and be subjected to the measurement criteria of available-for-sale securities. Had such reclassification been made and the effect of this reclassification been reflected to the measurement of those securities as of December 31, 2004, the carrying value of the Group's investment securities portfolio would be higher by approximately TL 34 trillion and the total equity would be higher by approximately TL 24 trillion, net of tax effect. These provisions do not apply to banks operating in Turkey for regulatory reporting purposes if they sell, during any year, up to 5% of their securities that are classified as held-to-maturity at the end of the preceding year as such amount is considered insignificant according to the regulations issued by the Turkish Banking Regulation and Supervision Agency (BRSA). The amounts sold by the Bank are within this limit.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2004 and the consolidated results of their operations and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we would like to draw attention to the following matter:

As explained in more detail in Note 20, the Bank has filed a lawsuit in order to net-off prior year losses arising primarily from the first time application of inflation accounting starting from the taxable profit of 2003 onwards and such lawsuit was finalized in favor of the Bank within the year 2004 but the decision of the court was appealed by the Ministry of Finance. Following the verdict of the court, the Bank has recorded the amount paid as corporation tax of the year 2003, as income and calculated its 2004 corporation tax considering the remaining part of the prior year losses. As of the date of this report, the final decision of the Court of Appeals regarding the case appealed by the Ministry of Finance is uncertain.

Ernst & Young

February 15, 2005
Istanbul, Turkey

Anadolubank Anonim Şirketi

CONSOLIDATED BALANCE SHEET

As at December 31, 2004

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

	Notes	2004	2003
ASSETS			
Cash and balances with the Central Bank	3	228,216	52,226
Deposits with banks and other financial institutions	3	87,967	210,369
Other money market placements	3	-	79,883
Reserve deposits at the Central Bank	4	86,729	90,475
Trading securities	5	302,916	173,527
Investment securities	5	451,997	559,183
Originated loans and advances	6	854,725	667,821
Derivative financial instruments	14	3,394	719
Property and equipment	7	17,455	18,367
Intangible assets	8	136	215
Deferred tax asset	13	5,452	-
Other assets	9	7,611	4,664
Total assets		**2,046,598**	**1,857,449**
LIABILITIES AND EQUITY			
Deposits from other banks	10	56,344	24,817
Customers' deposits	10	1,298,036	1,372,468
Other money market deposits	10	362,727	180,247
Funds borrowed	11	132,911	129,234
Derivative financial instruments	14	262	424
Other liabilities and provisions	12	34,680	27,834
Deferred tax liability	13	-	816
Income taxes payable	13	194	5,535
Total liabilities		**1,885,154**	**1,741,375**
Minority interest		**886**	**687**
Share capital issued	15	98,357	160,819
Other reserves and accumulated profits	16	62,201	(45,432)
Total equity		**160,558**	**115,387**
Total liabilities and equity		**2,046,598**	**1,857,449**

The accompanying policies and explanatory notes on pages 42 through 76 form an integral part of the consolidated financial statements.

Anadolubank 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		133,757	126,945
Interest on securities		121,946	78,780
Interest on deposits with banks and other financial institutions		8,924	9,003
Interest on other money market placements		2,419	8,204
Other interest income		553	716
Total interest income		**267,599**	**223,648**
Interest expense			
Interest on deposits		(124,752)	(130,834)
Interest on other money market deposits		(44,975)	(29,657)
Interest on funds borrowed		(4,478)	(6,431)
Other interest expense		(215)	(755)
Total interest expense		**(174,420)**	**(167,677)**
Net interest income		**93,179**	**55,971**
Provision for possible loan losses, net of recoveries	6	(5,642)	(7,540)
Net interest income after provision for possible loan losses		**87,537**	**48,431**
Foreign exchange gain		3,145	5,942
Net interest income after foreign exchange gain and provision for possible loan losses		**90,682**	**54,373**
Other operating income			
Fees and commissions income		14,232	9,082
Income from banking services		12,822	8,441
Trading income		16,447	30,127
Other income	19	3,248	10,301
Total other operating income		**46,749**	**57,951**
Other operating expense			
Fees and commissions expense		(3,105)	(1,739)
Salaries and employee benefits	18	(39,015)	(27,539)
Depreciation and amortization	7, 8	(7,117)	(7,049)
Taxes other than on income		(2,952)	(7,597)
Other expenses	19	(22,521)	(25,895)
Total other operating expense		**(74,710)**	**(69,819)**
Profit from operating activities before income tax, monetary loss and minority interest		**62,721**	**42,505**
Income tax provision	13	(1,073)	(16,071)
Monetary loss		(13,884)	(20,283)
Net profit from ordinary activities		**47,764**	**6,151**
Minority interest		(214)	54
Net profit		**47,550**	**6,205**

The accompanying policies and explanatory notes on pages 42 through 76 form an integral part of the consolidated financial statements.

Anadolubank 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	Currency translation differences	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2003	55,000	93,296	-	(52,335)	95,961
Issue of share capital	11,000	1,523	-	-	12,523
Fixed assets revaluation fund	-	-	-	698	698
Net profit for the year	-	-	-	6,205	6,205
At December 31, 2003	**66,000**	**94,819**	**-**	**(45,432)**	**115,387**
Offset of statutory accumulated deficit against adjustment to share capital (Note 15)	-	(62,462)	-	62,462	-
Currency translation differences	-	-	(1,681)	-	(1,681)
Reversal of fixed assets revaluation fund	-	-	-	(698)	(698)
Net profit for the year	-	-	-	47,550	47,550
At December 31, 2004	**66,000**	**32,357**	**(1,681)**	**63,882**	**160,558**

The accompanying policies and explanatory notes on pages 42 through 76 form an integral part of the consolidated financial statements.

Anadolubank Anonim Şirketi
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		
Income before monetary loss and minority interest	61,648	26,434
Deferred taxation	(6,169)	10,536
Provision for loan losses	5,642	7,540
Depreciation and amortization	7,117	7,049
Provision for retirement pay liability and unused vacation pay	2,465	51
Currency translation differences	(1,691)	-
Operating profit before changes in operating assets and liabilities	**69,012**	**51,610**
Changes in operating assets and liabilities		
Deposits with banks	(16,618)	(6,356)
Reserve deposits	(7,253)	4,501
Trading securities	(150,485)	(158,135)
Originated loans and advances	(273,706)	(293,761)
Derivatives	(2,873)	2,255
Other assets	(3,514)	(1,841)
Deposits	331,362	427,721
Other liabilities and provisions	7,765	8,255
Income taxes payable	(4,668)	5,233
Cash provided by (used in) operating activities	**(50,978)**	**39,482**
Cash flows from investing activities		
Net investment in property and equipment, and intangible assets	(6,824)	8,449
Disposal of investment securities including the effect of exchange rate differences	310,945	231,541
Acquisition of investment securities including the effect of exchange rate differences	(271,742)	(158,554)
Cash provided by (used in) investing activities	**32,379**	**81,437**
Cash flows from financing activities		
Proceeds from funds borrowed	336,367	281,829
Repayment of funds borrowed	(316,979)	(207,866)
Cash provided by (used in) financing activities	**19,388**	**73,963**
Effect of monetary gain/(loss) on cash and cash equivalents	(42,930)	(20,270)
Net increase (decrease) in cash and cash equivalents	(42,141)	174,612
Cash and cash equivalents at the beginning of the year	336,122	161,511
Cash and cash equivalents at the end of the year	**293,981**	**336,122**
Interest paid	167,755	166,189
Interest received	262,464	235,463
Income taxes paid	16,962	6,498

The accompanying policies and explanatory notes on pages 42 through 76 form an integral part of the consolidated financial statements.

1. CORPORATE INFORMATION

General

Anadolubank A.Ş. ("the Bank"), has commenced operations pursuant to the permit of Turkish Undersecretariat of Treasury dated August 25, 1997 and numbered 39692 and started its operations on September 25, 1997 in Turkey under the Turkish Banking and Commercial Codes. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No:77 80260 Bomonti-Şişli/İstanbul-TURKEY. The parent and the ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi 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 50 (2003 - 49) branches and 1,036 (2003 –1,010) 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 International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (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 and trading securities. As of December 31, 2004, the Group did not early adopt the changes in IFRS effective for annual periods beginning on or after January 1, 2005.

The Bank and its subsidiary which is 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 prepares 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).

Certain reclassifications were made to the previously reported 2003 financial statements for consistent presentation with those of 2004.

Measurement and Reporting Currency and Translation Methodology

Measurement and Reporting Currency for the Bank and Its Subsidiary Which Operates in Turkey:

Measurement currency of the Bank and its subsidiary which operates 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 on 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 throughout 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 consolidated financial statements as of December 31, 2003, 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 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).

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 and Translation Methodology:

As of December 31, 2004 and 2003, the foreign subsidiary, Anadolubank Offshore Ltd., has adopted USD as its measurement and reporting currency.

The assets and liabilities of the foreign subsidiary are translated at the rate of exchange ruling at the balance sheet date. The income statement of the foreign subsidiary is translated at yearly average exchange rates and indexed to current purchasing power. Differences resulting from the deviation between the inflation rate and the appreciation/depreciation of foreign currencies against the Turkish Lira related to equity and income statement accounts of the consolidated subsidiary are taken to shareholders' equity as currency translation differences.

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 Bank 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.

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 consolidated financial statements 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
Anadolu Yatırım Menkul Kıymetler A.Ş. (Anadolu Yatırım)	Istanbul/Turkey	Brokerage	82.0	82.0
Anadolubank Off-Shore Ltd. (Anadolu Offshore)	Turkish Republic of Northern Cyprus	Banking	99.4	99.4

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 announced by the Central Bank of Turkey (Central Bank). All differences are taken to the income statement as a foreign exchange gain (loss).

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	1,634,501	1,703,477
December 31, 2003	1,395,835	1,745,072
December 31, 2004	1,342,100	1,826,800

Property and Equipment

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

In 2003, the Bank has booked TL 698 of fixed asset revaluation fund considering the expertise reports of the buildings owned by the Bank. Such fund was reversed in 2004, and is not reflected in the financial statements as of December 31, 2004.

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.

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.

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 on a straight-line basis over the best estimate of their useful lives.

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

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 income. 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.

Held-to-Maturity Securities

Investment securities with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

For investments that are actively traded in financial markets, fair value is determined by reference to market 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.

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 over the life of the repurchase agreement.

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. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement.

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.

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.

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 credit risk characteristics loans and receivables that are not found to be impaired on an individual basis.

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. These assets are carried at 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.

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.

Leases

The Group as Lessee

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, fees 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, 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.

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.

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. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	14,120	18,678
Balances with the Central Bank	214,096	33,548
Cash and balances with the Central Bank	**228,216**	**52,226**
Deposits with banks and other financial institutions	**87,967**	**210,369**
Funds lent under reverse repurchase agreements	-	195
Interbank placements	-	79,688
Other money market placements	**-**	**79,883**
Cash and cash equivalents in the balance sheet	**316,183**	**342,478**
Less: Time deposits with original maturities of more than three months	22,202	6,356
Cash and cash equivalents in the cash flow statement	**293,981**	**336,122**

The time deposits with original maturities of more than three months in the table above are held in blocked accounts at several financial institutions for the Credit Default Swap (CDS) agreements made with such financial institutions.

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

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	14	214,082	-	0.99-1.04	15	33,533	16.00	0.41-0.80
Deposits with banks and other financial institutions	40,021	47,946	18.75	1.31-2.11	918	209,451	25.88	1.05-1.87
Funds lent under reverse repurchase agreements	-	-	-	-	195	-	26.50	-
Interbank placements	-	-	-	-	79,688	-	26.00	-
Total	**40,035**	**262,028**			**80,816**	**242,984**		

4. RESERVE DEPOSITS AT THE CENTRAL BANK

	2004	2003
- Turkish lira	20,043	16,603
- Foreign currency	66,686	73,872
Total	**86,729**	**90,475**

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

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

As of December 31, 2004, the interest rates applied for Turkish lira and foreign currency reserve deposits are 12.50% and 0.99% -1.04% (December 31, 2003 – 16.00% and 0.41% - 0.80%), respectively.

5. 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	294,889	19.70 – 29.00	167,815	26.0 - 46.0
Turkish treasury bills	465	18.11 – 20.22	-	-
Foreign currency government bonds	200	6.14 – 7.61	5,712	3.0 - 14.0
Eurobonds issued by the Turkish government	5,573	4.31 – 5.96	-	-
	301,127		**173,527**	
Others				
Equity securities (listed)	1,789	-	-	-
	-		**-**	
Total trading securities	**302,916**		**173,527**	

Investment Securities

	2004		2003	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Held-to-maturity securities at amortized cost				
Debt instruments				
Turkish government bonds	201,468	20.14-29.00	70,479	35.00
Foreign currency government bonds	66,757	5.19	254,819	5.16
Eurobonds issued by Turkish government	146,850	8.20-11.00	151,013	5.00-11.00
Total held-to-maturity securities	**415,075**		**476,311**	
Loans to government at amortized cost				
Debt instruments				
Foreign currency indexed government bonds	36,922	5.68	82,872	4.16
Total loans to government	**36,922**		**82,872**	
Total investment securities	**451,997**		**559,183**	

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

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

	2004	2003
Trading securities	72,240	11,409
Held-to-maturity securities	198,921	196,484

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 (Takasbank - Istanbul Stock Exchange Clearing and Custody Bank Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are TL 74,015 and TL 75,288 (2003 – TL 116,347 and TL 109,043), respectively.

As of December 31, 2003, the Bank kept Turkish government bonds with a nominal value of USD 70,300,000 and a carrying value USD 70,586,768 (TL 112,163) at DemirHalkBank's custody account with Takasbank, for the borrowings obtained from such financial institution (see Note 11).

6. 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	412,743	259,013	128,652	800,408	26.50	6.00	5.46
Consumer loans	34,975	-	8,683	43,658	26.22	-	7.91
Credit cards	15,750	-	-	15,750	54.00	-	-
Total loans	**463,468**	**259,013**	**137,335**	**859,816**			
Loans in arrears				13,985			
Less: Reserve for possible loan losses (*)				(19,076)			
				854,725			

(*) Including TL 5,091 reserve provided on a portfolio basis as of December 31, 2004.

	2003						
	Amount				Effective Interest Rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign currency	Foreign Currency Indexed
Corporate loans	350,818	198,437	82,586	631,841	33.40	5.40	8.27
Consumer loans	28,449	-	-	28,449	32.37	5.50	9.00
Credit cards	11,398	-	-	11,398	76.80	-	-
Total loans	**390,665**	**198,437**	**82,586**	**671,688**			
Loans in arrears				11,460			
Less: Reserve for possible loan losses (*)				(15,327)			
				667,821			

(*) Including TL 3,867 reserve provided on a portfolio basis as of December 31, 2003.

Movements in the reserve for possible loan losses:

	2004	2003
Reserve at beginning of year	15,327	9,352
Provision for possible loan losses	6,651	7,911
Recoveries	(1,009)	(371)
Provision, net of recoveries	5,642	7,540
Loans written off during the year	-	-
Monetary (gain)/loss	(1,893)	(1,565)
Reserve at end of year	**19,076**	**15,327**

As of December 31, 2004, loans and advances on which interest is not being accrued, amounted to TL 13,985 (2003 – TL 11,460). There is no uncollected interest accrued on impaired loans.

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

7. PROPERTY AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office Equipment and Leasehold Improvements	Total
At January 1, 2004, net of accumulated depreciation	4,838	523	13,006	18,367
Additions	-	1,866	5,134	7,000
Disposals	-	(173)	(30)	(203)
Reversal of revaluation	(698)	-	-	(698)
Depreciation charge for the year	(112)	(489)	(6,410)	(7,011)
At December 31, 2004, net of accumulated depreciation	**4,028**	**1,727**	**11,700**	**17,455**
At December 31, 2003				
Cost	5,316	2,237	39,219	46,772
Accumulated depreciation	(478)	(1,714)	(26,213)	(28,405)
Net carrying amount	**4,838**	**523**	**13,006**	**18,367**
At December 31, 2004				
Cost	4,618	3,064	44,199	51,881
Accumulated depreciation	(590)	(1,337)	(32,499)	(34,426)
Net carrying amount	**4,028**	**1,727**	**11,700**	**17,455**

As of December 31, 2004, the cost of fully depreciated property and equipment still in active use is TL 8,005.

8. INTANGIBLES

	Software Licenses and Other
At January 1, 2004, net of accumulated amortization	215
Additions	27
Amortization charge for the year	(106)
At December 31, 2004, net of accumulated amortization	**136**
At December 31, 2003	
Cost	1,684
Accumulated amortization	(1,469)
Net carrying amount	**215**
At December 31, 2004	
Cost	1,711
Accumulated amortization	(1,575)
Net carrying amount	**136**

As of December 31, 2004, the cost of fully amortized intangible assets is TL 1,087.

9. OTHER ASSETS

	2004	2003
Assets held for resale	2,021	2,037
Prepaid expenses	1,781	634
Prepaid tax	608	-
Advances given	7	159
Income accruals	407	149
Others	2,787	1,685
	7,611	**4,664**

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.

10. 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	765	3,252	-	-	194	48	-	-
Time	10,462	41,865	23.00-23.75	2.30-4.68	24,575	-	26.00	-
Total	**11,227**	**45,117**			**24,769**	**48**		

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	18,090	65,994	-	-	25,613	63,731	-	-
Time	349,185	490,628	13.87-31.19	1.00-5.00	259,312	649,764	28.26	3.90–4.00
	367,275	**556,622**			**284,925**	**713,495**		
Commercial and other								
Demand	55,790	111,623	-	-	58,979	39,273	-	-
Time	93,124	113,602	16.75-27.44	1.00-4.99	95,079	180,717	27.39	3.11–4.44
	148,914	**225,225**			**154,058**	**219,990**		
Total	**516,189**	**781,847**			**438,983**	**933,485**		

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

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	-	-	-	-	2,205	-	19.70-29.70	-
-Due to banks	329,996	32,731	18.87-19.83	2.10 – 4.00	113,663	64,379	19.70-29.70	1.74-2.71
Total	**329,996**	**32,731**			**115,868**	**64,379**		

11. 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	8,858	56,658	16.00-40.00	3.63-3.98	11,192	26,670	26.00	1.40-4.51
Medium/long-term								
Fixed interest	-	67,395	-	3.51-5.07	-	91,372	-	3.62-4.54
Total	**8,858**	**124,053**			**11,192**	**118,042**		

On October 14, 2003, the Bank obtained a loan facility of USD 30,000,000 and on November 17, 2003, USD 15,000,000 and EURO 10,000,000 from DemirHalkBank with maturities on November 3, 2004 and June 29, 2004, respectively. The loans were invested in nominal value USD 70,300,000 Turkish government bonds with maturity on December 1, 2004. In accordance with the loan agreement made with DemirHalkBank, the annual interest rate on the loans are 3.68%, 3.62% and 4.54%, respectively, against an annual yield on the bonds of 5.26%. As collateral against this loan, the Bank has pledged Turkish government bonds for a nominal amount of USD 70,300,000 at DemirHalkBank's custody account with Takasbank.

On December 8, 2004, the Bank has obtained TL 67,260 (TL equivalent of USD 50,000,000) syndication loan with a maturity of one year. The arranger of the loan was Bank of New York London and the effective interest rate on such loan was 3.51%.

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

	2004 Fixed rate	2003 Fixed rate
2004	-	91,372
2005	67,395	-
2006	-	-
2007	-	-
Thereafter	-	-
	67,395	**91,372**

12. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions

	2004	2003
Transfer orders	8,430	1,568
Taxes other than on income	6,350	5,323
Employee termination benefits	1,642	294
Other various accruals	810	1,814
Cash collaterals and blockages	452	591
Others	16,996	18,244
	34,680	**27,834**

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, 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.

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

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

	2004
Discount rate	16%
Expected rate of limit increases	10%

Actuarial gains and losses arising from changes in discount rates and expected rates of salary/limit increases that are recognized in the income.

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

At January 1, 2004	**294**
Interest cost	18
Paid during the year	(700)
Increase during the year	2,083
Monetary gain/loss	(53)
At December 31, 2004	**1,642**

13. INCOME TAXES

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%. From 2005 onwards the corporation tax rate will be 30%.

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 and has reflected the tax charge accordingly in the accompanying consolidated financial statements.

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 and revise adjustments 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.

The effective tax rate for offshore subsidiary is 0%.

Major components of income tax expense:

	2004	2003
Consolidated income statement		
Current income tax		
Current income tax charge	11,686	5,535
Recovery of 2003 corporation tax (Note 20)	(4,444)	-
Deferred income tax		
Relating to origination and reversal of temporary differences	(6,095)	11,632
Relating to tax rate changes	(74)	(1,096)
Income tax provision reported in consolidated income statement	**1,073**	**16,071**

The taxes payable and prepaid taxes are detailed below:

	2004	2003
Current taxes payable	11,686	5,535
Prepaid taxes	(11,492)	-
Net balance	**194**	**5,535**

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

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 were as follows:

	2004	2003
Net profit from ordinary activities before income tax and minority interest and after monetary loss	**48,837**	**22,222**
At Turkish statutory income tax rate of 33% as of December 31, 2004 (2003 – 30%)	16,116	6,667
Effect of income not subject to tax	(5,353)	(26,459)
Effect of expenditure not allowable for income tax purposes	520	34,106
Tax benefit of investment allowance	(76)	(447)
Recognition/utilization of tax loss carryforwards (see Note 20 (a)ii)	(4,823)	(9,361)
Recovery of 2003 corporation tax (see Note 20 (a)ii)	(4,444)	-
Effect of restatement, tax rate changes and other, net	(867)	11,565
Income tax provision reported in consolidated income statement	**1,073**	**16,071**

Deferred income tax

Deferred income tax at December 31, 2004 and 2003 are as follows:

	2004	2003
Deferred income tax liabilities		
Valuation differences of premises and equipment, intangibles and assets held for resale	-	2,096
Valuation difference of derivative instruments	940	97
Other	41	-
Gross deferred income tax liabilities	**981**	**2,193**
Deferred income tax assets		
Differences in securities valuation	3,518	-
Valuation differences of premises and equipment, intangibles and assets held for resale	89	-
Employee termination benefits and unused vacation pay liability	817	97
Performance premium accrual	459	-
Loan loss provision on a portfolio basis	1,527	1,276
Other	23	4
Gross deferred income tax assets	**6,433**	**1,377**
Net deferred income tax asset/(liability)	**5,452**	**(816)**

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

At December 31, 2003	(816)
Deferred income tax credit recognized in consolidated income statement	6,169
Monetary gain	99
At December 31, 2004	**5,452**

14. 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 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 month	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	3,362	-	123,131	113,627	3,294	2,351	3,859	-	-
Forward sale contract	-	222	119,367	111,118	3,148	2,013	3,088	-	-
Currency swap purchase	32	-	107,364	107,364	-	-	-	-	-
Currency swap sale	-	40	107,398	107,398	-	-	-	-	-
	3,394	**262**	**457,260**	**439,507**	**6,442**	**4,364**	**6,947**		

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

				2003					
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	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	650	-	119,929	113,859	5,092	489	489	-	-
Forward sale contract	-	355	117,026	110,960	4,992	526	548	-	-
Currency swap purchase	69	-	78,828	77,764	1,064	-	-	-	-
Currency swap sale	-	69	78,803	77,760	1,043	-	-	-	-
Option purchase contract	-	-	3,219	3,219	-	-	-	-	-
Option sale contract	-	-	-	-	-	-	-	-	-
	719	424	397,805	383,562	12,191	1,015	1,037	-	-

15. SHARE CAPITAL

	2004	2003
Number of common shares, TL 1,000 (in full TL), par value Authorized, issued and outstanding 66,000 million;	66,000	66,000

As of December 31, 2004 and 2003, the Bank's historical subscribed and issued share capital was TL 66,000 (historical terms).

There is no increase in share capital of the Bank during 2004. In accordance with the extraordinary general assembly decision dated December 31, 2003 the Bank's share capital was increased from TL 55,000 to TL 66,000.

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	%
Mehmet Rüştü Başaran	19,081	28.91	19,081	28.91
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.	44,796	67.88	44,796	67.88
Güllü Başaran	661	1.00	661	1.00
Other shareholders	1,462	2.21	1,462	2.21
Historical amount	66,000	100.00	66,000	100.00
Restatement effect	32,357		94,819	
	98,357		160,819	

TL 62,462 of statutory accumulated deficit of the Bank coming from December 31, 2002 was offset against the adjustment to share capital in 2004. Such offset was reflected to the IFRS financial statements in 2004.

16. 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 1,127 (2003 – TL 192).

The statutory general reserve (TL nil) and statutory current year profit (TL 43,165) 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 shareholders expected to be held in April 2005.

17. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 67.9% (2003 – 67.9%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

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

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

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	901	1,722	43,510	15,039	290	7,914	49	105
	2003	2,219	401	98,108	-	-	3,373	-	-
Others	2004	11,957	45	34,846	-	408	137	-	-
	2003	19,423	1,992	12,590	-	-	923	-	-
Directors' interests	2004	91	-	776	-	7	4	-	-
	2003	102	-	564	-	-	-	-	-

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

Directors' Remuneration

The key management (nine executives including the general manager) and the members of the Board of Directors received remuneration and fees totaling TL 2,158 (2003 – TL 1,590).

18. SALARIES AND EMPLOYEE BENEFITS

	2004	2003
Staff costs		
Wages and salaries	26,806	20,224
Cost of defined contribution plan		
(employer's share of social security premiums)	4,525	3,180
Other fringe benefits	5,601	3,826
Provision for employee termination benefits	2,083	309
Total	**39,015**	**27,539**

The average number of employees during the year is:

	2004	2003
The Bank	1,026	936
Subsidiaries	25	28
Total	**1,051**	**964**

19. OTHER INCOME/OTHER EXPENSES

Other income

	2004	2003
Communication income	1,428	1,420
Collections from sales of assets	315	12
Stamp tax income	65	4,598
Others	1,440	4,271
Total	**3,248**	**10,301**

Other expenses

	2004	2003
Operating lease charges	6,025	4,842
Transportation expenses	1,199	932
Saving Deposit Insurance Fund premium	3,084	6,187
Communication expenses	3,467	2,872
Maintenance expenses	721	576
Office supplies	865	893
Energy costs	917	835
Various administrative expenses	6,243	8,758
Total	**22,521**	**25,895**

20. 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 guarantee	438,876	370,612
Letters of credit	243,032	129,417
Acceptance credits	14,375	14,377
Other guarantees	29,563	-
Total non-cash loans	725,846	514,406
Credit card limit commitments	74,423	87,985
Other commitments	199,004	122,748
	999,273	**725,139**

Other commitments include the purchase commitments of Turkish government Eurobonds amounting to TL 73,816 (USD 55,000,000), arising from the CDS agreements made with various financial institutions.

Litigations

a) The Bank

i) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of USD 3,250,000 (initially USD 14,750,000, USD 11,500,000 of which was dropped) plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management do not consider that there will be any probable loss.

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

ii) The Bank has filed a lawsuit in order to net-off prior year losses arising primarily from the first time application of inflation accounting starting from the taxable profit of 2003 onwards, according to the Corporation Tax Law article 14/7. Such lawsuit was finalized in favor of the Bank within the year 2004 but the decision of the court was appealed by the Ministry of Finance. Following the verdict of the court, the Bank has booked TL 4,444, the amount paid by the Bank as corporation tax of the year 2003, as income. Moreover, the remaining part of the prior year losses, which is TL 14,614, was netted off from the corporation tax base of the year 2004. The Bank has offset TL 3,839 (out of TL 4,444) from the fourth quarter's (2004) temporary tax which was declared for payment at February 15, 2005. As of the date of preparation of these financial statements, the final decision of the Court of Appeals regarding the case appealed by the Ministry of Finance is uncertain.

iii) In addition to the above mentioned cases, there are 27 other law cases opened against the Bank, claims of which in total amount to TL 333. The Bank management does not foresee any provisions for these law cases.

b) The Subsidiaries

There are 5 law cases opened against Anadolu Yatırım, claims of which in total amount to 1,764. As of December 31, 2004 TL 87 expense provision is booked for such law cases.

Commitments Under Operating Leases

As of December 31, 2004, future minimum rentals payable under non cancelable operating leases are as follows:

	2004	2003
Within one year	1,247	1,063
After one year but not more than five years	4,241	3,469
More than five years	197	294
Total	**5,685**	**4,826**

Other

The Group manages three open-ended investment funds which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. For the year ended December 31, 2004, the Bank has obtained TL 3,647 management see from such investment funds (2003 – TL 2,091).

21. FINANCIAL RISK MANAGEMENT

General

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

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

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

Credit Risk

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

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

Anadolubank Risk Rating Module is based on both qualitative and quantitative criteria and used in credit decisions as well as pricing. The performance of the ratings are monitored by the Risk Management Group who intensively works on establishing Basel 2 compliant systems.

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

Sectoral breakdown of cash and non-cash loans is as follows:

	2004		2003	
	Cash	Non-cash	Cash	Non-cash
Textiles	14.7	9.0	18.2	10.5
Domestic trade	13.0	16.0	7.6	14.6
Metal and mining	10.1	13.1	5.8	7.0
Consumer loans	8.1	0.0	5.9	0.0
Construction	6.1	13.6	3.8	14.2
Service	6.0	2.4	1.3	2.8
Non-bank financial institutions	5.7	3.5	12.3	0.4
Chemical	5.6	1.9	8.4	3.7
Food	5.3	4.3	12.5	6.8
Agriculture	4.8	3.1	1.1	4.7
Iron & steel	4.0	6.7	9.6	7.3
Export	3.3	2.5	2.1	1.9
Electronics	2.6	2.9	1.3	1.0
Automotive	2.6	2.6	0.4	3.4
Finance	0.7	9.5	0.4	9.0
Other	7.4	8.9	9.3	12.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

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

Liquidity Risk

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

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

	Up to 1 Month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
As at December 31, 2004						
Assets						
Cash and balances with the Central Bank	228,216	-	-	-	-	228,216
Deposits with banks and other financial institutions	65,765	-	22,202	-	-	87,967
Reserve deposits at the Central Bank	86,729	-	-	-	-	86,729
Trading securities	1,896	2,852	40,794	33,146	224,228	302,916
Investment securities	58,509	-	-	-	393,488	451,997
Originated loans and advances	230,828	292,929	135,912	126,438	68,618	854,725
Derivative financial instruments	2,758	94	197	345	-	3,394
Property and equipment	-	-	-	-	17,455	17,455
Intangible assets	-	-	-	-	136	136
Deferred tax asset	-	-	-	-	5,452	5,452
Other assets	2,862	-	941	-	3,808	7,611
Total assets	**677,563**	**295,875**	**200,046**	**159,929**	**713,185**	**2,046,598**
Liabilities						
Deposits from other banks	42,912	-	-	13,432	-	56,344
Customers' deposits	979,734	296,181	9,238	12,880	3	1,298,036
Other money market deposits	335,392	-	-	27,335	-	362,727
Funds borrowed	23,387	22,510	75,932	11,082	-	132,911
Derivative financial instruments	262	-	-	-	-	262
Other liabilities and provisions	25,209	6,722	25	-	2,724	34,680
Income taxes payable	-	194	-	-	-	194
Total liabilities	**1,406,896**	**325,607**	**85,195**	**64,729**	**2,727**	**1,885,154**
Net liquidity gap (*)	**(729,333)**	**(29,732)**	**114,851**	**95,200**	**710,458**	**161,444**
As at December 31, 2003						
Total assets	673,815	227,484	162,893	403,940	389,317	1,857,449
Total liabilities	1,284,118	300,063	88,623	66,850	1,721	1,741,375
Net liquidity gap (*)	**(610,303)**	**(72,579)**	**74,270**	**337,090**	**387,596**	**116,074**

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

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

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

Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at December 31, 2004, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

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

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

	Turkish Lira	U.S. Dollar	Euro	Japanese Yen	Others	Total
As at December 31, 2004						
Assets						
Cash and balances with the Central Bank	3,500	180,558	43,937	-	221	228,216
Deposits with banks and other financial institutions	40,021	43,310	3,986	12	638	87,967
Reserve deposits at the Central Bank	20,043	66,686	-	-	-	86,729
Trading securities	297,142	5,542	232	-	-	302,916
Investment securities	201,468	250,529	-	-	-	451,997
Originated loans and advances	458,377	283,243	113,105	-	-	854,725
Derivative financial instruments	3,394	-	-	-	-	3,394
Premises and equipment	17,408	47	-	-	-	17,455
Intangible assets	136	-	-	-	-	136
Deferred tax asset	5,452	-	-	-	-	5,452
Other assets	5,406	2,205	-	-	-	7,611
Total assets	**1,052,347**	**832,120**	**161,260**	**12**	**859**	**2,046,598**
Liabilities						
Deposits from other banks	11,227	36,086	9,031	-	-	56,344
Customers' deposits	516,189	582,035	196,107	1	3,704	1,298,036
Other money market deposits	329,996	32,731	-	-	-	362,727
Funds borrowed	8,858	111,139	12,914	-	-	132,911
Derivative financial instruments	262	-	-	-	-	262
Other liabilities and provisions	26,248	7,606	826	-	-	34,680
Income taxes payable	194	-	-	-	-	194
Total liabilities	**892,974**	**769,597**	**218,878**	**1**	**3,704**	**1,885,154**
Net on-balance sheet position	**159,373**	**62,523**	**(57,618)**	**11**	**(2,845)**	**161,444**
Off-balance sheet position						
Net notional amount of derivatives	9,947	(63,907)	54,893	82	2,715	3,730
Non-cash loans	332,382	286,910	104,678	383	1,493	725,846
At December 31, 2003						
Total assets	**730,451**	**982,299**	**141,123**	**352**	**3,224**	**1,857,449**
Total liabilities	**618,976**	**928,411**	**189,922**	**908**	**3,158**	**1,741,375**
Net on balance sheet position	**111,475**	**53,888**	**(48,799)**	**(556)**	**66**	**116,074**
Net notional amount of derivatives	**4,634**	**(24,318)**	**25,511**	**(58)**	**(2,841)**	**2,928**
Non-cash loans	**355,952**	**129,337**	**26,789**	**1,638**	**690**	**514,406**

Interest Rate Risk

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

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
As at December 31, 2004							
Assets							
Cash and balances with the Central Bank	212,067	-	-	-	-	16,149	228,216
Deposits with banks and other financial institutions	60,859	-	22,202	-	-	4,906	87,967
Reserve deposits at the Central Bank	86,729	-	-	-	-	-	86,729
Trading securities	32,535	42,653	62,958	718	162,263	1,789	302,916
Investment securities	58,509	-	103,689	-	289,799	-	451,997
Originated loans and advances	392,399	185,597	91,994	116,117	68,618	-	854,725
Derivative financial instruments	3,394	-	-	-	-	-	3,394
Property and equipment	-	-	-	-	-	17,455	17,455
Intangible assets	-	-	-	-	-	136	136
Deferred tax asset	-	-	-	-	-	5,452	5,452
Other assets	1,938	-	227	-	-	5,446	7,611
Total assets	**848,430**	**228,250**	**281,070**	**116,835**	**520,680**	**51,333**	**2,046,598**
Liabilities							
Deposits from other banks	38,895	-	-	13,432	-	4,017	56,344
Customers' deposits	728,237	296,181	9,238	12,880	3	251,497	1,298,036
Other money market deposits	335,392	-	-	27,335	-	-	362,727
Funds borrowed	23,387	22,510	75,932	11,082	-	-	132,911
Derivative financial instruments	262	-	-	-	-	-	262
Other liabilities and provisions	-	-	-	-	-	34,680	34,680
Income tax payable	-	-	-	-	-	194	194
Total liabilities	**1,126,173**	**318,691**	**85,170**	**64,729**	**3**	**290,388**	**1,885,154**
On-balance sheet interest sensitivity gap	(277,743)	(90,441)	195,900	52,106	520,677	(239,055)	161,444
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(277,743)**	**(90,441)**	**195,900**	**52,106**	**520,677**	**(239,055)**	**161,444**
As at December 31, 2003							
Total assets	759,795	366,460	116,052	102,598	168,943	343,601	1,857,449
Total liabilities	976,090	335,632	109,573	65,933	-	254,147	1,741,375
On-balance sheet interest sensitivity gap	(216,295)	30,828	6,479	36,665	168,943	89,454	116,074
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(216,295)**	**30,828**	**6,479**	**36,665**	**168,943**	**89,454**	**116,074**

Operational Risk

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

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

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

The Information Security Management systems, policies and procedures have been established in line with BS7799 principles. The project regarding information security management has been completed and started to be implemented in 2004.

Another project regarding operational risk management was the Business Contingency Planning, most of which has been completed in 2004.

The Bank is planning to renew the whole work-flow processes in 2005, within Basel 2 compliance projects.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2004, the Bank's statutory capital adequacy ratio on an unconsolidated basis is higher than the minimum required by BRSA.

22. 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	854,725	667,821	854,460	667,821
Investment securities	451,997	559,183	487,369	582,528
Financial liabilities				
Customer deposits	1,298,036	1,372,468	1,299,126	1,299,126
Funds borrowed	132,911	129,234	132,719	129,234

Fair values of remaining financial assets and liabilities carried at cost, including deposits with banks and other financial institutions, balances with the Central Bank, reserve deposits at the Central Bank, other money market placements, deposits from other banks and other money market deposits 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 Interest Rates Applied (%)		Funds borrowed	
Currency	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003
Turkish lira	26.50	33.40	23.13	28.60	25.00	26.00
USD	5.99	5.36	3.61	3.72	3.50	3.60
EURO	6.01	5.48	3.60	4.00	4.00	4.50

23. SUBSEQUENT EVENTS

i) As of January 1, 2005, the retirement pay liability ceiling is raised to TL 1.649.

ii) On January 7, 2005, the Bank sold Turkish Eurobonds included in the held-to-maturity portfolio with nominal value of USD 15,900,000 and cost of USD 15,787,587 (TL 21,189), according to the Board of Directors decision dated January 3, 2005.

iii) In January and February 2005, the Bank has closed USD 55,000,000 CDS agreements made with several financial institutions.

iv) The Bank has applied to Capital Markets Board (CMB), in order to start transactions in "Futures and Options Market". As of the date of preparation of these financial statements, the Bank has not started transactions in such market, since the necessary license was not obtained and the necessary technical infrastructure could not be completed.

v) As of February 15, 2005, the prevailing exchange rates for USD and Euro are YTL (full) 1.3089 and 1.6977, respectively.

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