

**Turk Ekonomi Bankasi
Anonim Sirketi**

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

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Turk Ekonomi Bankasi Anonim Sirketi:

We have audited the accompanying financial statements of Turk Ekonomi Bankasi Anonim Sirketi (the Bank- a Turkish corporation) and its subsidiaries (collectively the Group), which comprise the consolidated balance sheet as of December 31, 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

As explained in greater detail in Note 2 to the consolidated financial statements, the Group has ceased the application of restatement pursuant to IAS 29 (Financial Reporting in Hyperinflationary Economies) effective from January 1, 2005 (although the Group had previously issued condensed financial statements as of and for the one-month period ended January 31, 2005 with restatement pursuant to IAS 29) which practice, in our opinion, is not in accordance with the provisions of IAS 29, because although the cumulative inflation rate over the three years ended December 31, 2005 is lower than 100%, Turkey should be considered hyperinflationary for financial reporting purposes until January 1, 2006 as other criteria characterizing hyperinflation described in the Standard continued to be applicable during 2005. The estimated effects of not restating the consolidated financial statements to be expressed in the equivalent purchasing power of New Turkish Lira as of December 31, 2005 based on the change in Producers' Price Index published by the State Institute of Statistics, have been to decrease total equity as of December 31, 2005 by approximately YTL 1 million and to increase net profit for the year then ended by approximately YTL 9 million. Also, had the 2004 financial statements presented as corresponding figures in the accompanying financial statements been restated to the equivalent purchasing power of New Turkish Lira as of December 31, 2005, total assets and total equity as of December 31, 2004 and net profit for the year then ended would be higher by approximately YTL 131 million, YTL 11 million and YTL 2 million, respectively.

In our opinion, except for the effects on the consolidated financial statements and corresponding figures of non-application of restatement pursuant to IAS 29 effective from January 1, 2005 as described in the third paragraph above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 13, 2006
Istanbul, Turkey

Turk Ekonomi Bankasi Anonim Sirketi

**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2005
(Currency - In thousands of New Turkish Lira)**

	Notes	2005	2004
ASSETS			
Cash and balances with central banks	4	270,503	856,404
Deposits with banks and other financial institutions	4	964,911	823,778
Other money market placements	4	156,538	95,666
Reserve deposits at central banks	5	316,924	211,860
Trading securities	6	47,383	8,963
Derivative financial instruments	18	6,228	6,890
Loans and advances	7	3,479,462	2,058,466
Factoring receivables	8	166,309	124,010
Minimum lease payments receivable	9	211,556	189,105
Investment securities:			
- Available-for-sale	6	302,238	211,837
- Held-to-maturity	6	11,809	75,373
Loaned securities	6	859,820	158,467
Investment in associates	10	1,536	656
Premises and equipment	11	61,470	49,310
Intangible assets	12	5,625	3,913
Deferred tax asset	17	15,552	8,708
Other assets	13	27,632	18,436
Total assets		6,905,496	4,901,842
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	14	119,302	109,391
Customers' deposits	14	4,201,181	3,165,817
Other money market deposits	14	755,092	155,783
Derivative financial instruments	18	21,970	10,315
Factoring payables	8	60,927	56,021
Funds borrowed:			
- Subordinated debt	15	89,740	20,336
- Other funds borrowed	15	1,001,852	859,281
Other liabilities	16	127,637	97,087
Provisions	16	6,490	4,752
Income taxes payable	17	12,720	7,518
Deferred tax liability	17	14	46
Total liabilities		6,396,925	4,486,347
EQUITY			
Equity attributable to equity holders of the parent		508,571	413,867
Share capital issued	19	57,800	57,800
Adjustment to share capital	19	252,676	252,676
Unrealized gains/(losses) on available-for-sale investments, net of tax		9,354	3,996
Other reserves and retained earnings	20	188,741	99,395
Minority interest		-	1,628
Total equity		508,571	415,495
Total liabilities and equity		6,905,496	4,901,842

Turk Ekonomi Bankasi Anonim Sirketi

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2005

(Currency - In thousands of New Turkish Lira)

The accompanying policies and explanatory notes on pages 6 through 55 form an integral part of these consolidated financial statements.

Turk Ekonomi Bankasi Anonim Sirketi

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005
(Currency – In thousands of New Turkish Lira)**

	Notes	2005	2004
Interest income			
Interest on loans and advances		346,830	279,962
Interest on securities		110,174	80,020
Interest on deposits with banks and other financial institutions		77,797	41,793
Interest on other money market placements		18,503	61,555
Interest on financial leases		20,917	22,084
Other interest income		86	1,356
Total interest income		574,307	486,770
Interest expense			
Interest on customer deposits		(199,551)	(115,062)
Interest on other money market deposits		(49,001)	(16,460)
Interest on funds borrowed and deposits from other banks		(73,893)	(155,147)
Other interest expense		-	(184)
Total interest expense		(322,445)	(286,853)
Net interest income		251,862	199,917
Fees and commissions and other operating income			
Fees and commissions income	26	123,489	102,402
Fees and commissions expense	26	(16,024)	(20,122)
Foreign exchange gain		18,654	21,022
Gains less losses on trading securities	25	(4,846)	(3,116)
Gains less losses on investment securities		13,737	4,847
Other income		711	5,037
Net banking income		387,583	309,987
Operating expenses			
Salaries and employee benefits	23	(123,592)	(99,931)
Other expenses	24	(72,190)	(67,042)
Depreciation and amortization	11,12	(14,908)	(15,628)
Taxes other than on income		(7,332)	(6,308)
Gross operating income		169,561	121,078
(Provisions for) / recoveries from impairment of loan, lease, factoring receivables	7, 8, 9	(15,207)	1,623
Net operating income		154,354	122,701
Income from associates		219	69
Gain/(loss) on sale of fixed assets and investments		482	2,199
Profit from operating activities before income tax and monetary loss		155,055	124,969
Income tax – current	17	(51,408)	(26,083)
Income tax – deferred	17	7,665	2,862
Monetary gain / (loss)		-	(38,931)
Net profit for the year		111,312	62,817
Attributable to :			
Equity holders of the parent		111,214	62,069
Minority interest		98	748
Net profit		111,312	62,817
Earnings per share (full YTL)		0.000963	0.000537

The accompanying policies and explanatory notes on pages 6 through 55 form an integral part of these consolidated financial statements.

Turk Ekonomi Bankasi Anonim Sirketi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005 (Currency – In thousands of New Turkish Lira)

	Notes	Attributable to equity holders of the parent					Minority interest	Total equity	
		Share capital	Adjustment to share capital	Unrealized gains/(losses) on available-for-sale investments, net of tax	Currency translation differences	Legal reserves and retained earnings			Total
At January 1, 2004		55,125	252,383	-	(5,199)	68,769	371,078	20,150	391,228
Currency translation differences		-	-	-	(8,653)	-	(8,653)	-	(8,653)
Net change in unrealized gain on available- for -sale investments		-	-	3,996	-	-	3,996	-	3,996
Total income and expense for the year recognized directly in equity		-	-	3,996	(8,653)	-	(4,657)	-	(4,657)
Net profit for the year		-	-	-	-	62,069	62,069	748	62,817
Total income / expense for the year		-	-	3,996	(8,653)	62,069	57,412	748	58,160
Issue of share capital	19	2,675	293	-	-	(2,968)	-	-	-
Dividends paid		-	-	-	-	(14,985)	(14,985)	-	(14,985)
Change in consolidation structure due to acquisition of minority interest in subsidiaries and disposal of minority interest in a subsidiary		-	-	-	-	362	362	(19,270)	(18,908)
At December 31, 2004/January 1, 2005		57,800	252,676	3,996	(13,852)	113,247	413,867	1,628	415,495
Currency translation differences		-	-	-	(12,547)	-	(12,547)	-	(12,547)
Net change in unrealized gain on available-for-sale investments		-	-	5,358	-	-	5,358	-	5,358
Total income and expense for the year recognized directly in equity		-	-	5,358	(12,547)	-	(7,189)	-	(7,189)
Net profit for the year		-	-	-	-	111,214	111,214	98	111,312
Total income / expense for the year		-	-	5,358	(12,547)	111,214	104,025	98	104,123
Dividends paid		-	-	-	-	(9,414)	(9,414)	-	(9,414)
Acquisition of minority interests in a subsidiary		-	-	-	-	93	93	(1,726)	(1,633)
At December 31, 2005		57,800	252,676	9,354	(26,399)	215,140	508,571	-	508,571

The accompanying policies and explanatory notes on pages 6 through 55 form an integral part of these consolidated financial statements.

Turk Ekonomi Bankasi Anonim Sirketi

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005
(Currency - In thousands of New Turkish Lira)**

	Notes	2005	2004
Cash flows from operating activities			
Interest received		547,708	474,275
Interest paid		(318,551)	(291,388)
Fees and commissions received		81,172	55,406
Income from banking services		42,321	30,189
Trading income		(4,846)	1,731
Recoveries of loans previously written off		7,513	6,872
Fees and commissions paid		(13,845)	(20,122)
Cash payments to employees and other parties		(121,504)	(96,780)
Cash received from other operating activities		7,880	42,360
Cash paid for other operating activities		(92,539)	(105,975)
Income taxes paid		(47,844)	(32,596)
Cash flows from operating activities before changes in operating assets and liabilities		87,465	63,972
Changes in operating assets and liabilities			
Net (increase) / decrease trading securities		(93,004)	33,499
Net (increase) / decrease in reserve deposits at central banks		(103,952)	(40,602)
Net (increase) decrease in due from banks and other financial institutions		(136,970)	18,376
Net increase in loans and advances		(1,393,454)	(324,798)
Net (increase) decrease in factoring receivables		(42,427)	(9,792)
Net increase in minimum lease payments receivable		(22,803)	(34,394)
Net increase in other assets		(11,601)	20,151
Net increase / (decrease) in deposits from other banks		9,911	(43,592)
Net increase in customers' deposits		1,034,695	248,981
Net increase (decrease) in other money market deposits		598,762	140,283
Net increase in factoring payables		4,906	(8,580)
Net increase in other liabilities		29,651	(5,273)
Net cash (used in) provided by operating activities		(126,286)	(5,741)
Cash flows from investing activities			
Purchases of available for sale securities		(1,635,394)	(352,335)
Proceeds from sale and redemption of available for sale securities		920,957	-
Purchases of held to maturity securities		(12,441)	(33,401)
Proceeds from redemption of held to maturity securities		72,859	53,824
Acquisition of subsidiaries, net of cash disposed		(660)	-
Disposal of subsidiaries and associates net of cash disposed		-	(4,500)
Purchases of property and equipment	11	(26,652)	(15,292)
Proceeds from the sale of premises and equipment		456	1,259
Purchases of intangible assets	12	(3,627)	(1,426)
Net cash provided by (used in) investing activities		(684,502)	(351,871)
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		206,753	326,525
Repayment of funds borrowed and debt securities		-	(74,687)
Dividends paid to equity holders of the parent	20	(9,414)	(14,985)
Dividends paid to minority interests	20	-	-
Net cash provided by (used in) financing activities		197,339	236,853
Effect of net foreign exchange difference and monetary gain/ loss on monetary items		5,118	(233,429)
Net (decrease) increase in cash and cash equivalents		(520,866)	(290,216)
Cash and cash equivalents at beginning of year	4	1,751,436	2,041,652
Cash and cash equivalents at end of year		4	1,230,570
		1,230,570	1,751,436

The accompanying policies and explanatory notes on pages 6 through 55 form an integral part of these consolidated financial statements.

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Currency - In thousands of New Turkish Lira, unless indicated otherwise)

1. CORPORATE INFORMATION

General

Turk Ekonomi Bankasi A.S. (the Bank) was incorporated in Turkey in 1927 under the name of Kocaeli Halk Bankasi T.A.S. and in 1982 was acquired by the Colakoglu Group. Its name was changed as Turk Ekonomi Bankasi A.S. and its headquarter moved to Istanbul. Certain shares of the Bank, representing 20% of the total, are listed on the Istanbul Stock Exchange since February 2000. TEB's shares are also listed and traded in London Stock Exchange as GDR's since 2000. The registered office address of TEB is at Meclis-i Mebusan Caddesi, No: 35, Findikli-Istanbul/Turkey.

In accordance with the notification made by TEB Mali Yatirimlar A.S., the ultimate shareholder of the Group by 84.25% shares, it was announced that TEB Mali Yatirimlar A.S. has sold shares representing 50% of its capital to BNP Paribas on February 10, 2005.

The consolidated financial statements of the Bank were authorized for issue by the management on February 13, 2006. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the 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 banking, leasing, factoring and brokerage and portfolio management, which are conducted mainly with local customers.

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

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2005	2004
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
TEB Yatirim Menkul Degerler A.S. (TEB Yatirim)	Turkey	100.0	100.0
TEB Factoring A.S. (TEB Factoring)	Turkey	100.0	100.0
TEB Finansal Kiralama A.S. (TEB Leasing)	Turkey	100.0	100.0
TEB Portfoy Yonetimi A.S. (TEB Portfoy) (*)	Turkey	100.0	82.5
Stichting Custody Services TEB	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0
Petek International Holdings B.V. (Petek International)	Netherlands	100.0	100.0

(*) On February 28, 2005, TEB Yatirim purchased 17.5% of shares of TEB Portfoy, from ABN Amro Bank N.V. As a result, the Group's effective shareholding and voting right in TEB Portfoy increased to 100.0%.

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

(Currency - In thousands of New Turkish Lira, unless indicated otherwise)

1. CORPORATE INFORMATION (continued)

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank - Commercial bank, which deals mainly in foreign trade finance, corporate banking, private banking and correspondent banking services.

TEB Yatirim - Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Market Board of Turkey.

TEB Factoring - Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Leasing - Providing financial leasing services to corporate clients, investing in industrial machinery and equipment, various equipment and transport vehicles.

TEB Portfoy - Managing mutual funds, which are made up of capital market instruments. It also manages individual customer portfolios.

Stichting Custody Services TEB - Holding securities of clients, located in the Netherlands.

Kronenburg Vastgoed B.V. - Real estate company founded with the purpose of the ownership of property possessed by Economy Bank in the Netherlands.

Petek International (in liquidation) - Private holding company. The Group completed the liquidation of its investment in Petek in 2006 (total assets, equity and net income included in the 2005 financial statements for such subsidiary amount to YTL 53, YTL 52 and YTL 27, respectively).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira (YTL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise the effects of consolidation of subsidiaries, accounting for leasing transactions, deferred taxation and employee termination benefits.

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates

Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections of this note below.

Functional and Presentation Currency

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

Functional currency of the Bank and its subsidiaries, which operate in Turkey is New Turkish Lira (YTL). Until December 31, 2004, the restatement for the changes in the general purchasing power of YTL is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. Determining whether an economy is hyperinflationary in accordance with IAS 29 requires judgment as the standard does not establish an absolute rate, instead it considers the following characteristics of the economic environment of a country to be strong indicators of the existence of hyperinflation: (a) the general population prefers to keep its wealth in non monetary assets or in a relatively stable currency; amounts of local currency held are immediately invested to maintain purchasing power, (b) the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable currency; prices may be quoted in that currency, (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, (d) interest rates, wages and prices are linked to a price index and (e) the cumulative inflation rate over three years is approaching, or exceeds 100%.

IAS 29 describes characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgment when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in July 2004. As of December 31, 2005, the three-year cumulative inflation rate has been 33.17% (December 31, 2004 – 69.72 %) based on the indices published by the State Institute of Statistics (SIS). Besides, other non-quantitative factors have consistently proven that the economy ceased to be hyperinflationary. This could be observed in the continuous increase in the proportion of YTL denominated bank deposits to the total deposits to 65% at December 31, 2005 (from 56% at December 31, 2004), the existence of longer payment terms exceeding 12 months and decreasing implicit interest embedded into the prices in the economy and the introduction of long-term mortgage financing products by the banks with maturities up to 30 years.

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Banking Regulation and Supervision Agency (BRSA), the accounting standard setting body for the Turkish banks, has announced on April 28, 2005 in the BRSA's Circular No. 2005/5 that the indicators of hyperinflation are no longer valid for similar reasons outlined above and required banks to discontinue the use of hyperinflationary accounting effective from January 1, 2005. The Turkish Capital Markets Board (CMB), the accounting standard setting body for publicly quoted Turkish companies, has also terminated the use of inflation accounting by the CMB's Resolution dated March 17, 2003 and numbered 11/367. The Ministry of Finance has also abolished inflation accounting with the Tax Procedural Law Circular/No. 18, dated April 19, 2005. Also, the response letter of the International Accounting Standards Board (IASB) to the question of Banks Association of Turkey stated that "whether an economy is operating under conditions of hyperinflation must be determined by reference to the characteristics set out in IAS 29 and such determination is best made by those with direct experience of the economy concerned". Accordingly, the BRSA, in its letter to the Banks Association of Turkey indicated that the Turkish Capital Markets Board, the Ministry of Finance and the BRSA are the institutions with direct experience of Turkish economy and all announced that the indicators of hyperinflation are no longer valid and terminated the use of inflation accounting.

Based on all of the above factors, management of the Group believes that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 were not applicable in Turkey in 2005 and therefore decided to discontinue the inflation accounting application effective from January 1, 2005.

The annual inflation rate for 2005 has been 2.66% based on the Producers' Price Index announced by the State Institute of Statistics.

Index and conversion factors for the three-year period ended December 31, 2004 as they are applied for IAS 29 restatement by the Group until December 31, 2004 (based on the Turkish Countrywide Wholesale Price Index - WPI - published by the SIS) are provided 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 through December 31, 2004 are as follows:

- 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 through December 31, 2004.
- non-monetary assets and liabilities and other components of equity are restated by applying the relevant conversion factors through December 31, 2004.
- the effect of general inflation on the net monetary position is included in the income statement as monetary gain(loss) until December 31, 2004.
- all items in the income statement are restated by applying appropriate average conversion factors until December 31, 2004 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.

The amounts of non-monetary assets, liabilities and components of equity expressed in the measuring unit current at the end of December 31, 2004 are treated as the basis for the carrying amounts of these items in the 2005 financial statements without further restatement in 2005.

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

(Currency - In thousands of New Turkish Lira, unless indicated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors until December 31, 2004 does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as those appearing 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.

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Turk Lirasi (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 one year period until complete phase-out of TL. The Bank's functional and presentation currency is YTL and financial statements including comparative figures for the prior periods are presented in thousands of YTL.

Functional Currencies of Foreign Subsidiaries:

As of December 31, 2005, Economy Bank and Petek International adopted the Euro (EUR) as their functional currency.

Basis of Consolidation and Goodwill

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

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary or associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Following initial recognition goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. The carrying amount of goodwill at December 31, 2005 was YTL 1,206 (2004 - nil) (see Note 11) and there is no impairment recorded related to goodwill. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to that entity sold. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement. There is no negative goodwill recognized by the Group.

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

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

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The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. The investments in associates are carried on the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. When there is a change recognized directly in the equity of an associate, the Group recognizes its share of any changes and discloses this when applicable, in the statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for like transactions and events.

Foreign Currency Translation

The consolidated financial statements are presented in YTL, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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

	EUR / YTL (full)	USD / YTL (full)
December 31, 2003	1.76	1.39
December 31, 2004	1.82	1.34
December 31, 2005	1.59	1.34

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (YTL) at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are also translated at year-end exchange rates as the impact of translation at the weighted average exchange rates for the year is not material. On consolidation exchange differences arising from the translation of the net investment in foreign entities are included in equity as currency translation differences until the disposal of the net investment.

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

Premises and Equipment

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

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

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

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Land

not depreciated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

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

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

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

Investments and Other Financial Assets

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets 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. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available- for- sale. The investments would therefore be measured at fair value; not amortised cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by YTL 1 before tax effect, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during 2005 or 2004.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. 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.

Loans and receivables

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

Available-for-sale financial assets

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Repurchase and Resale Transactions

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

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

Offsetting Financial Instruments

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

Recognition and Derecognition of Financial Instruments

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

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

Impairment of Financial Assets

a) Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans, advances and receivables as of December 31, 2005 is YTL 3,857,327 (2004 - YTL 2,371,581) net of impairment allowance of YTL 39,853 (2004 - YTL 25,088).

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

There is no decline in fair value below cost recorded in the fair value reserve in equity.

Interest - bearing Deposits and Borrowings

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits

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

(a) Defined Benefit Plans:

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries in Turkey are 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. The Economy Bank N.V does not carry any obligation with regards to the retirement pay liability.

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

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 16 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2005 is YTL 6,490 (2004 - YTL 4,752).

(b) Defined Contribution Plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group also pays contributions on a contractual basis to TEB'liler Vakfı, which is a privately administrated pension plan, the members of which are the employees of the Group. The Group does not have any other liability to this foundation other than paying 20% of the first monthly contribution fee of the employee. 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.

The pension plan for Economy Bank N.V is based on a fixed contribution as a percentage of the annual salary, whereby the terms and conditions of the plan are based on each individual's requirements, within a fixed framework, also allowing the individual staff member to contribute for his / her own account.

Provisions

Provisions are recognized when the Group has a present obligation 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. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

(a) 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.

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

(b) The Group as Lessor

Finance leases

The Group classifies leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Factoring Receivables and Factoring Payables

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment. Factoring payables are recognized at original factored amount less advances extended against factoring receivables, interest and factoring commissions charged, and then carried at amortized cost.

Income and Expense Recognition

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

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized rateably over the period service is provided.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Group is subject to income taxes in various jurisdictions. Where there are matters the final tax outcome is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of December 31, 2005, the Group carries YTL 12,720 of income taxes payable (2004 - YTL 7,518), YTL 675 of prepaid taxes (2004 - YTL 572), YTL 15,552 of deferred tax asset (2004 - YTL 8,708) and YTL 14 of deferred tax liability (2004 - YTL 46).

Current tax

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

Deferred tax

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

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

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

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

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

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

Derivative Financial Instruments

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. As of December 31, 2005, the carrying amount of derivative financial instrument assets YTL 6,228 (2004 - YTL 6,890) and the carrying amount of derivative financial instrument liabilities is YTL 21,970 (2004 - YTL 10,315).

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the balance sheet date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and repricing date are used. Fair value of option transactions are determined by comparing the option rates discounted to balance sheet date with the period end foreign exchange rates and the resulting gain or loss is reflected to the income statement taking into account exercisability of the option. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Fiduciary Assets

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

Segment Reporting

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

2.3 Changes in Accounting Policies

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

In summary:

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

IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates" had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 3 “Business Combinations”, IAS 36 (revised) “Impairment of Assets” and IAS 38 (revised) “Intangible Assets” resulted in the Group ceasing annual goodwill amortization and commencing testing for impairment at the cash-generating level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from January 1, 2005. The transitional provisions of IFRS 3 have required the Group to eliminate at January 1, 2005 the carrying amount of the accumulated amortization by YTL 503 with a corresponding entry to goodwill.

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

IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, IAS 10 “Events After the Balance Sheet Date”, IAS 16 “Property, Plant and Equipment”, IAS 17 “Leases”, IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates”, IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement” (all revised) and IFRS 4 “Insurance Contracts” and IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” had no material effect on the Group’s accounting policies.

IFRSs and IFRIC Interpretations Not Yet Effective

The Group has not applied the IFRSs and IFRIC Interpretations that have been issued but are not yet effective. In this context, the Group expects that the adoption of IFRS 7 “Financial Instruments-Disclosures”, which supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after January 1, 2007 will impact the presentation of additional disclosures on financial instruments. Other than this, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, which is required to be applied for annual periods beginning on or after January 1, 2006 is not expected to have an impact on the Group’s financial statements in the period of initial application. The other pronouncements (IFRS 6 “Exploration for and Evaluation of Mineral Resources”, IFRIC 5 “Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”) are not relevant to the Group’s operations.

Reclassification of Comparative Information

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

- YTL 2,968 representing loans granted to brokerage customers has been reclassified from other assets to loans and advances.
- YTL 555 representing investment in gold has been reclassified from trading securities to other assets.
- YTL 9,109 income related to exchange gains on investments in foreign entities has been reclassified from monetary loss to foreign exchange gain.
- YTL 15,984 income primarily related to factoring services has been reclassified from other interest income to interest on loans and advances.
- YTL 69 income representing the Group’s share of the result of operations of the associates has been reclassified from other income to income from associates.
- YTL 2,199 gain on sale of fixed assets has been reclassified from other income to gains & loss on sale of fixed assets and investments.
- YTL 110,910 interest expense on deposits has been reclassified from interest on customer deposits to interest on funds borrowed and deposits from other banks.
- YTL 4,847 gains less losses on investment securities have been reclassified from gains less losses on trading securities to gains less losses on investment securities.
- YTL 158,467 of loaned securities has been classified separately from trading and investment securities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

- YTL 2,199 income on gain on sale of fixed assets has been reclassified from other income to gain/(loss) on sale of fixed assets and investments.

3. SEGMENT INFORMATION

Business segments

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

Year ended December 31, 2005

	Retail Banking	Corporate Banking	Other	Eliminations	Group
External revenues	70,989	385,165	287,070	(11,844)	731,380
Revenues from other segments	-	-	-	-	-
Total revenues	70,989	385,165	287,070	(11,844)	731,380
Segment result (A)	21,515	119,805	16,469	(2,953)	154,836
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	21,515	119,805	16,469	(2,953)	154,836
Income from associates	-	-	219	-	219
Profit before income tax and monetary loss	21,515	119,805	16,688	(2,953)	155,055
Income tax	-	-	-	-	(43,743)
Monetary loss	-	-	-	-	-
Net profit	21,515	119,805	16,688	(2,953)	111,312
Assets and Liabilities					
Segment assets	390,134	2,997,158	3,439,617	(39,713)	6,787,196
Investment in associates	-	-	1,536	-	1,536
Unallocated assets	-	-	116,764	-	116,764
Total assets	390,134	2,997,158	3,557,917	(39,713)	6,905,496
Segment liabilities	1,566,964	2,759,462	1,939,698	(38,029)	6,228,095
Unallocated liabilities	-	-	170,888	(2,058)	168,830
Total liabilities	1,566,964	2,759,462	2,110,586	(40,087)	6,396,925
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	26,652
Intangible fixed assets	-	-	-	-	3,627
Depreciation	-	-	-	-	13,022
Amortization	-	-	-	-	1,886
Impairment losses recognized in income statement	-	-	-	-	15,207
Other non-cash expenses (e.g. write down of investment properties, other provisions)	-	-	-	-	2,316

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

3. SEGMENT INFORMATION (continued)

Year ended December 31, 2004

	Banking	Leasing	Factoring	Insurance	Brokerage and Other	Eliminations	Group
Net interest income	173,557	16,062	4,809	288	5,201	-	199,917
Provision for impairment of loan, lease and factoring receivables	1,899	187	(463)	-	-	-	1,623
Foreign exchange gain (loss)	24,364	(364)	(118)	(964)	103	(1,999)	21,022
Other operating income	90,372	140	3,709	2,334	26,152	(11,269)	111,438
Other operating expense	(184,176)	(6,065)	(4,313)	(8,493)	(21,005)	15,021	(209,031)
Profit (loss) from operating activities	106,016	9,960	3,624	(6,835)	10,451	1,753	124,969
Income tax	(21,291)	1,275	(889)	(24)	(2,292)	-	(23,221)
Monetary gain(loss)	(31,120)	(3,788)	(1,094)	(1,095)	(3,382)	1,548	(38,931)
Minority interest	-	-	-	-	-	(748)	(748)
Net profit(loss)	53,605	7,447	1,641	(7,954)	4,777	2,553	62,069
Segment assets	4,661,715	253,790	132,664	-	36,274	(182,601)	4,901,842
Total assets	4,661,715	253,790	132,664	-	36,274	(182,601)	4,901,842
Segment liabilities	4,172,478	216,858	119,971	-	3,126	(26,086)	4,486,347
Total liabilities	4,172,478	216,858	119,971	-	3,126	(26,086)	4,486,347
Capital expenditures							
Tangible fixed assets	14,841	45	23	-	383	-	15,292
Intangible fixed assets	1,309	-	27	-	90	-	1,426
Depreciation	(11,973)	(216)	(100)	(263)	(1,080)	-	(13,632)
Amortization	(1,636)	(56)	(54)	(78)	(172)	-	(1,996)

The segment information as of December 31, 2005 is presented under retail banking, corporate banking and other as portfolio basis however the segment information as of December 31, 2004 has been presented as banking and other group companies basis.

Geographical segments

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

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2005

(Currency - In thousands of New Turkish Lira, unless indicated otherwise)

3. SEGMENT INFORMATION (continued)

Year ended December 31, 2005

	Turkey	European Union	Total
Other segment information			
Segment assets	5,600,444	1,193,152	6,793,596
Investment in associates	1,536	-	1,536
Unallocated assets	102,671	7,693	110,364
Total assets	5,704,651	1,200,845	6,905,496
Capital expenditures			
Tangible fixed assets	26,482	170	26,652
Intangible fixed assets	3,430	197	3,627

Year ended December 31, 2004

	Turkey	European Union	Total
Other segment information			
Segment assets	3,705,000	1,108,929	4,813,929
Investment in associates	656	-	656
Unallocated assets	76,766	10,491	87,257
Total assets	3,782,422	1,119,420	4,901,842
Capital expenditures			
Tangible fixed assets	13,751	1,541	15,292
Intangible fixed assets	1,242	184	1,426

4. CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	87,372	81,591
Balances with central banks	183,131	774,813
Cash and balances with central banks	270,503	856,404
Deposits with banks and other financial institutions	964,911	823,778
Funds lent under reverse repurchase agreements	6,538	618
Interbank placements	150,000	95,048
Other money market placements	156,538	95,666
Less: Time deposits with original maturities of more than three months	(161,382)	(24,412)
Cash and cash equivalents in the cash flow statement	1,230,570	1,751,436

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

4. CASH AND CASH EQUIVALENTS

The effective interest rates on deposits and placements are as follows:

	2005		2004	
	Effective interest rate		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with central banks	-	1.14%-2.05%	-	0.55%-0.64%
Deposits with banks and other financial institutions	15.75%-19.00%	2.47%-4.31%	17.70%-26.00%	1.30%-4.00%
Funds lent under reverse repurchase agreements	15.00%-15.30%	-	17.20%-18.00%	-
Interbank placements	14.98%	-	18.00%	-

5. RESERVE DEPOSITS AT CENTRAL BANKS

As of December 31, 2005 and 2004, the amounts of reserve deposits at central banks are YTL 316,924 and YTL 211,860, respectively.

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations. Reserves deposited with the Central Bank of Turkish Republic amounted to YTL 297,846 (2004 - YTL 191,979).

As of December 31, 2005 and 2004, the reserve deposit requirements applicable in Turkey for New Turkish Lira and foreign currency deposits were 6% and 11%, respectively.

As of December 31, 2005, the interest rates applied for New Turkish Lira and foreign currency reserve deposits are 10.25% and 1.14% - 2.03% (2004 - 10% and 0.55% - 2.20%), respectively.

Banks in the Netherlands are required to maintain a certain amount of funds and/or reserves on an account at the Dutch Central Bank and receive interest on their reserve requirement deposits at rates in line with open-market facilities. The reserve deposit requirement applicable in Netherland for all deposits were 2% less EUR 100,000 (in full).

6. INVESTMENTS IN SECURITIES

Trading Securities:

	2005		2004			
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Trading securities at fair value						
Debt instruments						
Turkish government bonds	38,107	14.05%-14.21%	3.84-6.02%	2,551	23.74%	5.50%
Turkish treasury bills	9,275	14.45%-14.68%	-	143	22.00%	-
Eurobonds issued by the Turkish government	1	-	10%	6,269	-	9.63%-11.69%
Total trading securities	47,383			8,963		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005
 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

6. INVESTMENTS IN SECURITIES (continued)

Investment Securities:

	2005			2004		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	231,639	15.33%-20.00%	2.72-3.12%	136,666	20.62% - 23.00%	-
Turkish treasury bills	2,517	14.94%-18.23%	-	18,298	21.45% - 23.60%	-
Eurobonds issued by the Turkish government	68,073	-	7.25-11.88%	56,864	-	6.50%
Total available for sale securities at fair value	302,229			211,828		
Available-for-sale securities at cost						
Equity instruments -unlisted	9			9		
Total available for sale securities	302,238			211,837		
Debt instruments						
Turkish government bonds	9,715	20.00%	5.62%	75,373	26.00%	4.81%
Turkish treasury bills	2,094	18.23%	-	-	-	-
Total held-to-maturity securities	11,809			75,373		
Total investment securities	314,047			287,210		

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently they are reflected at cost less reserve for impairment, as a reliable estimate of their fair values could not be made.

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements which are classified as loaned securities and related liabilities are:

	2005	2004
Trading securities	62,863	8,034
Available-for-sale securities	796,957	150,433
Held-to-maturity securities	-	-
Carrying value of securities given as collateral under repos	859,820	158,467
Related liability	755,092	155,783

Repurchase agreements mature within 1 month.

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6. INVESTMENTS IN SECURITIES (continued)

In addition, as of December 31, 2005, government securities with carrying values of YTL 226,210 (2004 - YTL 118,006) are pledged to the Central Bank, Vadeli Islem Opsiyon Borsasi (Turkish Derivatives Exchange) and the Istanbul Menkul Kiymetler Borsasi Takas ve Saklama Bankasi Anonim Sirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations.

YTL 722,297 of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates. Mutual funds and equity securities do not earn interest.

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year (2004 - nil).

Gains and losses from investment securities arise from derecognition of available for sales securities.

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

	2005			2004		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At January 1	362,270	75,373	437,643	10	104,653	104,663
Exchange differences and monetary gain/(loss) on monetary assets	-	-	-	(2)	(8,857)	(8,859)
Additions	1,648,879	12,606	1,661,485	365,018	33,401	398,419
Disposals (sale and redemption)	(908,658)	(76,170)	(984,828)	-	(53,824)	(53,824)
Changes in fair value	(3,296)	-	(3,296)	(2,756)	-	(2,756)
At December 31	1,099,195	11,809	1,111,004	362,270	75,373	437,643

7. LOANS AND ADVANCES

	2005			2004		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign currency		New Turkish Lira	Foreign Currency
Corporate loans	3,070,900	14.20%-24.00%	3.50%8.00%	1,945,205	21.75% - 32.74%	4.00% - 11.12%
Consumer loans	378,977	14.99%-20.40%	4.00%-7.07%	88,455	20.50%-30.60%	2.34% - 4.18%
Credit cards	25,028	36.74%	-	22,436	38.63%	-
Other	6,027	14.00%-16.25%	-	2,968	28.00% - 35.00%	-
Total performing loans	3,480,932			2,059,064		
Loans in arrears	33,679			20,881		
Less: Specific reserve for impairment	(16,849)			(11,244)		
Less: Portfolio reserve for impairment	(18,300)			(10,235)		
Total	3,479,462			2,058,466		

Loans and advances amounting to YTL 90,387 have floating interest rates and the rest have fixed interest.

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

7. LOANS AND ADVANCES (continued)

Movements in the reserve for impairment on loans and advances:

	2005	2004
Reserve at beginning of year	21,479	27,129
Provision for impairment	15,938	7,689
Recoveries	(1,911)	(9,588)
Provision net of recoveries	14,027	(1,899)
Loans written off during the year	(357)	(393)
Monetary gain	-	(3,358)
Reserve at end of the year	35,149	21,479

Loans in arrears represents impaired loans and advances on which interest is not being accrued and loans overdue for more than 90 days for which interest is suspended.

8. FACTORING RECEIVABLES AND PAYABLES

	2005			2004		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign Currency
Factoring receivables	168,572	19.84%	6.06%-7.16%	125,435	29.32%	5.95% 8.39%
Receivables in arrears	1,554			1,574		
Less: Reserve for impairment	(1,704)			(1,540)		
Less: Deferred income	(2,113)			(1,459)		
Net factoring receivables	166,309			124,010		
Factoring payables	(60,927)			(56,021)		
Funds in use, net	105,382			67,989		

Factoring receivables have fixed interest rates.

Movements in the reserve for impairment:

	2005	2004
Reserve at beginning of year	1,540	1,243
Provision for impairment	376	476
Recoveries	(212)	(13)
Provision net of recoveries	164	463
Monetary gain	-	(166)
Reserve at end of the year	1,704	1,540

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9. MINIMUM LEASE PAYMENTS RECEIVABLE

	2005	2004
Not later than 1 year	132,163	127,438
Later than 1 year but not later than 5 years	108,307	87,590
Later than 5 years	-	-
Minimum lease payments receivable, gross	240,470	215,028
Less: Unearned interest income	(28,208)	(24,113)
Net investment in finance leases	212,262	190,915
Lease receivables in arrears	2,294	259
Less : Reserve for impairment	(3,000)	(2,069)
Minimum lease payments receivable, net	211,556	189,105

Net investment in finance leases are analyzed as follows:

	2005	2004
Not later than 1 year	115,080	111,347
Later than 1 year but not later than 5 years	97,182	79,568
Later than 5 years	-	-
Total	212,262	190,915

As of December 31, 2005 and 2004, YTL 216,502 and YTL 203,585 of gross lease receivables are denominated in foreign currency (mainly USD and EUR), respectively. The average interest rates are between 9.26% and 10.33% (2004 - 11.03% to 11.14%) for foreign currency and average of 22.04% (2004 - 52.90%) for YTL denominated receivables. Finance lease receivables have fixed interest rates.

Movements in the reserve for impairment:

	2005	2004
Reserve at beginning of year	2,069	2,608
Provision for impairment	1,016	201
Recoveries	-	(388)
Provision net of recoveries	1,016	(187)
Minimum lease payments receivable written off during the year	(85)	-
Monetary gain	-	(352)
Reserve at end of the year	3,000	2,069

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

10. INVESTMENT IN ASSOCIATES

	2005		2004	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investment in associate				
Varlik Yatirim Ortakligi A.S.	1,536	34%	656	34%
Total	1,536		656	

Information on the associate is provided below:

Principal activities: Investment fund

Country of incorporation: Turkey

Total assets: September 30, 2005 YTL 2,379 (December 31, 2004 – YTL 1,969)

Total liabilities: September 30, 2005 YTL 83 (December 31, 2004 – YTL 25)

Total revenues: September 30, 2005 YTL 77,505 (December 31, 2004 – YTL 74,631)

Profit/(loss) : September 30, 2005 YTL 352 (December 31, 2004 – YTL (152))

Fair value based on quoted market price (100% of shares): As of December 31, 2005 YTL 5,908 (December 31, 2004 - YTL 2,280)

11. PREMISES AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office Equipment, Leasehold Improvements	Total
At January 1, 2004, net of accumulated depreciation	16,134	3,130	35,907	55,171
Additions	-	1,023	14,269	15,292
Transfers	7,388	-	(7,388)	-
Disposals	-	(2,379)	(777)	(3,156)
Disposal of subsidiary	(2,966)	(201)	(556)	(3,723)
Depreciation charge for the year	(333)	(1,006)	(12,293)	(13,632)
Exchange adjustment	-	(7)	(635)	(642)
At December 31, 2004/January 1, 2005, net of accumulated depreciation	20,223	560	28,527	49,310
Additions	225	86	26,341	26,652
Disposals	-	(247)	(209)	(456)
Depreciation charge for the year	(335)	(126)	(12,561)	(13,022)
Exchange adjustment	(966)	(37)	(11)	(1,014)
At December 31, 2005, net of accumulated depreciation	19,147	236	42,087	61,470
At December 31, 2003				
Cost	18,476	7,920	107,961	134,357
Accumulated depreciation	(2,342)	(4,790)	(72,054)	(79,186)
Net carrying amount	16,134	3,130	35,907	55,171
At December 31, 2004				
Cost	22,898	1,966	107,721	132,585
Accumulated depreciation	(2,675)	(1,406)	(79,194)	(83,275)
Net carrying amount	20,223	560	28,527	49,310
At December 31, 2005				
Cost	22,157	556	129,517	152,230
Accumulated depreciation	(3,010)	(320)	(87,430)	(90,760)
Net carrying amount	19,147	236	42,087	61,470

As of December 31, 2005 cost of fully depreciated items is amounting to YTL 59,520 (2004 - YTL 42,389).

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12. INTANGIBLE ASSETS

	Goodwill	Software Licenses and Other	Total
At January 1, 2004, net of accumulated amortization	-	4,796	4,796
Additions	-	1,426	1,426
Disposals	-	-	-
Disposal of subsidiary	-	(305)	(305)
Amortization charge for the year	-	(1,996)	(1,996)
Exchange adjustment	-	(8)	(8)
At December 31, 2004, net of accumulated amortization	-	3,913	3,913
Additions	1,206	2,421	3,627
Disposals	-	(4)	(4)
Amortization charge for the year	-	(1,886)	(1,886)
Exchange adjustment	-	(25)	(25)
At December 31, 2005, net of accumulated amortization	1,206	4,419	5,625
At December 31, 2003			
Cost (gross carrying amount)	442	13,155	13,597
Accumulated amortization	(442)	(8,359)	(8,801)
Net carrying amount	-	4,796	4,796
At December 31, 2004			
Cost (gross carrying amount)	503	13,427	13,930
Accumulated amortization	(503)	(9,514)	(10,017)
Net carrying amount	-	3,913	3,913
At December 31, 2005			
Cost (gross carrying amount)	1,206	16,386	17,592
Accumulated amortization and impairment	-	(11,967)	(11,967)
Net carrying amount	1,206	4,419	5,625

The addition to goodwill during the current period relates to the acquisition of the minority (17.5%) shares of TEB Portfoy by TEB Yatirim from ABN Amro Bank N.V..

Cost of fully amortized items is amounting to YTL 6,405 as of December 31, 2005 (2004 - YTL 3,590).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

13. OTHER ASSETS

	2005	2004
Transitory accounts and prepaid expenses	11,344	7,894
Equipment to be leased	4,755	3,578
Advances given to suppliers	2,788	1,052
Prepaid income and other taxes	675	572
Assets held for resale	722	620
Others	7,348	4,720
Total	27,632	18,436

The Group purchases machinery and equipment from foreign and domestic vendors in relation to the financial lease agreements signed in the current year for projects in progress of its customers, which will be completed in the subsequent period. As of December 31, 2005 and 2004, the equipment to be leased balance includes cost of the equipment to be leased as described above together with the related expenses.

Assets held for resale comprise land, building and vehicles that are acquired from defaulted loan customers and are held for disposal through sale. These are stated at cost less reserve for impairment based on the valuations made by independent appraisal firms (Impairment recorded as of December 31, 2005 and 2004 is nil).

14. DEPOSITS

Deposits from other banks

	2005			2004		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign currency		New Turkish Lira	Foreign currency
Demand	16,561	-	-	21,843	-	-
Time	102,741	15.28%-18.50%	2.55%-4.75%	87,548	16.00% - 23.00%	2.00% - 5.00%
Total	119,302			109,391		

Customers' deposits

	2005			2004		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign currency		New Turkish Lira	Foreign Currency
Saving						
Demand	233,803	0.00%-5.00%	1.11%-2.76%	66,249	0.00%-5.00%	0.75%-4.00%
Time	1,713,035	12.50%-17.92%	2.35%-4.27%	554,498	15.00%-41.00%	3.4%
	1,946,838			620,747		
Commercial and other						
Demand	574,873	0.00%-5.00%	1.14%-1.17%	665,228	0.00%-5.00%	0.62%-4.00%
Time	1,679,470	13.41%-15.96%	2.58%-4.26%	1,879,842	14.00%-28.00%	0.75%-5.25%
	2,254,343			2,545,070		
Total	4,201,181			3,165,817		

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14. DEPOSITS (continued)

Included in customer accounts were deposits of YTL 300,337 (2004 - YTL 260,219) held as collateral for cash and non-cash loans given.

Other money market deposits

	2005			2004		
	Amount	Effective interest rate		Amount	Effective interest rate	
		New Turkish Lira	Foreign Currency		New Turkish Lira	Foreign currency
Obligations under repurchase agreements:						
-Due to customers	417,310	6.12%- 13.46%	-	8,571	7.69% - 19.23%	-
-Due to banks and other financial institutions	337,782	15.30%	-	147,212	18.00%	-
	755,092			155,783		

Deposits have fixed interest rates.

15. FUNDS BORROWED

	2005		
	Amount	Effective interest rate	
		New Turkish Lira	Foreign currency
Short-term			
Fixed interest	355,012	9.00%-18.00%	1.00%-6.80%
Floating interest	335,534	-	2.80%-5.40%
Medium/long-term			
Fixed interest	27,261	-	3.77%-6.16%
Floating interest	284,045	-	3.69%-7.84%
Floating interest subordinated loan	89,740	-	7.00%-7.19%
Total	1,091,592		

	2004		
	Amount	Effective interest rate	
		New Turkish Lira	Foreign currency
Short-term			
Fixed interest	215,962	13.00%-28.07%	2.87% - 8.00%
Floating interest	283,224	-	2.90% - 5.71%
Medium/long-term			
Fixed interest	144,067	-	1.27% - 6.50%
Floating interest	216,028	28.20%	3.25% - 5.71%
Floating interest subordinated loan	20,336	-	6.71%
Total	879,617		

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15. FUNDS BORROWED (continued)

Repayment plan of medium and long-term borrowings is as follows:

	2005		2004	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2005	-	-	25,596	141,776
2006	9,653	70,368	44,363	46,073
2007	5,134	104,052	15,354	19,773
2008	3,374	25,590	510	13,622
2009	1,763	41,025	33,727	12,903
2010 and thereafter	7,337	132,750	24,517	2,217
Total	27,261	373,785	144,067	236,364

The Bank has signed an agreement with International Finance Corporation (IFC) on July 17, 2002, to receive a US\$85 million financing facility. The facility consists of three separate loans. The first loan is a US\$15 million, 7-year term, subordinated convertible loan, bearing an interest rate of Libor + 4.5% and matching statutory Tier II Capital definitions as well as contributing to The Bank's capital adequacy ratio. In 2005, the share convertibility option of the mentioned loan lost its validity upon payment in cash benefits attributable to such rights to IFC and the maturity of this loan was extended for 2 more years and the interest rate was reduced to Libor + 2.85%. The second loan is a US\$20 million medium-term loan facility to be lent as working capital, investment or/and export pre-finance needs to The Bank's clients with 3-month to 5-year maturity from IFC's own account investment. The third part is up to US\$50 million from private commercial banks. This third loan has not been utilized.

On June 27, 2005, The Bank acquired a new subordinated loan from IFC in the amount US\$ 50 million with a maturity of 10 years and bearing interest at Libor + 3.18%.

As of December 31, 2004, The Bank's foreign currency funds borrowed includes USD 200 million of syndicated loan obtained at November 9, 2004 with a maturity of 1 year (interest rate – Libor + 0.5%) which is repaid at the date of maturity. EURO 210 million of syndicated loan obtained at November 18, 2005 with a maturity of 1 year (interest rate – Libor + 0.3%) and included in the foreign currency funds borrowed as December 31, 2005.

Funds borrowed are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

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

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16. OTHER LIABILITIES AND PROVISIONS

	2005	2004
Other liabilities		
Transitory accounts (mainly cheques clearance account)	40,469	35,491
Blocked bank cheques	17,535	11,457
Payables to credit card member firms	19,936	11,169
Taxes and mandatory contributions other than on income	17,208	10,775
Advances taken	4,616	7,742
Trade and other payables	7,309	6,607
Payment orders	3,875	2,299
Unused vacation pay liability	3,900	4,561
Others	12,789	6,986
	127,637	97,087
Provisions		
Employee termination benefits	6,490	4,752
	6,490	4,752
Total	134,127	101,839

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 1.727 and YTL 1.575 at December 31, 2005 and 2004 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2005 and 2004, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to YTL 1,771 effective January 1, 2006.

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

	2005	2004
Discount rate	12 %	16%
Expected rates of salary/limit increases	6.175 %	10%

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16. OTHER LIABILITIES AND PROVISIONS (continued)

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

	2005	2004
Provision at the beginning of the year	4,752	3,588
Utilized / paid	(411)	(912)
Arising during the year	2,149	2,312
Monetary gain	-	(236)
At the end of the year	6,490	4,752

17. INCOME TAXES

General Information

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

In 2005, the effective corporate tax rate in Turkey is 30% (2004 - 33%).

Corporate 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.

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

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

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

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

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17. INCOME TAXES (continued)

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

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

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

As of December 31, 2005, effective tax rate of consolidated foreign subsidiaries established in the Netherlands is 31.50% (2004 – 34.50%).

As of December 31, 2005 and 2004, prepaid income taxes are netted off with the current income tax liability as stated below:

	2005	2004
Income tax liability	52,934	31,190
Prepaid income taxes	(40,214)	(23,672)
	12,720	7,518

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

	2005	2004
Consolidated income statement		
Current income tax		
Current income tax charge	51,408	26,083
Deferred income tax		
Relating to origination and reversal of temporary differences	(7,665)	(2,300)
The effect of change in tax rate	-	(562)
Income tax expense reported in consolidated income statement	43,743	23,221
Consolidated statement of changes in equity (including minority interest)		
Current income tax		
Unrealized gain (loss) on available-for-sale securities	1,526	1,535
Deferred income tax		
Unrealized gain (loss) on available-for-sale securities	789	136
Income tax charge reported in consolidated statement of changes in equity	2,315	1,671

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17. INCOME TAXES (continued)

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

	2005	2004
Profit before income tax (after monetary loss)	155,055	86,038
At Turkish statutory income tax rate of 30% (2004 – 33%)	46,517	28,393
Income not subject to tax	(7,782)	(19,689)
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	2,625	11,865
Effect of consolidation elimination	2,383	2,652
Income tax	43,743	23,221

Deferred income tax

Deferred income tax at December 31, 2005 and 2004 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2005	2004	2005	2004
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	2,624	2,165	459	1,628
Others	34	114	(80)	(1,151)
Gross deferred income tax liabilities	2,658	2,279	379	477
Deferred income tax assets				
Impairment provisions	6,168	2,348	3,820	(1,229)
Deferred gains and losses on foreign exchange contracts	4,923	1,388	3,535	380
Valuation differences of trading and investment securities	246	933	102	1,069
Employee termination benefits and vacation pay liability	2,914	2,707	207	1,137
Others	3,945	3,565	380	1,982
Gross deferred income tax assets	18,196	10,941	8,044	3,339
Deferred income tax asset, net	15,538	8,662	7,665	2,862

Reflected as:

Deferred tax asset	15,552	8,708
Deferred tax liability	(14)	(46)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005 (Currency - In thousands of New Turkish Lira, unless indicated otherwise)

17. INCOME TAXES (continued)

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

	2005	2004
Balance at January 1	8,662	6,213
Deferred income tax credit (charge) recognized in income statement	7,665	2,862
Deferred income tax credit (charge) recognized in equity	(789)	(136)
Monetary gain/(loss)	-	(277)
Balance at period-end	15,538	8,662

Deferred income tax liabilities have not been established for the withholding and other taxes that would be payable on the unremitted earnings of subsidiaries operating outside of Turkey as it is not certain whether such amounts will be permanently reinvested or received in cash. If such amounts are collected in cash in the form of dividends, they will be subject to corporation tax in Turkey. On the other hand, if double tax treaty is signed between Turkey and the country where the subsidiary is resident, the provisions of double tax treaty will be considered.

18. DERIVATIVES

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

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

	2005			2004		
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent
Derivatives held-for-trading						
Forward contracts	4,836	8,766	1,754,167	5,657	8,696	569,939
Currency swap contracts	1,235	12,923	530,482	1,086	1,278	375,402
Interest swap contracts	-	80	139,995	147	341	7,070
Call & put option contracts	157	201	548,101	-	-	64,309
Futures	-	-	57,171	-	-	-
	6,228	21,970	3,029,916	6,890	10,315	1,016,720

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

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19. SHARE CAPITAL

	2005	2004
Total number of shares, YTL 0.0005 (in full YTL), par value	115.600 Million	115.600 Million

Shares traded in the Istanbul Stock Exchange are in the form of units of two shares with a combined nominal value of YTL 0.001 each.

As of December 31, 2005 and 2004, the Bank's historical subscribed and issued share capital was YTL 57,800.

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

	2005		2004	
	Amount	%	Amount	%
TEB Mali Yatirimlar A.S.	48,699	84.25	48,699	84.25
Publicly traded	8,766	15.17	8,766	15.17
Other shareholders	335	0.58	335	0.58
	57,800	100.00	57,800	100.00
Restatement effect	252,676		252,676	
Total	310,476		310,476	

7% of the Bank's remaining net profit corresponding to 60,000 shares of YTL 30 is to be allocated to the holders of founder shares. In accordance with the Board of Directors' decision numbered 3702/11 and dated February 10, 2005; 6 units of founder shares have been transferred to the Bank's major shareholder, TEB Mali Yatirimlar A.S..

20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement in legal reserves and retained earnings are as follows:

	2005			2004		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At January 1	16,515	96,732	113,247	9,095	59,674	68,769
Change in consolidation structure	-	93	93	-	362	362
Issue of share capital	-	-	-	-	(2,968)	(2,968)
Transfer from retained earnings	3,440	(3,440)	-	7,420	(7,420)	-
Dividends paid	-	(9,414)	(9,414)	-	(14,985)	(14,985)
Net profit for the year	-	111,214	111,214	-	62,069	62,069
At December 31	19,955	195,185	215,140	16,515	96,732	113,247

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20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED (continued)

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.

Dividends Paid and Proposed

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

In the General Assembly meeting of the Parent Bank, dated March 30, 2005, it was decided to distribute the profit for the year 2004 after providing the legal reserves. The amounts to be distributed to the shareholders who are subject to and not subject to withholding tax are YTL 0.1628883 and YTL 0.1465994 (Nominal full YTL) per share respectively. Dividends amounting to YTL 9,414 were paid to the shareholders.

The Group did not declare or pay dividends out of profits for 2005 as of the date of preparation of these financial statements.

21. EARNINGS PER SHARE

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

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

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21. EARNINGS PER SHARE (continued)

	Number of Shares (in millions) Issued Attributable to				Total
	Cash	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	
1995 and before	150	3,000	250	-	3,400
1996	-	-	330	1,270	1,600
1997	-	1,022	596	4,382	6,000
1998	5,512	529	682	7,277	14,000
1999	-	600	2,062	16,338	19,000
2000	40,182	-	-	26,068	66,250
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	5,350	-	-	5,350
2005	-	-	-	-	-
	45,844	10,501	3,920	55,335	115,600

There is no dilution of shares as of December 31, 2005 and 2004.

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

	2005	2004
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	0.000963	0.000537
Weighted average number of ordinary shares (in billions) for basic earnings per share	115.6	115.6

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Colakoglu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of Parent of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Colakoglu Group companies, TEB'liler Vakfi and BNP Paribas Group entities are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its business, the Group conducted various business transactions with related parties. These include primarily loans, deposits and borrowing transactions. The significant outstanding balances with related parties at year-ends and relating expense and income for the years are as follows:

2005:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Other current assets	Other liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	-	16,179	-	580,396	144,289	855	208	177,256	2,008	24,269	2,146	251
Others	29,353	78,444	149,900	715,008	-	1,258	60	2,867	1,262	27,303	15,042	524

2004:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Other current assets	Other liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct shareholders	31	13,024	-	237,660	-	-	-	5,282	3,008	7,009	2,594	3,505
Others	548	3,687	9,373	677,306	-	-	-	-	4,704	17,087	4,106	1,989

No provisions have been recognized in respect of loans given to related parties (2004 - nil).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately YTL 12,467 (2004 – YTL 10,338) comprising salaries and other short-term benefits.

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23. SALARIES AND EMPLOYEE BENEFITS

	2005	2004
Wages and salaries	86,808	73,791
Cost of defined contribution plan (employers' share of social security premiums)	13,183	9,913
Other fringe benefits	11,402	7,759
Provision for employee termination benefits	2,316	2,020
Bonuses	9,883	6,448
Total	123,592	99,931

24. OTHER EXPENSES

	2005	2004
Maintenance and various administrative expenses	28,376	35,681
Rent expense	18,668	12,601
Advertisement expenses	13,818	6,018
Communication expense	8,919	8,313
Saving Deposit Insurance Fund (SDIF) premium	2,409	4,429
Total	72,190	67,042

25. GAINS LESS LOSSES ON TRADING SECURITIES

Gains less losses on trading securities arise primarily from fixed income securities.

26. FEES AND COMMISSIONS INCOME AND EXPENSE

	2005	2004
Fees and commissions income		
Banking	74,666	59,464
Brokerage	12,962	12,219
Fund management	32,682	27,677
Other	3,179	3,042
Total	123,489	102,402
Fees and commissions expense		
Banking	13,303	18,957
Other	2,721	1,165
Total	16,024	20,122

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27. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	2005	2004
Letters of guarantee issued by the Bank and its subsidiaries	1,167,614	926,104
Letters of credit	681,843	515,191
Acceptance credits	52,685	45,697
Total non-cash loans	1,902,142	1,486,992
Other commitments	417,646	275,131
Credit card limit commitments	162,050	123,660
Letters of guarantee obtained	58,868	25,216
Total	2,540,706	1,910,999

Fiduciary Activities

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

The nominal values of the assets (excluding investment funds) held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to YTL 3,902,256 at December 31, 2005 (2004 - YTL 2,391,404). As of December 31, 2005, securities at custody include investment funds with market value of YTL 2,416,993.

The Group also manages fifteen 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.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of December 31, 2005, in line with the requirements of IGM, letters of guarantee amounting to USD 1,892,000 (2004 - USD 1,410,000) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of December 31, 2005, according to the general requirements of the ISE, letters of guarantee amounting to YTL 4,089 and USD 16.79 million (2004 - YTL 3,929 and USD 15.05 million) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as of December 31, 2005 according to the general requirements, letters of guarantee amounting to YTL 1,213 (2004 - YTL 722), were given to the Capital Markets Board.

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27. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

- (i) On April 5, 2005, TEB made a public announcement stating they were notified on April 4, 2005 that Borsa Yatirimcileri Dernegi (Stock Exchange Investors Association) has filed a lawsuit on March 15, 2005 to the commercial court for the cancellation of the Extraordinary General Assembly of Shareholders held on December 17, 2004 (with respect to the approval of transfer of 50% shareholding of TEB Mali Yatirimlar A.S. to BNP Paribas). In the hearing dated July 7, 2005, it was decided to object on the authorization aspect by the Court Council. On November 30, 2005 Borsa Yatirimcileri Dernegi (Stock Exchange Investors Association) withdrew the lawsuit about the cancellation of the Extraordinary General Assembly of Shareholders held on December 17, 2004. In January 2006, The Court of Appeals has ruled that the case be referred to the Commercial Court of First Instance on the grounds that it is the Court of First Instance that has the competence to give the final ruling on a case if such case is withdrawn by the plaintiff. In February 2006, the Court has ruled that the lawsuit has been rejected.
- (ii) In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

Other

Except for the Head-Office-Istanbul and Izmir-Konak Branch buildings, all branch premises of TEB are leased under operational leases. The lease periods vary between 1 and 10 years and lease agreements are cancelable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

28. FINANCIAL RISK MANAGEMENT

Organisation of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The mission of Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

Each operating company is required to implement the Group's risk management policies and procedures. There is a designated Risk Officer in every operating company to ensure effective reporting and monitoring.

28. FINANCIAL RISK MANAGEMENT (continued)

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Credit Risk

Credit risk is the risk that one party to a contract will fail to discharge an obligation and cause the other party to incur a financial loss. It arises primarily from lending, trade finance, treasury and leasing activities but may arise in other circumstances.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the operating companies.

Account officers visit customers, collect and review financial information and business plans. If the Branch Credit Committee decides to proceed, a credit proposal is submitted to the related Credit Allocation Division/Regional Departments. The Credit Allocation Departments apply number of standard financial ratios and tests to the relevant company's audited financial statements and make other appropriate enquiries in conjunction with the Financial Analysis Department., including taking references from other banks, obtaining information about owners, shareholders and/or senior managers and analyzing the customer's business sector. A report is then prepared on the potential customer by the Credit Allocation Departments for submission to the Credit Committee, setting out their assessment of the customer's credit worthiness.

The credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporates and also the guarantees. This system aids in making decisions of allocating credit limits and accepted guarantees. Counterparty limits are monitored daily on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored. The credibility of the debtors of the Group is also assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves."

In order to control the exposure to different industries, sectoral limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to individual customers, customer groups and other risk concentrations in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, large non-performing accounts and impairment allowances as well as default and recovery rates.

The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored daily.

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolios and controlling all credit risks.

There is a separate department responsible for recoveries in the Bank. The Credit Monitoring and Legal Action Department consists of two sections, Credit Monitoring and Legal Action Units. The department is responsible for all loans, personal and corporate, and reports directly to the General Manager, while providing reporting for the Credit Committee.

After issuing a loan, Credit Monitoring Unit constantly monitors the client's credit solvency and the fair value of the collateral. The department has set up its credit monitoring process in a way, which quickly helps to identify deviations in the client's performance from the agreed forecasts, or possible non-compliance by the client with the agreed terms and conditions of the loan.

28. FINANCIAL RISK MANAGEMENT (continued)

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A systematic bottom-up credit monitoring approach enables the Bank to measure and identify possible problematic loans at an early stage. The monitoring division prepares at least monthly a review of the loan servicing history and gives an assessment of the future credit solvency for each large exposure. Through the monitoring process, which is based on the assessment of the loan recovery and the correlation of the counterpart; the Credit Monitoring and Legal Action Department calculates the amount of risk capital required to cover expected losses and risk for each loan.

Assessing the customer's recent performance there may be early signs of delinquency or other irregular symptoms detected in an account, warranting a more detailed review of the credit-worthiness and the repayment ability of the client concerned. If there is a doubt about a client's loans, the client is included in a precautionary watch list. It is advised to request additional collateral. Credit Monitoring Unit has the authority of blocking/unblocking credit lines if there is a defectiveness or insufficient situation.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

Since the volume of the restructured loans is not material to the financial statements, no additional follow up methodology is developed, except as stated in the regulations.

Netting is a technique used by the Bank to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

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

	2005	
	Cash	Non-cash
Manufacturing	1,030,373	551,022
Finance	438,354	209,538
Food	338,721	171,801
Private individuals	400,389	-
Transportation	224,462	76,796
Chemical	153,642	107,380
Wholesaler	177,014	111,617
Automotive	136,355	88,920
Mining	134,377	67,584
Construction & public works	126,390	149,807
Equipment materials	69,468	71,859
Technology	72,928	60,594
Energy	41,296	47,781
Materials	5,317	-
Property	1,697	-
Others	101,337	187,443
Total loans	3,452,120	1,902,142
Interest accruals	28,812	-
Receivables in arrears	33,679	-
Provision for impairment	(35,149)	-
Total	3,479,462	1,902,142

28. FINANCIAL RISK MANAGEMENT (continued)

Turk Ekonomi Bankasi Anonim Sirketi

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2005

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	2004	
	Cash	Non-cash
Manufacturing	574,166	324,246
Finance	255,870	129,407
Food	217,209	155,443
Transportation	184,224	102,165
Chemical	134,380	112,339
Private individuals	118,811	-
Wholesaler	138,038	94,958
Business services	86,828	37,969
Equipment materials	62,069	71,183
Materials	56,442	4,944
Mining	48,511	35,823
Construction & public works	44,677	108,569
Energy	33,206	30,653
Retail	51,988	-
Technology	31,027	41,029
Others	2,968	238,264
Total loans	2,040,414	1,486,992
Interest accruals	18,650	-
Receivables in arrears	20,881	-
Provision for impairment	(21,479)	-
Total	2,058,466	1,486,992

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflows to fulfill the cash outflows completely on time.

The Group's policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self sufficient with regards to funding its own operations. The Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

28. FINANCIAL RISK MANAGEMENT (continued)

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Asset Liability Management (ALM) has the responsibility for obtaining finance on money markets and financial markets for the Bank from short to medium and long term financing and also provide finance to core business lines at the Bank to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

Main source of funding to cover the liquidity need is deposits and in addition to this source, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Bank is generally a net lender in interbank money markets.

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 months to 1 year	Over 1 year	Unallocated	Total
As at December 31, 2005						
Assets:						
Cash and balances with central banks	270,503	-	-	-	-	270,503
Deposits with banks and other financial institutions and other money market placements	985,769	85,898	49,782	-	-	1,121,449
Reserve deposits at central banks	316,924	-	-	-	-	316,924
Trading securities	21,597	619	14,432	73,598	-	110,246
Investment securities	-	104	190,527	920,364	9	1,111,004
Loans, advances and factoring receivables	1,160,579	612,624	1,103,218	734,117	35,233	3,645,771
Minimum lease payments receivable	12,768	21,529	78,648	98,611	-	211,556
Derivative financial instruments	-	2,977	1,988	1,263	-	6,228
Premises and equipment	-	-	-	-	61,470	61,470
Intangible assets	-	-	-	-	5,625	5,625
Investment in associates	-	-	-	-	1,536	1,536
Deferred tax asset	-	-	-	15,552	-	15,552
Other assets	14,132	675	4,755	-	8,070	27,632
Total assets	2,782,272	724,426	1,443,350	1,843,505	111,943	6,905,496
Liabilities:						
Deposits from other banks, customers' deposits, funds borrowed and other money market deposits	4,218,373	850,786	654,107	443,901	-	6,167,167
Factoring payables	51,573	6,099	3,255	-	-	60,927
Derivative financial instruments	13,904	3,285	4,251	530	-	21,970
Other liabilities and provisions	110,948	-	-	-	23,179	134,127
Income taxes payable	-	12,720	-	-	-	12,720
Deferred tax liability	-	-	-	14	-	14
Total liabilities	4,394,798	872,890	661,613	444,445		6,396,925
Net liquidity gap	(1,612,526)	(148,464)	781,737		88,764	508,571
As at December 31, 2004						
Total assets	2,803,398	520,224	855,225	626,369	96,626	4,901,842
Total liabilities	2,925,544	654,054	632,867	257,583	16,299	4,486,347
Net liquidity gap	(122,146)	(133,830)	222,358	368,786		415,495

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28. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

The Group takes on exposure to market risks. Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

The Board of Directors evaluates the risks that can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. The Group Risk Management calculates and follows the VaR amount of portfolios as well as nominal stop loss and position limits set for each product.

Market risk is calculated for TEB using variance/covariance method with using one year observation period (250 work days), 0.99 confidence interval and one day holding period. Regular stress tests and scenario analysis are applied to portfolios.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by BRSA, CMB and other authorities. Only securities held to maturity are valued using Internal Rate of Return (IRR)

The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

Currency Risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market.

The Board of Directors sets limits for the positions, which are followed up daily. Also any possible changes in positions are monitored.

Generally Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

28. FINANCIAL RISK MANAGEMENT (continued)

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The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	New Turkish Lira	Euro	US Dollars	Other	Total
As at December 31, 2005					
Assets :					
Cash and balances with and reserve deposits at central banks	120,085	64,718	398,597	4,027	587,427
Deposits with banks and other financial institutions and other money market placements	443,795	43,565	621,060	13,029	1,121,449
Trading securities	98,082	8,331	3,833	-	110,246
Investment securities	859,877	-	251,127	-	1,111,004
Loans and advances, factoring and minimum lease payments receivable and other assets	1,622,404	909,518	1,245,955	79,450	3,857,327
Derivative financial instruments	377	-	5,540	311	6,228
Investment in associates	1,536	-	-	-	1,536
Premises and equipment	54,871	6,599	-	-	61,470
Intangible assets	5,359	266	-	-	5,625
Deferred tax asset	15,552	-	-	-	15,552
Other assets	18,993	4,056	3,985	598	27,632
Total assets	3,240,931	1,037,053	2,530,097	97,415	6,905,496
Liabilities:					
Deposits from other banks, funds borrowed (except subordinated debt) and other money market deposits	1,123,146	538,500	163,938	50,662	1,876,246
Customers' deposits	1,123,048	498,586	2,522,961	56,586	4,201,181
Subordinated debt	-	-	89,740	-	89,740
Factoring payables	43,633	7,024	2,731	7,539	60,927
Derivative financial instruments	16,402	10	5,299	259	21,970
Other liabilities and provisions	116,095	9,774	4,772	3,486	134,127
Income taxes payable	12,720	-	-	-	12,720
Deferred tax liability	14	-	-	-	14
Total liabilities	2,435,058	1,053,894	2,789,441	118,532	6,396,925
Net balance sheet position	805,873	(16,841)	(259,344)	(21,117)	508,571
Off-balance sheet position					
Net notional amount of derivatives	(317,811)	59,815	216,285	18,122	(23,589)
Non-cash loans (*)	606,990	419,270	828,502	47,380	1,902,142
At December 31, 2004					
Total assets	1,558,335	2,689,819	603,176	50,512	4,901,842
Total liabilities	1,133,423	2,621,901	594,153	136,870	4,486,347
Net balance sheet position	424,912	67,918	9,023	(86,358)	415,495
Off-balance sheet position					
Net notional amount of derivatives	(59,382)	(68,631)	35,197	83,194	(9,622)
Non-cash loans (*)	506,151	598,078	353,422	54,556	1,512,208

(*) There are no effects on the net off balance sheet position.

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position. Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The Asset-Liability Committee of the Bank is responsible to manage interest rate risk at the bank. The Group Risk Management calculates and monitors the interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk by using the standard method in the calculation of overall market risk.

28. FINANCIAL RISK MANAGEMENT (continued)

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The first priority of the Group's risk management is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board and the Audit Committee. Maturities of outstanding assets are based on the contractual characteristics of the transactions.

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

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at December 31, 2005						
Assets :						
Cash and balances with central banks	183,131	-	-	-	87,372	270,503
Deposits with banks and other financial institutions and other money market placements	985,769	85,898	49,782	-	-	1,121,449
Reserve deposits at central banks	316,924	-	-	-	-	316,924
Trading securities	21,613	18,794	14,150	55,689	-	110,246
Investment securities	34,539	618,563	128,081	329,812	9	1,111,004
Loans, advances and factoring receivables	1,170,910	651,580	1,049,153	738,895	35,233	3,645,771
Minimum lease payments receivable	12,768	21,529	78,648	98,611	-	211,556
Derivative financial instruments	-	-	-	-	6,228	6,228
Premises and equipment	-	-	-	-	61,470	61,470
Intangible assets	-	-	-	-	5,625	5,625
Investment in associates	-	-	-	-	1,536	1,536
Deferred tax asset	-	-	-	-	15,552	15,552
Other assets	-	-	-	-	27,632	27,632
Total Assets			1,319,814	1,223,007		6,905,496
Liabilities:						
Deposits from other banks, customers' deposits, funds borrowed and other money market deposits	4,695,230	667,598	737,354	66,985	-	6,167,167
Factoring payables	51,573	6,099	3,255	-	-	60,927
Derivative financial instruments	-	-	-	-	21,970	21,970
Other liabilities and provisions	-	-	-	-	134,127	134,127
Income taxes payable	-	-	-	-	12,720	12,720
Deferred tax liability	-	-	-	-	14	14
Total liabilities	4,746,803	673,697			168,831	6,396,925
Balance sheet interest sensitivity gap	(2,021,149)	722,667		1,156,022	71,826	508,571
As at December 31, 2004						
Total assets	2,794,552	611,920	731,346	524,332	239,692	4,901,842
Total liabilities	2,789,484	923,053	377,891	158,386	237,533	4,486,347
Net interest sensitivity gap	5,068	(311,133)	353,455	365,946	2,159	

Capital Adequacy

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

28. FINANCIAL RISK MANAGEMENT (continued)

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Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

29. 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 major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2005	2004	2005	2004
Financial assets				
Loans and advances	3,479,462	2,055,498	3,488,529	2,073,911
Investment securities held-to-maturity	11,809	437,643	11,810	438,208
Minimum lease payments receivable	211,556	189,105	211,067	184,285
Financial liabilities				
Deposits from other banks	119,302	109,391	119,302	109,536
Customers' deposits	4,201,181	3,165,817	4,194,647	3,179,316
Other money market deposits and funds borrowed	1,846,684	1,035,400	1,846,562	1,037,240

Loans and Advances

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

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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Minimum Lease Payments Receivable

Estimated fair value of lease contracts receivable represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and Borrowings

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

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

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