Anadolubank
Anonim Şirketi and Its Subsidiaries

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Anadolubank AŞ and Its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2005
(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	31 December 2005	31 December 2004
ASSETS			
Cash and balances with the Central Bank	1	41,021	234,292
Deposits with banks and other financial institutions	1	94,541	90,309
Interbank money market placements	1	280,210	--
Reserve deposits at the Central Bank	2	107,077	89,038
Financial assets at fair value through profit or loss	3	206,298	310,981
Investment securities	4	414,929	464,031
Loans and receivables	5	1,170,442	882,709
Derivative financial instruments	12	335	3,484
Property and equipment	6	20,433	17,920
Intangible assets		183	139
Deferred tax asset	11	5,370	3,695
Other assets	7	3,723	7,814
Total assets		**2,344,562**	**2,104,412**
LIABILITIES AND EQUITY			
Deposits from other banks	8	200,917	57,844
Customers' deposits	8	1,436,277	1,332,596
Other money market deposits	8	268,731	372,384
Funds borrowed	9	191,409	136,450
Derivative financial instruments	12	152	269
Other liabilities and provisions	10	34,519	34,490
Income taxes payable	11	4,306	199
Total liabilities		**2,136,311**	**1,934,232**
Share capital issued	13	100,976	100,976
Other reserves and accumulated profits	14	106,240	68,397
Total equity attributable to equity holders of the parent		**207,216**	**169,373**
Minority interest		**1,035**	**807**
Total equity		**208,251**	**170,180**
Total liabilities and equity		**2,344,562**	**2,104,412**
Commitments and contingencies	18		

Anadolubank AŞ and Its Subsidiaries
Consolidated Income Statement
For the year ended 31 December 2005
(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	31 December 2005	31 December 2004
Interest income			
Interest on loans and receivables		135,891	137,319
Interest on securities		101,748	125,194
Interest on deposits with banks and other financial institutions		14,118	9,162
Interest on other money market placements		953	2,483
Other interest income		673	568
Total interest income		**253,383**	**274,726**
Interest expense			
Interest on deposits		(118,554)	(128,074)
Interest on other money market deposits		(36,694)	(46,173)
Interest on funds borrowed		(11,968)	(4,597)
Other interest expense		(211)	(221)
Total interest expense		**(167,427)**	**(179,065)**
Net interest income		**85,956**	**95,661**
Fees and commissions income		33,123	27,775
Fees and commissions expense		(4,946)	(3,188)
Net fees and commissions income		**28,177**	**24,587**
Other operating income			
Trading income		15,013	16,886
Foreign exchange gain		13,414	3,229
Other income		4,446	3,334
Total other operating income		**32,873**	**23,449**
Other operating expense			
Salaries and employee benefits	16	(43,748)	(38,940)
Provision for possible loan losses, net of recoveries	5	(4,270)	(4,535)
Depreciation and amortization		(6,208)	(7,307)
Taxes other than on income		(3,770)	(3,032)
Other expenses	17	(29,446)	(23,121)
Total other operating expense		**(87,442)**	**(76,935)**
Income from operations		**59,564**	**66,762**
Income tax provision	11	(15,838)	(1,813)
Loss on monetary position		(5,658)	(14,271)
Net income for the year		**38,068**	**50,678**
Net income for the year attributable to:		**38,068**	**50,678**
Equity holders of the Bank		**37,843**	**50,473**
Minority interest		**225**	**205**

Anadolubank AŞ and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the year ended 31 December 2005
(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Share capital	Adjustment to share capital	Minority Interest	Currency translation differences	Legal reserves and Accumulated profits	Total
Balances at 1 January 2004	66,000	99,102	602	--	(43,759)	121,945
Offset of statutory accumulated deficit against adjustment to share capital	--	(64,126)	--	--	64,126	--
Currency translation differences	--	--	--	(1,726)	--	(1,726)
Reversal of fixed assets revaluation fund	--	--	--	--	(717)	(717)
Net income for the year	--	--	205	--	50,473	50,678
At 31 December 2004	**66,000**	**34,976**	**807**	**(1,726)**	**70,123**	**170,180**
Minority interest resulting from new subsidiary	--	--	3	--	--	3
Net income for the year	--	--	225	--	37,843	38,068
At 31 December 2005	**66,000**	**34,976**	**1,035**	**(1,726)**	**107,966**	**208,251**

Anadolubank AŞ and Its Subsidiaries
Consolidated Cash Flows Statement
For the year ended 31 December 2005
(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	31 December 2005	31 December 2004
Cash flows from operating activities			
Income before monetary loss and minority interest		43,726	64,951
Deferred taxation	11	(1,771)	(5,622)
Provision for loan losses		4,270	4,535
Depreciation and amortization		6,208	7,306
Provision for retirement pay liability and unused vacation pay	10	596	883
Other various accruals		3,220	536
Currency translation differences		--	(1,726)
Operating profit before changes in operating assets and liabilities		**56,249**	**70,863**
Changes in operating assets and liabilities			
Deposits with banks		22,793	(17,060)
Reserve deposits		(20,349)	(7,447)
Financial assets at fair value through profit or loss		96,616	(154,492)
Loans and receivables		(314,900)	(280,995)
Derivatives		2,949	(2,950)
Other assets		3,888	(3,608)
Deposits		188,829	340,187
Other liabilities and provisions		(2,892)	7,972
Income taxes payable		4,112	(4,792)
Cash provided by/(used in) operating activities		**37,295**	**(52,322)**
Cash flows from investing activities			
Net investment in property and equipment, and intangible assets		(8,765)	(7,006)
Disposal of investment securities		77,932	319,226
Acquisition of investment securities		(40,867)	(278,978)
Cash provided by investing activities		**28,300**	**33,242**
Cash flows from financing activities			
Proceeds from funds borrowed		357,157	345,324
Repayment of funds borrowed		(298,658)	(325,420)
Cash provided by financing activities		**58,499**	**19,904**
Effect of monetary loss on cash and cash equivalents		(10,130)	(44,089)
Net increase/(decrease) in cash and cash equivalents		113,964	(43,265)
Cash and cash equivalents at the beginning of the year		301,808	345,073
Cash and cash equivalents at the end of the year	1	**415,772**	**301,808**
Interest paid		152,863	172,222
Interest received		292,505	269,454
Income taxes paid		13,502	17,414

Overview of the Bank

Anadolubank AŞ ("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 Bank provides corporate, commercial and retail banking services through a network of 58 domestic branches. 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 AŞ.

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

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

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

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

The Bank has applied to Banking Regulation and Supervision Agency (BRSA) for founding a bank in Holland on 16 January 2004. As of 31 December 2005, the Bank is in the process of gathering and preparing the documents which are necessary to acquire the banking license in Holland.

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

Significant accounting policies

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

a) Statement of compliance

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

The accompanying consolidated financial statements 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 except for International Accounting Standard (IAS) No. 39 "Financial Instruments: Recognition and Measurement" which is explained in detail in note 4.

The Group adopted all IFRS, which were mandatory as of 31 December 2005. The accompanying consolidated financial statements are authorized for issue by the directors on 15 February 2006.

b) Basis of preparation

Starting from 1 January 2005, the currency unit is set as the New Turkish Lira per the Law on the currency unit of the Republic of Turkey no. 5083 dated 31 January 2004. Six digits have been removed from the Turkish Lira (TL) and one million TL became one YTL.

The accompanying consolidated financial statements are presented in YTL, rounded to the nearest thousand as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29 "Financial Reporting in Hyperinflationary Economies".

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

c) Basis of consolidation

i) Methodology

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

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

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

The major principles of consolidation are as follows:

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

ii) Subsidiaries

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

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			2005	**2004**
Anadolu Yatırım	Istanbul/Turkey	Brokerage	**82.00**	**82.00**
Anadolu Offshore	Turkish Republic of Northern Cyprus	Banking	**99.40**	**99.40**
Anadolu Leasing	Istanbul/Turkey	Leasing	**99.92**	--

d) Accounting in hyperinflationary economies

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the financial statements, requires that consolidated financial statements prepared in the currency of a highly inflationary 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 31 December 2005, the cumulative three-year inflation rate in Turkey has been 33%, based on the countrywide wholesale price indices announced by the Turkish State Institute of Statistics (SIS), which was below the 100% criterion in IAS 29. However, there are other indicators of high inflation in IAS 29, such as preference of people to keep their savings in foreign currency, prices of various services and goods being in foreign currency; correlation of interest rates, wages and prices to general price index level, application of interest on accounts even for short term maturity to offset the decrease in purchasing power. Accordingly, the consolidated financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of YTL as at 31 December 2005 based on IAS 29.

The restatements were calculated by means of conversion factors derived from the producer price indices. Such indices announced by SIS and conversion factors used to restate the consolidated financial information at 31 December 2005 and 2004 are given below:

Dates	**Index**	**Conversion Factors**
31 December 2005	8,627.6	1.000
31 December 2004	8,403.8	1.026

Significant accounting policies (continued)

The basic principles applied in the restatement of the accompanying consolidated financial information is summarized in the following paragraphs.

- Monetary assets and liabilities, which are carried at amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date (31 December 2005).
- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant conversion factors. Additions to bank premises and equipment in the year of acquisitions are restated using the relevant conversion factors.
- The inflation adjusted share capital amount has been derived by indexing each capital increase from the date it was contributed.
- Prior year's consolidated financial information is restated using general inflation indices at the currency purchasing power at the balance sheet date (31 December 2005).
- All items in the income statement are restated by applying the monthly conversion factors except for those amounts deriving from non-monetary items, which are calculated, based on the restated values of the related items.
- The effect of general inflation on the Group's net monetary position is included in the income statement as "Loss on monetary position ".

e) ***Foreign currency***

i) Foreign currency transactions

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

ii) Consolidated financial statements of foreign operations

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

The assets and liabilities of the foreign subsidiary are translated at the rate of exchange ruling at the balance sheet date. The income statement of the foreign subsidiary is translated at yearly average exchange rates. Differences resulting from the translation are recorded to equity as "currency translation differences" until the disposal of such entity.

Significant accounting policies (continued)

f) Property and equipment

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

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

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

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

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

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

g) Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the 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.

Significant accounting policies (continued)

h) Financial instruments

Classification

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

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

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

Available-for-sale assets are financial assets that are not held for trading purposes, loans and receivables to banks and customers, or held to maturity.

Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are recognized on the date at which the purchase of the assets is committed. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity instruments and loans and receivables are recognized on the day they are transferred to the Bank.

Measurement

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

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

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Significant accounting policies (continued)

Fair value measurement principles

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

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

Gains and losses on subsequent measurement

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

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

i) Derecognition of financial instruments

A financial asset is derecognized when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the day they are transferred by the Group.

j) Repurchase transactions

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

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

Significant accounting policies (continued)

k) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

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

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

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

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

l) Income and expense recognition

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

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

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

m) Items held in trust

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

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

n) Reserve for employee severance indemnity

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

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

The principal actuarial assumptions used at 31 December 2005 and 2004 are as follows;

	2005	2004
	%	%
Discount rate	6	10
Expected rate of salary/limit increase	12	16
Turnover rate to estimate the probability of retirement	25	19

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

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2005 is YTL 1,727; at 31 December 2004 it was YTL 1,574. The liability is not funded, as there is no funding requirement.

o) Income taxes

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

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

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

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

p) Offsetting

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

Significant accounting policies (continued)

q) Provisions

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

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

r) Subsequent events

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

Index for the notes to the consolidated financial statements

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

1. CASH AND CASH EQUIVALENTS

	2005	**2004**
Cash on hand	24,917	14,496
Balances with the Central Bank	16,104	219,796
Cash and balances with the Central Bank	**41,021**	**234,292**
Deposits with banks and other financial institutions	94,541	90,309
Interbank money market placements	280,210	--
Cash and cash equivalents in the balance sheet	415,772	324,601
Less: Time deposits with original maturities of more than three months	--	22,793
Cash and cash equivalents in the cash flow statement	**415,772**	**301,808**

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 as at 31 December 2004.

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

	2005				**2004**			
	Amount		**Effective Interest Rate (%)**		**Amount**		**Effective Interest Rate (%)**	
	YTL	**Foreign Currency**	**YTL**	**Foreign Currency**	**YTL**	**Foreign Currency**	**YTL**	**Foreign Currency**
Balances with the Central Bank	907	15,197	10.25	1.1-2.0	14	219,782	--	0.99-1.04
Deposits with banks and other financial institutions	2,069	92,472	14.5-15.0	2.4-4.3	41,087	49,222	18.75	1.31-2.11
Interbank money market placements	280,210	--	14.44	--	--	--	--	--
Total	**283,186**	**107,669**			**41,101**	**269,004**		

2. RESERVE DEPOSITS AT THE CENTRAL BANK

	2005	**2004**
- YTL	41,113	20,577
- Foreign currency	65,964	68,461
Total	**107,077**	**89,038**

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 31 December 2005 and 2004, reserve deposit rates applicable for YTL and foreign currency deposits were 6% and 11%, respectively.

As of 31 December 2005, the interest rates applied for YTL and foreign currency reserve deposits were 10.25% and 1.1% - 2.0% (31 December 2004 – 12.50% and 0.99% - 1.04%), respectively.

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss

	2005		2004	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Debt instruments				
Turkish government bonds	183,636	13.81 – 19.80	302,741	19.70 – 29.00
Turkish treasury bills	16,219	13.87 – 15.81	477	18.11 – 20.22
Eurobonds issued by the Turkish government	6,333	5.50-12.38	5,721	4.31 – 5.96
Foreign currency government bonds	--	--	206	6.14 – 7.61
	206,188		309,145	
Others				
Equity securities (listed)	110	--	1,836	--
Total financial assets at fair value through profit or loss	**206,298**		**310,981**	

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

	2005	2004
Financial assets at fair value through profit or loss	60,928	74,164

4. INVESTMENT SECURITIES

Held to maturity securities

	2005		2004	
	Amount	Effective Interest rate (%)	Amount	Effective Interest rate (%)
Debt instruments				
Turkish government bonds	143,046	21.20	206,832	20.14-29.00
Eurobonds issued by Turkish government	126,881	10.50-11.88	150,760	8.20-11.00
Foreign currency government bonds	109,063	5.68-6.24	68,534	5.19
Foreign currency indexed government bonds	35,939	(a)	37,905	(a)
Total held to maturity securities	**414,929**		**464,031**	

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

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

	2005	2004
Held to maturity securities	225,499	204,217

As of 31 December 2005, the carrying value and the nominal amounts of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are YTL 108,211 and YTL 91,690 (31 December 2004 – YTL 75,986 and YTL 77,293), respectively.

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

4. INVESTMENT SECURITIES (continued)

The Bank has also given the governments bonds with the carrying value of YTL 31,850 and nominal amount of YTL 32,232 (USD 24,000 million) as collateral to Morgan Stanley Bank International Limited for the funds borrowed amounting YTL 27,000.

IAS 39 requires that an entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. The bank had sold more than an insignificant amount of the held to maturity investment before maturity. However, such sales have not violated the tainting rules adopted by the local regulations who has defined the tainting threshold as being the sale of held to maturity securities representing up to 5% of held to maturity investment portfolio in a year. The Bank has continued to reclassify the financial assets as held-to-maturity in spite of the fact that the cumulative selling amount of held to maturity investment up to 31 December 2004 performed by the Bank turned to be more than an insignificant amount per IAS 39 although not violating the local threshold.

Had the Bank applied the tainting rule of IAS 39 which is more conservative than that of the local regulations , the carrying amount of the Group's available-for-sale portfolio would be YTL 451,228 thousand (31 December 2004: YTL 495,857 thousand), total unrealized gains net of tax effect, a component of equity would be by YTL 25,411 thousand (31 December 2004: YTL 22,278 thousand), deferred tax liability would be YTL 10,888 thousand (31 December 2004: YTL 9,548 thousand), and held-to-maturity investments would be nil (31 December 2004: nil) as of 31 December 2005.

5. LOANS AND RECEIVABLES

	2005						
	Amount				**Effective Interest Rate (%)**		
	YTL	**Foreign Currency**	**Foreign Currency Indexed**	**Total**	**YTL**	**Foreign currency**	**Foreign Currency Indexed**
Corporate loans	599,143	294,777	177,374	1,071,294	14.00-30.00	3.70-8.00	3.50-8.00
Consumer loans	35,772	--	42,205	77,977	11.88-23.88	--	6.12-9.60
Credit cards	21,171	--	--	21,171	54.00	--	--
Total loans	**656,086**	**294,777**	**219,579**	**1,170,442**			
Loans in arrears				15,887			
Less: Reserve for possible loan losses				(15,887)			
				1,170,442			

	2004						
	Amount				**Effective Interest Rate (%)**		
	YTL	**Foreign Currency**	**Foreign Currency Indexed**	**Total**	**YTL**	**Foreign Currency**	**Foreign Currency Indexed**
Corporate loans	423,732	265,909	132,078	821,719	26.50	6.00	5.46
Consumer loans	35,907	--	8,914	44,821	26.22	--	7.91
Credit cards	16,169	--	--	16,169	54.00	--	--
Total loans	**475,808**	**265,909**	**140,992**	**882,709**			
Loans in arrears				14,357			
Less: Reserve for possible loan losses				(14,357)			
				882,709			

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

5. LOANS AND RECEIVABLES (continued)

Movements in the reserve for possible loan losses:

	2005	2004
Reserve at beginning of year	14,357	11,765
Provision for possible loan losses	5,474	5,571
Recoveries	(1,204)	(1,036)
Provision, net of recoveries	4,270	4,535
Loans written off during the year	(2,368)	--
Monetary (gain)/loss	(372)	(1,943)
Reserve at end of year	**15,887**	**14,357**

As of 31 December 2005, loans and receivables on which interest is not being accrued, amounted to YTL 15,887 (31 December 2004 – YTL 14,357). There is no uncollected interest accrued on impaired loans.

6. PROPERTY AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office Equipment and Leasehold Improvements	Total
At 1 January 2005, net of accumulated depreciation	4,135	1,773	12,012	17,920
Additions	--	399	8,441	8,840
Disposals	--	(75)	(154)	(229)
Depreciation charge for the year	(74)	(530)	(5,494)	(6,098)
At 31 December 2005, net of accumulated Depreciation	**4,061**	**1,567**	**14,805**	**20,433**
At 31 December 2004:				
Cost	4,742	3,146	45,376	53,264
Accumulated depreciation	(607)	(1,373)	(33,364)	(35,344)
Net carrying amount	**4,135**	**1,773**	**12,012**	**17,920**
At 31 December 2005:				
Cost	4,742	3,470	53,663	61,875
Accumulated depreciation	(681)	(1,903)	(38,858)	(41,442)
Net carrying amount	**4,061**	**1,567**	**14,805**	**20,433**

As of 31 December 2005, the cost of fully depreciated property and equipment are still in active use amounting to YTL 33,433 (31 December 2004 – YTL 8,218).

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

7. OTHER ASSETS

	2005	2004
Prepaid expenses	1,479	1,828
Income accruals	338	418
Assets held for resale	299	2,075
Advances given	24	7
Prepaid tax	--	624
Others	1,583	2,862
Total	**3,723**	**7,814**

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.

8. DEPOSITS

Deposits from other banks

	2005				2004			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Demand	152	136	--	--	785	3,339	--	--
Time	192,320	8,309	13.20-16.50	3.00-4.50	10,740	42,980	23.00-23.75	2.30-4.68
Total	**192,472**	**8,445**			**11,525**	**46,319**		

Customers' deposits

	2005				2004			
	Amount		Effective Interest rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign currency
Saving								
Demand	22,266	51,315	--	--	18,571	67,751	--	--
Time	537,337	508,090	10.00-19.00	1.00-4.85	358,482	503,691	13.87-31.19	1.00-5.00
	559,603	**559,405**			**377,053**	**571,442**		
Commercial and other								
Demand	48,032	82,325	--	--	57,276	114,595	--	--
Time	109,474	77,438	10.00-18.75	1.50-4.75	95,603	116,627	16.75-27.44	1.00-4.99
	157,506	**159,763**			**152,879**	**231,222**		
Total	**717,109**	**719,168**			**529,932**	**802,664**		

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

8. DEPOSITS (continued)

Other money market deposits

	2005				2004			
	Amount		Effective Interest Rate(%)		Amount		Effective Interest Rate(%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign Currency	YTL	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	450	--	12.35-12.82	--	--	--	13.46-14.10	--
-Due to banks	170,280	98,001	13.70-15.25	3.19-4.46	338,782	33,602	14.25-15.95	18.87-9.83
Total	**170,730**	**98,001**			**338,782**	**33,602**		

9. FUNDS BORROWED

	2005				2004			
	Amount		Effective Interest Rate (%)		Amount		Effective Interest Rate (%)	
	YTL	Foreign currency	YTL	Foreign currency	YTL	Foreign Currency	YTL	Foreign currency
Short-term								
Fixed interest	8,081	154,837	4.13-18.00	2.00-6.33	9,094	58,167	16.00-40.00	3.63-3.98
Medium/long term								
Fixed interest	27,022	1,469	9.95	3.89-5.42	--	69,189	--	3.51-5.07
Total	**35,103**	**156,306**			**9,094**	**127,356**		

On 10 August 2005, the Bank has obtained YTL 134,300 (YTL equivalent of USD 100,000,000) syndication loan with a maturity of one year. The arranger of the loan was Bank of New York London and the interest rate on such loan is 4.60%.

On 28 December 2005, the Bank has obtained YTL 27,000 loan with a maturity of 10 years from Morgan Stanley Bank International Limited and the interest rate on such loan was 9.95%.

The Bank repaid YTL 69,051 (YTL equivalent of USD 50,000,000) syndication loan on December 2005.

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

	2005	2004
	Fixed rate	**Fixed rate**
2005	--	69,189
2007	961	--
2008	508	--
2015	27,022	--
Total	**28,491**	**69,189**

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

10. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions

	2005	**2004**
Transfer orders	12,166	8,654
Taxes other than on income	4,171	6,520
Other various accruals	4,051	831
Cash collaterals and blockages	968	464
Retirement pay liability	697	572
Others	12,466	17,449
Total	**34,519**	**34,490**

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

	2005	**2004**
At 1 January	572	429
Interest cost	1	5
Paid during the year	(461)	(719)
Increase during the year	595	877
Monetary gain	(10)	(20)
At 31 December	**697**	**572**

11. INCOME TAXES

Corporate income tax is levied at the rate of 30% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2005. There is an additional tax computed only on the amounts of dividend distribution and is accrued only at the time of such payments. According to the amendments in tax legislations, which are effective from 24 April 2003, no income tax withholding is calculated over the dividends that are distributed to the shareholders from the profits of the years between 1999 and 2002 if these profits are exempted from corporation tax bases of the companies.

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

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

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

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

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

11. INCOME TAXES (continued)

Major components of income tax expense:

	2005	2004
Current income tax		
Current income tax charge	17,609	11,997
Recovery of 2003 corporation tax	--	(4,562)
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,771)	(5,550)
Relating to tax rate changes	--	(72)
Income tax provision reported in consolidated income statement	**15,838**	**1,813**

The taxes payable and prepaid taxes are detailed below:

	2005	2004
Current taxes payable	17,609	11,997
Prepaid taxes	(13,303)	(11,798)
Net balance	**4,306**	**199**

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 year ended 31 December were as follows :

	2005	%	2004	%
Net profit from ordinary activities before income tax and minority interest and after monetary loss	**53,906**		**52,491**	
Taxes on income per statutory tax rate	16,171	30	17,322	33
Effect of income not subject to tax	(1,683)	(3)	(5,496)	(11)
Disallowable expenses	168	--	534	1
Effect of restatement, tax rate changes and other, net	1,557	3	(956)	(2)
Tax benefit of investment allowance	(375)	(1)	(78)	--
Recognition/utilization of tax loss carryforwards	--	--	(4,951)	(9)
Recovery of 2003 corporation tax	--	--	(4,562)	(9)
Provision for taxes on income	**15,838**	**29**	**1,813**	**3**

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

11. INCOME TAXES (continued)

Deferred tax

Deferred tax is at 31 December 2005 and 2004 are as follows:

	2005	2004
Deferred income tax liabilities		
Valuation difference of derivative instruments	55	965
Other	--	42
Deferred tax liabilities	**55**	**1,007**
Deferred income tax assets		
Differences in securities valuation	3,938	3,611
Performance premium accrual	455	471
Employee termination benefits and unused vacation pay liability	368	505
Provision for legal cases	279	--
Valuation differences of premises and equipment, intangibles and assets held for resale	117	91
Provision for credit card bonus	106	--
Other	162	24
Deferred tax assets	**5,425**	**4,702**
Net deferred tax asset	**5,370**	**3,695**

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

	2005	2004
At 1 January	3,695	(2,050)
Deferred income tax credit recognized in the consolidated income statement	1,771	5,622
Monetary gain / (loss)	(96)	123
At 31 December	**5,370**	**3,695**

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

12. DERIVATIVES

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

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at 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.

				2005					
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives held for trading									
Forward purchase contract	97	--	229,798	207,433	19,905	2,180	281	--	--
Forward sale contract	--	152	229,927	207,466	19,990	2,189	281	--	--
Currency swap purchase	238	--	118,246	49,560	68,686	--	--	--	--
Currency swap sale	--	--	118,008	49,586	68,422	--	--	--	--
Total	**335**	**152**	**695,979**	**514,045**	**177,003**	**4,369**	**562**	**--**	**--**

				2004					
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives held for trading									
Forward purchase contract	3,452	--	126,410	116,653	3,382	2,414	3,962	--	--
Forward sale contract	--	228	122,546	114,077	3,232	2,067	3,170	--	--
Currency swap purchase	32	--	110,223	110,223	--	--	--	--	--
Currency swap sale	--	41	110,258	110,258	--	--	--	--	---
Total	**3,484**	**269**	**469,437**	**451,211**	**6,614**	**4,481**	**7,132**	**--**	**--**

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

13. SHARE CAPITAL

	2005	2004
Number of common shares, YTL 0.001 (in full YTL), par value		
Authorized, issued and outstanding 66,000 million;	66,000	66,000

As of 31 December 2005 and 2004, the Bank's historical subscribed and issued share capital was YTL 66,000 (historical terms).

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

	2005		2004	
	Amount	**%**	**Amount**	**%**
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	44,796	67.88	44,796	67.88
Mehmet Rüştü Başaran	19,081	28.91	19,081	28.91
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	34,976		34,976	
Total	**100,976**		**100,976**	

14. LEGAL RESERVES AND ACCUMULATED PROFITS

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of 31 December 2005, the Group's legal reserves, which were included within the other reserves and accumulated profit balance amount to YTL 3,285 (31 December 2004: YTL 1,157).

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

15. 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% (31 December 2004 – 67.9%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

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

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

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	31 December 2005	--	26,276	31,281	20,754	34	372	426	1,334
	31 December 2004	925	1,768	44,668	7,988	297	7,753	51	107
Others	31 December 2005	--	27	189	--	2,897	60	2,508	104
	31 December 2004	12,275	46	35,773	--	419	134	--	--
Directors' interests	31 December 2005	221	--	695	--	8	5	--	--
	31 December 2004	93	--	796	--	7	4	--	--

Directors' Remuneration

The key management (nine executives including the general manager) and the members of the Board of Directors received remuneration and fees totaling YTL 3,010 (31 December 2004:YTL 2,215).

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

16. SALARIES AND EMPLOYEE BENEFITS

	2005	**2004**
Staff costs		
Wages and salaries	31,082	27,520
Cost of defined contribution plan (employer's share of social security premiums)	5,734	4,646
Other fringe benefits	6,336	5,892
Provision for employee termination benefits	596	882
Total	**43,748**	**38,940**

The average number of employees during the year is:

	2005	**2004**
The Bank	1,199	1,053
Subsidiaries	33	26
Total	**1,232**	**1,079**

17. OTHER EXPENSES

Other expenses	**2005**	**2004**
Operating lease charges	6,734	6,186
Advertising expenses	3,899	443
Communication expenses	3,930	3,560
Saving Deposit Insurance Fund premium	1,970	3,166
Transportation expenses	1,551	1,230
Energy costs	982	942
Provision for legal cases	930	--
Office supplies	827	888
Maintenance expenses	692	740
Various administrative expenses	7,931	5,966
Total	**29,446**	**23,121**

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

18. 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:

	2005	2004
Letters of guarantee	562,246	450,561
Letters of credit	179,622	249,503
Acceptance credits	16,356	14,758
Other guarantees	90,975	30,351
Total non-cash loans	849,199	745,173
Credit card limit commitments	142,822	76,405
Other commitments	156,089	204,301
Total	**1,148,110**	**1,025,879**

Other commitments include the purchase commitments of Turkish government Eurobonds amounting to YTL 75,782 as of 31 December 2004 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 does not consider that there will be any probable loss.

ii) The Bank has filed a lawsuit in order to net-off prior year losses arising primarily from the first time application of inflation accounting starting from the taxable profit of 2003 onwards, according to the Corporation Tax Law article 14/7. Such lawsuit was finalized in favor of the Bank within the year 2004 but the decision of the court was appealed by the Ministry of Finance. Following the verdict of the court, the Bank has booked YTL 4,562, the amount paid by the Bank as corporation tax of the year 2003, as income. Moreover, the remaining part of the prior year losses, which is YTL 15,003, was netted off from the corporation tax base of the year 2004. The Bank has offset YTL 3,941 (out of YTL 4,562) from the fourth quarter's (2004) temporary tax which was declared for payment at February 15, 2005. The Bank has offset the remaining prepaid tax amounting to YTL 621 from first quarter's (2005) temporary tax. As of the date of this report, the case appealed by the Ministry of Finance has not been finalized. Based on the opinion of the Bank's legal counsel, it is expected that the ruling of the court of appeals will be in favor of the Bank and as such the realization of income of YTL 4,562 on access taxes paid in 2003 and the deductibility of the losses carried forward amounting YTL 15,003 that are disputed, are virtually certain with reference to a court ruling in favor of another financial institution on the same subject.

iii) In addition to the above mentioned cases, there are 27 other law cases opened against the Bank, claims of which in total amount to YTL 4,480. At 31 December 2005, the Bank management provided YTL 930 for possible losses in law cases.

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

18. COMMITMENTS AND CONTINGENCIES (continued)

b) The Subsidiaries

There are 4 law cases opened against Anadolu Yatırım, claims of which in total amount to YTL 1,764. As of 31 December 2005, YTL 65 expense provision is booked for such law cases.

Commitments Under Operating Leases

As of 31 December 2005 and 2004, future minimum rentals payable under non cancelable operating leases are as follows:

	2005	2004
Within one year	6,111	1,281
After one year but not more than five years	9,227	4,354
More than five years	--	202
Total	**15,338**	**5,837**

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 31 December 2005, the Bank has obtained YTL 4,532 (2004: YTL 3,744) management fee from such investment funds.

19. 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.

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

19. FINANCIAL RISK MANAGEMENT (continued)

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 II 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.

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

	2005		2004	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Non-bank financial institutions	15.8	6.6	5.7	3.5
Domestic trade	13.0	13.0	13.0	16.0
Metal and mining	9.4	14.1	10.1	13.1
Textiles	8.6	7.4	14.7	9.0
Food	6.6	3.9	5.3	4.3
Consumer loans	6.6	0.1	8.1	--
Chemical	6.2	4.8	5.6	1.9
Iron & steel	6.1	5.0	4.0	6.7
Construction	5.7	15.8	6.1	13.6
Agriculture	4.3	3.3	4.8	3.1
Service	4.1	3.5	6.0	2.4
Export	3.4	3.6	3.3	2.5
Automotive	1.3	5.4	2.6	2.6
Finance	1.2	2.4	0.7	9.5
Electronics	1.0	5.2	2.6	2.9
Other	6.7	5.9	7.4	8.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

19. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

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

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

	Up to 1 Month	1 to 3 months	3 to 6 Months	6 to 12 Months	Over 1 years	Total
As at 31 December 2005						
Assets						
Cash and balances with the Central Bank	41,021	--	--	--	--	41,021
Deposits with banks and other financial Institutions	94,541	--	--	--	--	94,541
Interbank money market placements	280,210	--	--	--	--	280,210
Reserve deposits at the Central Bank	83,525	20,266	577	2,709	--	107,077
Financial assets at fair value through profit or loss	195	123,245	43,899	214	38,745	206,298
Investment securities	--	--	35,939	--	378,990	414,929
Loans and receivables	410,993	276,489	176,481	169,539	136,940	1,170,442
Derivative financial instruments	188	146	1	--	--	335
Deferred tax asset	--	--	--	--	5,370	5,370
Other assets	3,723	--	--	--	--	3,723
Total assets	**914,396**	**420,146**	**256,897**	**172,462**	**560,045**	**2,323,946**
Liabilities						
Deposits from other banks	192,254	8,663	--	--	--	200,917
Customers' deposits	1,172,042	218,389	6,353	39,487	6	1,436,277
Other money market deposits	170,731	66,052	--	31,948	--	268,731
Funds borrowed	1,716	145,742	7,451	8,009	28,491	191,409
Derivative financial instruments	138	13	1	--	--	152
Other liabilities and provisions	21,605	1,182	8,909	--	2,823	34,519
Income taxes payable	--	4,306	--	--	--	4,306
Total liabilities	**1,558,486**	**444,347**	**22,714**	**79,444**	**31,320**	**2,136,311**
Net liquidity gap (*)	**(644,090)**	**(24,201)**	**234,183**	**93,018**	**528,725**	**187,635**
As at 31 December 2004						
Total assets	700,820	303,754	205,373	164,189	712,217	2,086,353
Total liabilities	1,444,363	333,153	87,464	66,453	2,799	1,934,232
Net liquidity gap (*)	**(743,543)**	**(29,399)**	**117,909**	**97,736**	**709,418**	**152,121**

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

19. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

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

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

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

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

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 31 December 2005, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

19. FINANCIAL RISK MANAGEMENT (continued)

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

	YTL	U.S. Dollars	Euro	Japanese Yen	Others	Total
As at 31 December 2005						
Assets						
Cash and balances with the Central Bank	6,319	18,794	14,965	--	943	41,021
Deposits with banks and other financial institutions	2,069	52,347	37,984	103	2,038	94,541
Interbank money market placements	280,210	--	--	--	--	280,210
Reserve deposits at the Central Bank	41,113	65,964	--	--	--	107,077
Financial assets at fair value through profit or loss	199,965	6,326	7	--	--	206,298
Investment securities	143,046	271,883	--	--	--	414,929
Loans and receivables	656,086	424,523	89,833	--	--	1,170,442
Derivative financial instruments	335	--	--	--	--	335
Premises and equipment	20,390	42	1	--	--	20,433
Intangible assets	183	--	--	--	--	183
Deferred tax asset	5,370	--	--	--	--	5,370
Other assets	3,272	36	414	--	1	3,723
Total assets	**1,358,358**	**839,915**	**143,204**	**103**	**2,982**	**2,344,562**
Liabilities						
Deposits from other banks	192,472	1,484	6,961	--	--	200,917
Customers' deposits	717,109	498,573	216,615	1	3,979	1,436,277
Other money market deposits	170,730	98,001	--	--	--	268,731
Funds borrowed	35,103	148,407	7,899	--	--	191,409
Derivative financial instruments	152	--	--	--	--	152
Other liabilities and provisions	25,087	3,378	6,052	--	2	34,519
Income taxes payable	4,306	--	--	--	--	4,306
Total liabilities	**1,144,959**	**749,843**	**237,527**	**1**	**3,981**	**2,136,311**
Net on-balance sheet position	**213,399**	**90,072**	**(94,323)**	**102**	**(999)**	**208,251**
Off-balance sheet position						
Net notional amount of derivatives	(3,663)	(92,683)	95,009	(88)	1,534	109
Non- cash loans	432,993	153,246	259,749	1,475	1,736	849,199
As at 31 December 2004						
Total assets	1,083,684	854,280	165,554	12	882	2,104,412
Total liabilities	915,629	790,092	224,707	1	3,803	1,934,232
Net on balance sheet position	168,055	64,188	(59,153)	11	(2,921)	170,180
Net notional amount of derivatives	10,212	(65,609)	56,355	84	2,787	3,829
Non-cash loans	341,233	294,551	107,466	393	1,533	745,176

(Currency – Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

19. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

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

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non interest bearing	Total
As at 31 December 2005							
Assets							
Cash and balances with the Central Bank	4	--	--	--	--	41,017	41,021
Deposits with banks and other financial institutions	86,114	--	--	--	--	8,427	94,541
Interbank money market placements	280,210	--	--	--	--	--	280,210
Reserve deposits at the Central Bank	83,525	20,266	577	2,709	--	--	107,077
Financial assets at fair value through profit or loss	79	123,277	43,898	214	38,714	116	206,298
Investment securities	--	41,795	103,206	--	269,928	--	414,929
Loans and receivables	636,599	137,219	99,339	164,101	133,184	--	1,170,442
Derivative financial instruments	188	146	1	--	--	--	335
Property and equipment	--	--	--	--	--	20,433	20,433
Intangible assets	--	--	--	--	--	183	183
Deferred tax asset	--	--	--	--	--	5,370	5,370
Other assets	--	--	--	--	--	3,723	3,723
Total assets	**1,086,719**	**322,703**	**247,021**	**167,024**	**441,826**	**79,269**	**2,344,562**
Liabilities							
Deposits from other banks	191,881	8,663	--	--	--	373	200,917
Customers' deposits	968,102	218,389	6,353	39,487	6	203,940	1,436,277
Other money market deposits	170,731	66,052	--	31,948	--	--	268,731
Funds borrowed	1,716	145,742	7,451	8,009	28,491	--	191,409
Derivative financial instruments	138	13	1	--	--	--	152
Other liabilities and provisions	--	--	--	--	--	34,519	34,519
Income tax payable	--	--	--	--	--	4,306	4,306
Total liabilities	**1,332,568**	**438,859**	**13,805**	**79,444**	**28,497**	**243,138**	**2,136,311**
On balance sheet interest sensitivity gap	(245,849)	(116,156)	233,216	87,580	413,329	(163,869)	208,251
Off balance sheet interest sensitivity gap	--	--	--	--	--	--	--
Total interest sensitivity gap	**(245,849)**	**(116,156)**	**233,216**	**87,580**	**413,329**	**(163,869)**	**208,251**
As at 31 December 2004							
Total assets	871,020	234,327	288,553	119,945	534,543	56,024	2,104,412
Total liabilities	1,156,157	326,063	87,437	66,452	3	298,120	1,934,232
On balance sheet interest sensitivity gap	(285,137)	(91,736)	201,116	53,493	534,540	(242,096)	170,180
Off balance sheet interest sensitivity gap	--	--	--	--	--	--	--
Total interest sensitivity gap	**(285,137)**	**(91,736)**	**201,116**	**53,493**	**534,540**	**(242,096)**	**170,180**

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.

19. FINANCIAL RISK MANAGEMENT (continued)

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 complete the whole work-flow processes in 2006, within Basel II 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 31 December 2005, the Bank’s statutory capital adequacy ratio on a consolidated basis is higher than the minimum required by BRSA.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown sings of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

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

Fair value of security investments is YTL 451,228 (31 December 2004: YTL 495,857), whereas the carrying amount is YTL 414,929 (31 December 2004: YTL 464,031) in the accompanying consolidated balance sheet as at 31 December 2005.

21. SUBSEQUENT EVENTS

Funds borrowed

On 25 January 2006, the Bank signed a two year loan facility contract amounting YTL 60,000 at an interest rate of 12.45% by giving, the governments bonds with the carrying value of YTL 69,399 and nominal amount of YTL 69,164 (USD 51,500 million) as collateral to Morgan Stanley Bank International Limited.

Tax

For the year ended 31 December 2005, the corporate tax rate on income is 30%.

As stated in "Corporate Tax Law Preliminary Draft" announced by Ministry of Finance, it has been proposed to reduce the corporate tax rate from 30% to 20% to be applied to the taxable periods beginning from 1 January 2006 if the law is enacted

Hence, when the above mentioned corporate tax law draft comes into force, the corporate tax rate to be applied in 2006 will be 20%.