BNP PARIBAS JOINT VENTURE

TEB

ANNUAL REPORT 2005

CONTENTS

Bank Profile

Through its subsidiaries, making up the TEB Financial Services Group, TEB also offers its customers leasing, factoring, non-life insurance, asset management and investment brokerage services.

Originally established in 1927 as a small-scale regional bank, Türk Ekonomi Bankası (TEB) expanded gradually over the years to cover all geographical regions of the country where economic and industrial activity are vibrant. TEB offers corporate, commercial, retail - including small business - and private banking customers a wide range of contemporary banking services and products. Currently, TEB is operating through a well chosen geographic and economic network with 113 (as of December 31, 2005) branches in Turkey, an offshore branch in Bahrain and a wholly-owned subsidiary bank in the Netherlands.

Through its subsidiaries that make up the TEB Financial Services Group, TEB is able to offer its customers leasing, factoring, non-life insurance, asset management and investment brokerage services. The strong performance and synergy between the Bank and its subsidiaries, as well as the expansion of its distribution network, have underpinned TEB's reputation as a successful and well-integrated banking and financial services group.

During the 1980s, while many banks operated with a wide network of branches throughout the country, TEB focused mainly on corporate and commercial banking as well as foreign trade financing activities. In early 1990s, TEB pioneered private banking activities and in this respect, attained a well-deserved position in the Turkish banking industry.

On February 10, 2005, 50% of the shares of TEB Mali Yatırımlar, the major shareholder of TEB, were sold to BNP Paribas, which now controls 42.125% of TEB.

TEB owes much of this success to its experienced management who comply fully with international standards, corporate governance principles and ethical values of the banking profession. The senior staff members regularly review strategic goals and decisions, analysing the risks related to financial markets, lending and liquidity as well as managerial and implementation issues.

TEB is a listed company on the Istanbul Stock Exchange where 15.17% of its shares are currently traded. Similarly, TEB shares have been listed and traded as GDRs on the London Stock Exchange since 2000.

Financial Highlights

(Bank only financial figures prepared under IFRS)

Key Financial Figures*

(YTL thousands)	2005	2004	2003
Total Assets	5,377,956	3,542,294	3,201,357
Marketable Securities	1,167,833	419,287	130,232
Loans, net	2,950,825	1,590,195	1,329,825
Total Deposits	4,007,172	2,429,710	2,283,559
Shareholders' Equity	469,364	393,021	368,461
Interest Income	472,278	392,622	363,462
Interest Expense	256,978	229,684	202,838
Net Income / Loss	80,459	35,709	61,655
Consolidated Net Income / (Loss)	111,214	62,069	67,133

Ratios and Key Operational Indicators

	2005	2004	2003
Capital Adequacy Ratio	12.33%	14.29%	14.88%
ROE	18.66%	9.38%	17.77%
ROA	1.80%	1.06%	1.97%
Number of Staff	2,633	2,131	1,849
Number of Branches	113	87	77

*All figures are expressed in the equivalent purchasing power of the YTL on December 31, 2004 and are extracted from audited bank-only financial statements based on IFRS.

TEB's Ratings from Major Rating Agencies*

Moody's Investors Service

Financial Strength	Outlook	Foreign Currency Deposits	Outlook
D+	Stable	B1/NP	Stable

FitchRatings

FC Long-term	FC Short-term	Outlook	
BB-	B	Positive	
LC Long- term	LC Short-term	Outlook	
BB+	B	Positive	
National	Outlook	Individual Rating	Support
AA (tur)	Stable	C/D	3

* As of the end of 2005

The long-term local currency rating of "BB+" accorded to TEB by FitchRatings is two notches above Turkey's sovereign rating.

Capital and Shareholder Structure

Shareholders	Share in Capital	Ownership
TEB Mali Yatırımlar A.Ş.	YTL 48,698,937	84.25%
Free Float	YTL 8,765,710	15.17%
Other Shareholders	YTL 335,353	0.58%
Total	YTL 57,800,000	100 %

TEB within the Turkish Banking Industry

A brief comparison of TEB's performance in 2005 to that of the Turkish Banking Industry for the same period reveals the following facts:

Growth Comparisons (%)

	December 31, 2005	
	TEB	Banking Industry*
Total Assets	52	30
Total Loans	85	48
Total Deposits	65	29
Number of Employees	24	4

* Banks Association of Turkey

Market Share Comparisons (According to BRSA bank-only figures)

	December 31, 2005			December 31, 2004		
(YTL millions)	TEB	Banking Industry*	TEB's share	TEB	Banking Industry*	TEB's share
Total Assets	5,421	396,962	1.37%	3,566	306,452	1.16%
Total Loans	2,939	150,701	1.95%	1,585	103,241	1.53%
Total Deposits	3,242	243,121	1.33%	2,260	197,394	1.14%
Number of Branches	113	6,247	1.81%	87	6,106	1.44%
Number of Employees	2,633	132,258	1.99%	2,131	127,163	1.68%

* Banks Association of Turkey

Balance Sheet Comparisons (According to BRSA bank-only figures)

Percent of Balance Sheet (%)	December 31, 2005 TEB	December 31, 2005 Banking Industry*	December 31, 2004 TEB	December 31, 2004 Banking Industry*
Liquid Assets	19%	17%	37%	14%
Marketable Securities	21%	36%	11%	40%
Loans	54%	38%	44%	34%
Fixed Assets	1%	5%	1%	4%
Other	5%	4%	7%	8%
Total Assets	**100%**	**100%**	**100%**	**100%**
Deposits	60%	62%	63%	61%
Money Markets	14%	5%	4%	4%
Loans Received	12%	14%	16%	9%
Subordinated Loans	2%	0%	1%	0%
Other	3%	5%	5%	21%
Shareholders' Equity	9%	14%	11%	5%
Total Liabilities	**100%**	**100%**	**100%**	**100%**

* Banks Association of Turkey

TEB has never relinquished its mission of being a real banking institution since its foundation and with this primarily in mind, it has been one of the banks that have taken the best advantage of the positive improvements in economic conditions.

By entering into partnership with BNP Paribas, a world-class bank with all its accumulated experience and knowledge, TEB has become even more solid and has made significant headway in the field of foreign trade, in which it is already strongly active.


TEB

Chairman's Message

As a result of all these developments and in a period of investment in new branches and products, TEB succeeded in increasing its profits for 2005 by 125.3% over that of the previous year.

The growth of the Turkish economy came close to 10% in 2004 and has placed our country at the top of the list of OECD countries on this score. Inflation has fallen to single digit figures during the past two years with consumer confidence increasing and privatisation making headway.

Following the opening of accession talks with the European Union on October 3, Turkey has become the centre of attraction for international investors. In addition, falling interest rates and the financial support by the IMF to Turkey have made 2005 a year that will be remembered as one in which the perceptions of the financial world changed radically regarding Turkey and acquisitions by foreign banks took place. TEB became one of the first pioneers in foreign partnerships, with BNP Paribas becoming an indirect shareholder in TEB upon the purchase of 50% of the shares owned by TEB Mali Yatırımlar in February 2005.

TEB has never relinquished its mission of being a real banking institution since its foundation and with this primarily in mind, it has been one of the banks that have taken the best advantage of the positive improvements in economic conditions. By entering into partnership with BNP Paribas, a world-class bank with all its accumulated experience and knowledge, TEB has become even more solid and has made significant headway in the field of foreign trade, in which it is already strongly active. We also introduced new banking solutions in the area of SME banking (both in the commercial and retail segments) and restructured our strategy in consumer banking.

As a result of all these developments and in a period of investment in new branches and products, TEB succeeded in increasing its IFRS bank-only profits for 2005 by 125.3% over that of the previous year.

It is clear that much ground still needs to be covered by the Turkish banking industry. We can see that banking assets in the EU countries are over 300% of GDP, whereas this ratio has not even reached 80% in our country. However, when we consider the dynamism of the country and the positive economic developments, these figures show clearly potential for growth and deepening for the industry.

On behalf of the Board of Directors I would like to thank each one of our employees for their diligent efforts toward achieving successful results again this year. Our special thanks are also due to our shareholders for their commitment.

Yavuz Canevi
Chairman

CEO's Report

TEB was a pioneer by entering into a strategic partnership with one of the world's leading banks, BNP Paribas, thereby adding to its own forces the accumulated strength of experience, knowledge and distribution network of this bank.

In 2005, the Turkish economy enjoyed stable growth with no concessions in the area of budgetary discipline; it will be remembered as one of the most successful years in recent Turkish history in the area of foreign investment. Parallel to favourable developments, the Central Bank reduced the interest rate nine times during the year and pulled the overnight rate down from a level of 18% at the beginning of the year to a level of 13.5%. Furthermore, for the last two consecutive years, inflation fell below the 10% mark with the Consumer Price Index at a low of 7.7%, thus setting a new record. Parallel to these developments, the practice of inflation accounting was terminated on the basis of the decisions taken by the Banking Regulation and Supervision Agency (BRSA), the Ministry of Finance and the Capital Markets Board.

2005 was not only a positive year in terms of strong economic fundamentals and sustained stable growth, but was also one in which funding sources became less costly, with loans spread over longer repayment terms; these indicators were reflected in social life in a real sense.

Along with other industries, stable growth had positive effects on the banking industry as well, resulting in the banking system, the significant power behind financial stability, becoming yet stronger.

In this regard;

Terms for mortgage loans in particular were extended to repayment periods of ten years or longer;

The banking industry became highly attractive to foreign banks, opening up the prospect for new mergers and acquisitions;

Thanks to this, all kinds of higher quality and less costly financial instruments are now within the reach of companies and consumers resident in Turkey for use in all their transactions and investments outside the country;

The equity capital structure of the sector was strengthened and free capital increased, along with significant improvements in ROA and ROE.

At the end of 2005, the banking industry in total had achieved the following figures:

Total Assets	YTL 397 billion
Total Loans	YTL 151 billion
Total Securities Portfolio	YTL 143 billion
Total Deposits	YTL 243 billion

When we analyse these figures in detail we see that assets have grown by 30%, loans by 48%, securities portfolios by 16% and deposits by 29%. As will be observed by the figures, the significant growth of loans constitutes an important step toward the aim of channelling resources to the long-awaited needs of the real sector.

TEB was a pioneer by entering into a strategic partnership with one of the world's leading banks, BNP Paribas, thereby adding to its own forces the accumulated strength of experience, knowledge and distribution network of this bank. Following the conclusion of the partnership agreement between the two banks in February 2005, we started to move on to new targets and strategies.

As a first step and taking advantage of the fact that we were already an experienced foreign trade bank, we opened three new Trade Centres in Istanbul, Izmir and Adana, thereby becoming a part of the worldwide network of BNP Paribas' Trade Centres. This created the opportunity for our customers to readily obtain and benefit from foreign trade information regarding the countries with which they have trade relations.

Furthermore, we opened a Turkish Desk at BNP Paribas in Algeria, in view of the strong presence of Turkish companies in Northern Africa. This initial step has yielded positive results beyond our expectations. Our next step will be to establish similar Turkish Desks in all the other countries in which Turkish companies are active and thereby be more effective in foreign trade.

Given the current prominence of Small and Medium Enterprises (SMEs) for the banking industry, we launched the most comprehensive product package in the area of the SME banking, both in our commercial and retail business. In addition to our financial services, we are also offering non-financial services aimed at facilitating the work of our customers in this segment by making them more efficient. We have established a hotline specifically for SME customers to serve them in diverse areas ranging from foreign trade, insurance and human resources consulting services all the way to technical matters.

With regard to retail banking, we completed 2005 by presenting and introducing new products and services after investing in necessary infrastructures. We launched Retail Business Process Reengineering and increased the share of retail loans in the balance sheet footing. Additionally, we increased retail deposits with a major focus on customer acquisition. Our target has been to reposition TEB as a leading retail bank. We also established a green-field SME-Retail Banking operation as a new department within the Bank's organisational structure.

We aim to become one of the leading competitive banks in the area of retail and small business banking in the coming years by taking greater advantage of the know-how and expertise of our partner BNP Paribas. In retail banking, while the overall housing loan volume increased within the banking industry by 360%, housing loans granted by our bank increased by 791%; with regard to vehicle loans, TEB experienced a 375% increase compared to a total increase of 42% in the sector overall.

Our bank closed the year 2005 with IFRS bank-only pre-tax profits of YTL 114,275,000 and net profits of YTL 80,459,000 in a period where inflation and interest rates continued to fall, competition intensified and profit margins narrowed.

CEO's Report

As we embark on 2006, we will continue to offer our customers all the benefits that have resulted from the improvements in the economic environment and the strength we have gained from our successes in 2005.

When we compare some of the key balance sheet items and ratios in our IFRS bank-only financial statements with those of the previous year-end, we see that;

- Our assets grew by 52%;
- Shareholders' equity reached YTL 469 million;
- The share of deposits in the balance sheet footing was 74%;
- The share of the securities portfolio in total assets reached 21%;
- The share of retail loans in total assets reached 7.3%;
- Our loan portfolio expanded by 85% over the previous year and now constitutes 54% of total assets;
- Our loans-to-deposits ratio of 74% means that YTL 74 out of every YTL 100 deposited with us is lent out as loans;
- While our lending volume increased by 85% during 2005, particularly in the Retail-SME and Commercial-SME segments and in personal loans, the NPL ratio decreased from 1.3% in 2004 to a level of 1.1% in 2005;
- The ratio of "free capital" increased to 58% from 52% in 2004;
- Our capital adequacy ratio was 12.33%;
- ROA increased from 1% in 2004 to 1.80%;
- ROE was 18.66%;
- The number of branches increased from 87 in 2004 to 113 in 2005 and the number of employees rose from 2,131 in 2004 to 2,633 in 2005.

As we embark on 2006, we will continue to offer our customers all the benefits that have resulted from the improvements in the economic environment and the strength we have gained from our successes in 2005. We will reap the fruit of the synergy that has been created through our unification with BNP Paribas. We believe that 2006 will be another year of success and growth for TEB.

Varol Civil
Executive Member of the Board and CEO

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The synergy between the Commercial Banking Division, Corporate Banking Division and the Cash Management Unit continued to bear results in 2005.

Close relationship between TEB and the group companies, i.e. TEB Insurance, TEB Leasing and TEB Factoring, continued whereby these financial service companies effectively responded to the needs of the commercial banking clients with services other than conventional banking products.


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Overview of Activities in 2005

The partnership with BNP Paribas has reinforced TEB's strong asset position, time-tested credit culture and approach to effective balance sheet management.

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Corporate Banking

The Corporate Banking Division provides services to large-scale Turkish companies and multinational corporations, offering them a full range of sophisticated banking products. Operating from eight corporate branches, covering a majority of Turkey's most economically developed cities, the Corporate Banking Division tailors solutions to meet even the most complicated financial requirements of its corporate clients. TEB, operating more like a business partner, facilitates clients' cash flows by utilising innovative cash management services.

In addition to conventional banking, Corporate Banking Division offers more sophisticated services like commodity finance, export finance, project finance and investment banking. The Division also creates synergy in marketing group companies' products like factoring, leasing, insurance and TEB N.V.'s products and services in the Netherlands. TEB's expertise in foreign trade differentiates the Bank from its peers and constitutes an important service element to all clients dealing in foreign trade.

TEB's strategy rests on being the "housebank" for a majority of its clients in the corporate segment. This strategy aims to build in-depth relationships with existing customers while broadening the client base. TEB believes this strategy will foster its market share in the corporate banking segment.

In an environment of declining inflation, long-term relationship management, high service quality and business solutions tailored to company-specific needs continue to be important tools. The Corporate Banking Division uses these tools to achieve its goal of being the choice of large-scale companies in Turkey - presently and for years to come.

In the last quarter of 2005, the Corporate Banking Division started to monitor progress on an industry level in addition to the branch level. The reason for this is to keep abreast of developments while monitoring risk closely and to better meet the expectations and needs of customers through industry-based specialisation.

In 2005, the Division started to offer new solutions to its customers by taking advantage of BNP Paribas' global expertise, distribution network and project finance know-how. Especially for the construction projects in the emerging countries like Morocco, Tunisia, Algeria and Qatar, TEB began providing advantageous terms, prices and services with the partnership of BNP Paribas.

Cash Management Services

Cash management services complement corporate, commercial and the newly launched Retail-SME banking services and create low cost funding opportunities for the Bank. By further expanding the service and product portfolio offered to its corporate and commercial banking clientele under cash management services, TEB has maintained its leading and pioneering role in the marketplace. Cash management services help corporate and commercial clients to manage their time and resources more effectively by organising collections and payments. TEB's cash management services ease receivables accounting, follow-up and collection burdens for companies that sell through a wide network of distributors or regional offices and helps them plan their cash flow.

Always expanding the scope of cash management service, TEB delivers these services through a state-of-the-art electronic platform operating online and in real-time. The client-oriented Cash Management solutions developed in the TEB Corporate Internet Banking Application helps establish long-term relationships with corporate and commercial clients that have diverse cash management needs. The final addition to its service portfolio has been the Import Transfer Automation, a service provided for the first time in Turkey and offered uniquely by TEB. Launched in 2005, a total volume of more than US$ 2 billion import transfers was achieved through this service.

The number of companies utilizing TEB's Continuous Cheques, Direct Debiting, Cheque Automation and Electronic Supplier Payment Systems increased further in 2005. According to the Central Bank's Cheque Clearance data, TEB achieved a 14% increase with regard to cheque settlement volume. These services create an important funding source for the Bank in the form of demand deposits. Cash management is also an essential source of fee and commission revenue.

With unique applications and solutions in the area of foreign trade, cash management has become one of the most significant value-added services offered by TEB.

Commercial Banking

The commercial banking segment is made up of companies whose annual sales are between US$ 2 to US$ 50 million. Year 2005 was one of expansion in the number of commercial banking customers. Shaped by market conditions, the needs of newly-acquired customers, as well as the existing ones, have led the Commercial Banking Division to develop new products, including those that meet the non-financial needs of customers.

There is a complete range of commercial banking products and services at TEB designed to meet all of the clients' banking requirements - from loans and cash management to investment. The Bank's comprehensive approach contributes to the maximisation of the clients' cash flow and business assets, thus streamlining the financial management process. By providing financial consultancy services, TEB guides commercial clients in their move from general mass-market financial products to services focused on their needs. Efficiency is given particular attention while marketing plans and strategies are geared toward concurrently attaining a balance between profitability for the Bank, on the one hand, and client satisfaction, on the other.

The synergy between the Commercial Banking Division, Corporate Banking Division and the Cash Management Unit continued to bear results in 2005. Close relationship between TEB and the group companies, i.e. TEB Insurance, TEB Leasing and TEB Factoring, continued whereby these financial service companies effectively responded to the needs of the commercial banking clients with services other than conventional banking products.

Commercial-SME Banking

TEB believes in the importance of the dynamism created by SMEs in the economy. This has led TEB into a major restructuring process during the past year that will allow a higher degree of concentration on SMEs in general. TEB's customer-focused approach has been a guiding strategy during this organisational restructuring and re-segmentation of customers according to their sizes and banking requirements. The growth potential in this segment of the economy encouraged TEB to develop new products to respond to the financial needs of SMEs and to create new and different products that would add value to their activities. In 2005, TEB started to provide SMEs with services from the SME Development Package, TEB SME Academy and SME Support Line, together with the Accounting Integration Service, each of them a first in Turkey.

Overview of Activities in 2005

The new retail strategy required a quick and continuous network expansion, which has led TEB Retail Banking to open 26 new branches during 2005, ending the year with a total of 113 branches.

SME Development Package is designed to address both the financial, information and technological needs of SMEs. SME Development Package is unique in the Turkish banking sector and comprises of SME Support Line, TEB Accounting Integration Programme, TEB SME Academy and Loan Solutions all of which are specifically designed to meet the needs of SMEs.

The TEB SME Academy incorporates a special seminar programme that is targeted at increasing the profitability and competitive strength of SMEs in domestic and international markets within the scope of an applied Strategic Management Model. This model demonstrates important points on these matters and provides detailed information on how they can more correctly manage the strategies needed - all this through workshops and one-to-one discussion sessions held for the representatives of the SMEs. In addition, the SME Support Line at 444 0 667 provides a round-the-clock free service to SMEs on matters that are of interest to them, such as tax and accounting information, foreign trade legislation, training consultation, information on congresses and trade fairs, leasing and insurance information as well as IT support, travel arrangements, organising meetings, conferences, translation services and the like.

Accounting Integration software is a new product that is specific to SMEs, aiming to bring them technical support to monitor bookkeeping. This automated system, which TEB prepared jointly with a software company, provides the companies access to their transactions for inventories, services, purchases, sales, finance and accounting entries as well as to TEB menus. Thanks to this package, SMEs are able to manage all their commercial activity through this programme as well as allowing online integration with TEB, making it possible for them to place queries instantly about their transactions.

Paralleling TEB's unique approach of being a different bank for each customer, the SME Banking Division continues to implement this philosophy to develop industry or segment-specific solutions. On the basis of contracts signed with professional organisations and associations, their members can benefit from TEB's loan packages and services on advantageous terms.

The Division provides services throughout the entire tourism industry by accessing different segments (such as hotels, suppliers and yacht operators, etc.) and providing loans and banking services to these segments. Furthermore, under an agreement concluded with the KGF (Credit Guarantee Fund), TEB extends financing facilities to developing SMEs.

BNP Paribas has a wide spectrum of products and know-how in the area of commercial, corporate and retail banking. TEB now takes advantage of the synergy created by BNP Paribas' partnership and makes use of this know-how to respond to the needs of the SMEs. For example, the ISO/CE loan for structural development of the SMEs came about from this know-how. Those SMEs that wish to obtain ISO 9000 or ISO 14000 quality certificates are now being offered financing at very attractive prices and terms.

In addition to serving the development and financing needs of SMEs, TEB fulfils its social obligation by offering information and training support to SMEs to elevate them to EU standards and contribute to the country's overall economic development.

Retail Banking

Consumer Banking

TEB's investments prior to 2005 had built a retail banking infrastructure designed to serve a small customer base from upper market segments. In 2005, TEB has signed the partnership agreement with BNP Paribas, one of the largest banks of the world with operations in 85 countries. Following this partnership agreement, the retail banking strategy was restructured with a growth plan to become one of the major players in this market within a five-year term. As part of this aggressive organic profitable growth strategy, TEB Retail Banking has turned its face towards the mass affluent market without losing its core competence in providing tailored, boutique-type customer service.

The new retail strategy required a quick and continuous network expansion, which has led TEB Retail Banking to open 26 new branches during 2005, ending the year with a total of 113 branches. Mass acquisitions through salary payments have also led the growth of the customer base. With these improvements in retail banking, TEB's customer base has grown to 274,000 in December 2005 with an approximate 28% increase in the number of active customers in 2005.

With the new organic growth strategy, TEB Retail Banking has redesigned its operational and business processes and the technology infrastructure to serve a larger customer base in a multi-customer, multi-interaction environment. Among these infrastructural projects was the renewal of new customer validation process to achieve quicker validation as well as the GSM-based password delivery to enable immediate access for the new customer. Easier application processes have been implemented for loans and credit cards. Implementation of new sales screens further empowered the sales representatives by displaying a consolidated view of all product and activity information for each customer. The expansion of the customer base was accompanied by an increase in the activity rates as a result of infrastructural projects, redesign of alternate delivery channels, implementation of best-in-class database technology and statistical tools.

Consumer loans and mutual funds have been identified as niche growth areas and strategic partnerships have been pursued in the areas of car and house loans to fuel growth. TEB Retail Banking has introduced new relevant products in 2005 to diversify the retail product portfolio and appeal to a larger target customer base. The widely acclaimed TakTik investment product has been designed to make investment choices according to the customer's risk-return profile. The Home Equity Loan is a personal loan product that accepts an individual's house as the collateral and the new Refinance Loan is a house loan product that targets customers with house loans from other banks. A new personal cash management system, Pratik Account, simplifies the management of customers' financials by making it possible to conduct most banking transactions automatically. As a complementary credit product for the Pratik Account, Overdraft has also been re-launched in 2005 with the new brand, Kaynak Account.

TEB also started producing marketing communications in a retail manner and invested in mass communication of its new products. The re-launch of TakTik and Kaynak Account were good examples of retail focus in marketing communications. This structured focus has resulted with significant expansion and increased the share of retail loans and deposits within the TEB balance sheet, providing a low-cost and widespread deposit base.

TEB's growth has consistently been above the market growth rates for all lines of products, thus increasing TEB's share of the retail banking market. TEB's personal loan business has grown by 371% in 2005, well above the market average. TEB has grown by 791% in house loans compared to a market growth of 360% and has increased its market share in house loans from 0.72% to 1.27%. TEB has also grown by 375% in vehicle loans, surpassing the 42% market growth and increasing its market share from 0.46% in 2004 to 1.84 % by the end of 2005. This continuous growth has also been accompanied by the increase in bank insurance sales, bringing significant revenues to TEB and increasing the retail share in total production. The increase in non-interest income within the total income has caused an increase in upfront earnings and resulted with a healthier income mix.

Investment products

On the investment front, TEB has become the second fastest growing bank in the area of mutual funds at a rate of 39%. Market share has increased from 2.70% to 3.46% in 2005. TEB's YTL savings accounts (time and demand deposits) have grown by 63% in 2005, while the market's growth rate was 31%. The foreign currency accounts have also grown by 12% compared to the market growth rate of 3% in the same period.

Card payment systems

While growing in investment products and consumer loans, TEB Retail Banking has also invested in its credit card infrastructure to position itself for growth in the coming years. In September 2005, Card Payment Systems Marketing Department has been established as a division within Retail Banking Group in order to develop strategies for the improvement of TEB's credit card issuing and acquiring business in the shortest term. In four-months-time, this division has focused mainly on product development and enhancement of the processes in order to become one of the strong players in the highly developed Turkish payment systems market.

Overview of Activities in 2005

With the new organic growth strategy, TEB Retail Banking has redesigned its operational and business processes and the technology infrastructure to serve a larger customer base in a multi-customer, multi-interaction environment.

Alternative delivery channels
TEB has offered its banking products and services through Alternative Delivery Channels in parallel with the new retail strategy. The number of customers actively served by TEB online banking (Internet branch) has reached 16,500, increasing 32% while the telephone branch has reached 19,000 active customers, receiving nearly 75,000 calls every month. TEB has delivered a highly-secure Internet branch to its customers using latest online security. Applications such as one time login password through SMS have been implemented to enable login with double-level authentication system. TEB has reached a network of 246 ATMs all over Turkey and is planning to be one of the banks pioneering the concept of ATMs and their effective use by customers in the sector.

Synergy with BNP Paribas
TEB's aggressive expansion in multiple lines of retail products has been supported by a well-managed, analytical risk policy as well as new HR programmes. The reengineering of risk processes and the preparation of new credit risk scoring models have provided TEB Retail Banking the necessary confidence to grow further into the mass affluent market. On the HR front, a new Retail Management Trainee Programme has been launched and the recruitment/training processes were adjusted accordingly.

The partnership with BNP has also triggered an increased focus on corporate governance for TEB. Continued compliance with internal and external regulations, strict and effective control of processes and project risks have ensured the sustainability of TEB as a healthy and resilient organisation. Further benefits of the BNP Paribas partnership have been realised through the exchange of best practices in risk assessment, CRM and other operations. TEB is now working in close partnership with individual BNP Paribas subsidiaries to develop specialised solutions for the Turkish retail market and fuel exponential growth.

Retail-SME Banking

As part of the new retail banking strategy, the Retail-SME Banking Department has been established in July 2005. The new department aims to serve small businesses with an annual turnover of less than US$ 2 million, which includes the majority of companies in Turkey. The Retail-SME Banking Department also serves the owners and partners of small businesses with the assumption that those relationships cannot be separated from the small business banking relationship. This establishment has required a shift into the multi-customer, multi-interaction structure similar to what was achieved by TEB Retail Banking.

Through establishment of the Retail-SME Banking Department, TEB has managed to diversify and spread its risk in legal entities. The new banking relationships provided low-cost liability at high and well-spread asset margins. Due to its strength in commercial and corporate banking, TEB has access to the cash flows of large companies as well as their dealers and suppliers that constitute a significant target market for small business banking.

In six-months-time, the department has fine-tuned the system infrastructure especially for cash management products such as check book, acquiring business and overdraft account in order to serve small business customers quicker and more efficiently. Significant focus has been put on recruitment and training due to the green field nature of the new operations. A team of relationship managers have been recruited between July and December 2005 to better serve small business customers. As of December 2005, the number of TEB small business customers has reached 8,000.

TEB's Retail-SME Banking Department has also signed loan agreements with chambers of commerce and pharmacists associations in order to acquire and retain new customers. Based on these agreements, the members of the chambers and associations are granted commercial loans, overdraft accounts and check books.

A Retail-SME Banking Loan Department has also been established to evaluate small business customers based on credibility and risk. The average evaluation time per credit application has been 0.8 days.

Private Banking

Private banking, of interest to all banks in recent years, was in effect pioneered in Turkey by TEB in the late 1980s. The philosophy behind TEB Private Banking's customer approach is its tailor-made product designs for different financial needs along with risk profiles within a dynamic economic environment. Under this philosophy TEB Private Banking offers a wide range of products and services and closely monitors service quality. This perfectionist approach to serving client needs has being adopted as a model for private banking activities enhancing TEB's reputable brand name and strengthening TEB Private Banking franchise.

Since its establishment, TEB Private Banking's activities have been shaped in line with international practices and are carried out through Private Banking Centres. In addition to the central platform for private banking within the headquarters, TEB Private Banking Centre at Etiler, one of Istanbul's affluent districts, and seven Private Banking Teams assigned to seven regions of the Bank (Izmir, Bursa, Ankara, Adana, Antalya, Istanbul Asia and Istanbul Europe) are serving the well-to-do individuals. Furthermore, private banking activities are pursued by qualified private bankers located in corporate branches, other activities emanating from commercial and retail branches are successfully managed by the Private Banking Centre.

The Private Banking Division focuses primarily on wealth management through synergy with TEB Asset Management. The wealth management approach is the core of private banking business at TEB. Discretionary portfolio management service, supported by a professional team with strong technical background, is delivered to satisfy different financial needs based on predetermined expectations and risk profiles of the clients. Apart from that, with the involvement of the clients in the decision-making process, an asset allocation service is provided enriched with the entire range of investment and banking products. These active, dynamic management and asset allocation services are the most emphasised areas at TEB Private Banking Division in terms of creating an extra added value for its privileged customers.

Another area at the focal point of the Division is tax advisory which is perceived as one of the most important inputs in the investment related decision-making process. A leading tax consultancy firm supports the tax related services delivered to high net worth, privileged clientele. A tax calculator has been designed and made easily accessible at TEB's Internet site, a unique application in the sector provided by TEB Private Banking Group.

A well designed and coherent reporting system enhances the service quality of TEB Private Banking Division. The team bases its activities related to maintaining and increasing the value of assets on exact performance measurement. Asset portfolio composition and performance are presented by a detailed portfolio statement, updating the value of assets with all relevant transactions clearly documented.

The Private Banking Division provides its customers with regular investment reports mailed to them so that they can follow market trends and developments. Important macroeconomic indicators as well as commentary and detailed analyses of domestic and international markets are included in these reports along with briefs related to mutual fund yields.

All Private Banking customers are regularly presented with a Customer Asset Performance Report. The reports are very detailed and provide information about the customer's assets and all transactions that have taken place during the specified period with comparative analyses and portfolio data spreadsheets.

The entire Private Banking Product and Service Package was updated in 2005 and now includes new products such as Asset Management Service and the Platinum Fund, products that are exclusively offered to private banking customers. In addition, several other benefits and consultation services have been added to this package.

Overview of Activities in 2005

The primary objective of the Trade Centres is to determine first hand the foreign trade financing requirements of its customers and to offer them the most appropriate customised solutions.

Trade Centres

Immediately after the partnership with BNP Paribas, TEB adopted BNP Paribas' Trade Centres concept. Since BNP Paribas established the first Trade Centre in France in 2000, its network of Trade Centres has spread to over 50 countries around the world and provides services at over 75 locations. The primary objective of the Trade Centres is to determine first hand the foreign trade financing requirements of its customers and to offer them the most appropriate customised solutions. For this purpose, TEB's foreign trade experts accompany customer representatives on frequent visits to customers, at the same time, keep in constant contact with the Trade Centre network around the world.

The first Trade Centres in Turkey were opened in May in Istanbul and Izmir. Inauguration ceremonies were held in the two cities with the participation of BNP Paribas Chairman of the Board Mr. Michel Pebereau. The third Trade Centre in Turkey was opened in Adana in October, followed in November by an inauguration ceremony for the business community in Adana and its environs.

Until the end of 2005, TEB's foreign trade experts accompanied customer representatives on visits to numerous customers. In many cases, creative solutions were offered to transactions with complex features and in many occasions, customers expressed their appreciation for this new concept introduced for the first time in Turkey.

A seminar entitled "How to Conduct Business in Algeria?" was organised in October by the Turkish Desk established within BNP Paribas El Djazair and TEB Trade Centres and over 200 Turkish businessmen who do business with Algeria attended. During the seminar businessmen were given advice on how to overcome problems encountered in Algeria and how TEB and BNP Paribas El Djazair could help provide solutions.

Financial Institutions

Correspondent Relations

TEB has correspondent bank relations with 2,500 banks in 120 countries; foreign trade financing continued to be one of the important functions of the Bank in 2005. The respected position that TEB enjoys in this field in international markets has been enhanced even more by its partnership with BNP Paribas. TEB has increased its share of Turkish exports to 7% and of imports to 5% - a benefit derived from the BNP Paribas network of branches and subsidiaries in 85 countries.

TEB has been greatly instrumental in helping Turkish companies to access foreign markets aided by its expertise in foreign trade financing. Its position has now been consolidated through the cooperation with BNP Paribas by providing creative solutions to the foreign trade needs of its customers especially in the countries of North Africa and the Middle East. BNP Paribas has acted as an intermediary by establishing Turkish Desks in those markets that have potential for growth in trade. The first example is the establishment of the Turkish Desk within BNP Paribas El Djazair in Algeria, which extends consulting services to Turkish companies that have trade relations as well as to investors and contractors planning to start business there.

As a result of the strategic cooperation agreement signed with the MPS Banking Group, whose majority shareholder is Monte dei Paschi di Sienna, the oldest bank in the world, Italian companies in Turkey will be able to use TEB branches to receive the services provided by the MPS Banking Group. Likewise, TEB customers will be able to receive similar services related to their Italian operations from the MPS Banking Group in Italy.

The Australian Export Finance and Insurance Corporation (EFIC) and the Export-Import Bank of the Republic of China were new additions this year to the list of agreements TEB had with various export credit agencies for the support of foreign trade in different geographical regions.

International Funding

The Financial Institutions Division secures funding for TEB's requirements in international markets at the best terms and conditions available for the Turkish banking industry.

In 2005, a US$ 200 million syndicated loan matured and was repaid. It was replaced by a one-year Euro 210 million Club Loan (with an additional one-year extension option) arranged from international money markets with the participation of 21 banks. In this transaction, TEB succeeded in securing the lowest interest rate that a Turkish bank had obtained in international markets within the last decade. This has now become a reference point in the pricing of similar loans. The proceeds have been used in the financing of foreign trade transactions of TEB's customers.

During 2005, a ten-year subordinated facility of US$ 50 million was arranged from the International Finance Corporation (IFC). In addition, the maturity of a previous US$ 15 million subordinated loan secured in 2002 was extended by two years with an improvement in the interest rate along the lines of market conditions.

TEB continued in its pioneering role in the financing of Turkey's traditional agricultural products such as tobacco, olive oil, dried raisins and dried fruit; in 2005, it expanded its portfolio to also include hazelnuts. In these commodity finance transactions, TEB acted in the capacity of guarantor, representative or creditor and thus created funds of US$ 190 million during 2005 jointly with foreign banks for use in commodity trade.

Parallel to the positive developments in the economy, TEB continued to arrange special sector-specific loans under attractive terms to meet the medium to long-term financing needs of its customers in cooperation with international financial institutions.

In this context, TEB secured a five-year US$ 10 million Consumer Finance Loan from a leading US bank, the National City Bank of Ohio, under the insurance scheme of the Overseas Private Investment Company (OPIC) in 2005, as well as a ten-year US$ 20 million Housing Finance Loan to finance its present mortgage portfolio.

Furthermore, TEB acted as an intermediary bank in bridging total funds of US$ 44 million to exporting companies investing in production and export development from the World Bank EFIL-II programme (Export Finance Intermediary Loan) under the leadership of the Industrial Development Bank of Turkey (TSKB).

TEB also supported the financing of SMEs in their investment projects and/or working capital needs by securing a Euro 10.6 million loan from the German Development Bank (KFW). Additionally, it secured Euro 2 million for loans to small businesses from EU sources through KFW within the context of the Small Enterprises Loan Programme (SELP).

Overview of Activities in 2005

In line with its policy of attaining leadership in derivative products, TEB attracted the attention of customers through the clearly observable increase in its volume of swap, option and forward transactions.

Investor Relations

The Investor Relations Department had a very busy year during 2005, trying its best to convey to potential and existing investors and analysts the facts and figures concerning TEB.

The Department participated in several events domestically as well as internationally and kept close contact with existing and potential investors by organising numerous road shows. In this regard, the Department organised meetings with nearly 40 investors in Istanbul and held a total of approximately 80 meetings for investors at events in New York, London and Istanbul. It held some 30 meetings in several road shows in continental Europe for the first time in 2005, thus reaching out to additional new investors.

Throughout the year, the Department held tele-conferences at the end of each quarter providing detailed information to investors and continuing to deliver an uninterrupted flow of information to the media and to analysts related to the activities of the Bank.

Another mission of the Department is that of closely monitoring the application of Corporate Governance Principles. As such, it is in close contact with the Corporate Governance Committee for the best possible implementation of these principles at TEB. This committee held meetings throughout the year and contributed to and helped orient Corporate Governance activities of both the Bank and the Banks Association of Turkey (TBB). TEB also participated in meetings held by various organisations on Corporate Governance.

Treasury

The Turkish economy has been undergoing a serious process of structural transformation during recent years. In this new period of economic stability, return on investment exhibits less volatility compared to previous years and the diversity of products is on the increase. At the same time, this process has brought about a major need for risk assessment in the distribution of assets and makes the choice of alternative investment decisions relatively difficult in an environment of declining real returns. Individual and corporate need for a more active risk management/asset distribution decision-making mechanism is coming to the fore.

Money and Capital Markets

Despite purchases by the Central Bank of the Republic of Turkey (CBRT) of US$ 14.5 billion on the FX spot market during 2005, a market that has been growing rapidly as a result of the interest shown by foreign investors, and despite purchase tenders for a total of US$ 7.5 billion, the Turkish lira rose 2.7% in value with a record transactions volume of US$ 236 billion. TEB attained a high share of this increase in market volumes, attracting many foreign banks and multinational banks as counterparties in FX and bond transactions. In 2005, TEB took the first step to become a major trade partner for foreign interest in Turkey and its surrounding area by becoming a hub for treasury activities. This year was also one in which TEB's Treasury scored new successes and achieved new targets.

During 2005, TEB's Treasury closely monitored the deepening of the market and the sharp increase in the use of new products. In line with its policy of attaining leadership in derivative products, TEB attracted the attention of customers through the clearly observable increase in its volume of swap, option and forward transactions. TEB's rapidly growing balance sheet has been paralleled by the growth achieved in the volume of money market, interest and foreign exchange swap transactions.

The Assets and Liabilities Management Unit (ALM), which was set up within the Treasury Division in 2005, played an extremely effective role in managing banking risks and in the use of all kinds of international treasury products, thus helping in the sophistication of business lines in which TEB particularly wishes to expand. In this period of generally declining interest margins in the country, long-term Turkish lira assets were created so that the Bank could benefit from these developments.

Furthermore, in an environment where risk assessment is of utmost value, the ALM managed to uphold TEB's general conservative approach while allowing the Bank to sustain its asset growth on long-term retail loans by creating long-term funds and hedging the balance sheet interest rate gap risk by using a series of sophisticated derivative instruments.

Treasury Products Marketing

The Treasury Marketing Unit was established to address the need to coordinate treasury functions with detailed customer needs. The Unit is responsible for disseminating FX prices throughout the Bank's branches, and direct pricing of big ticket FX transactions to conglomerates. The results for the year show that the Treasury Marketing Unit's pricing share of 10 corporate branches outweighs 50% of their total FX volume. TEB's total FX volume reached almost US$ 20.5 billion by the end of the year. The Treasury Marketing Unit played a crucial role in helping to increase the Bank's market share in FX transactions.

As a customer-oriented organisation, the Treasury Marketing Unit aims at providing top-notch customer service for Treasury customers, which include many of the leading companies in Turkish financial and non-financial sectors and other sophisticated corporate customers interested in derivatives. The Treasury Marketing Unit also markets derivative instruments such as forwards and options and focuses on expanding the diversity of derivatives used for hedging purposes. Creating hedging solutions to optimise foreign exchange and interest risk according to customer needs are among the main objectives of the Unit. In line with this objective, the Treasury Marketing Unit made 400 customer visits during the year and included currency options as a new product in its portfolio. The volume of currency options reached US$ 400 million at the end of 2005.

The Treasury Marketing Unit played an active role in joint applications with other departments of the Bank to recommend solutions to customers on managing long-term risk and hedging against interest and exchange rate risks.

Overview of Activities in 2005

TEB's Information Technology Division successfully completed and implemented several important software and infrastructure projects during 2005. Projects focusing on ITIL and COBIT were accomplished in this context.

Asset Management Services

TEB Asset Management has managed TEB mutual funds since the year 2000; as of year's end 2005, it has a market share of 6.48% in A-Type funds and a market share (excluding liquid funds) of 6.41% in B-Type Funds, with an overall share of 3.34% of the market. TEB mutual funds are also marketed through Citibank and BankEuropa branches.

Foreseeing developing market trends and new needs, in June 2004, TEB Asset Management Company started to offer asset management services to TEB's individual clientele. The objective of the asset management service is to understand the investment profiles of the Bank's individual customers in the light of risk-return analysis and to develop for them an investment portfolio that maintains a balance between risk and return by including numerous different investment instruments. The asset management service has been designed for investors who wish to be aware of their investment strategy and invest accordingly, need expert opinion in the management of their portfolio, do not want to spend time in managing their own portfolio and expect exclusive attention and care.

The Company began offering asset management services to its corporate clientele at the end of 2005, building on the already existing asset management services tailored for individual customers.

Human Resources

The mission of the TEB Human Resources Group is to be an example for one of the best practice in human resources in the financial services sector. TEB's primary consideration has always focused on efficiency and productivity. TEB's aim is to differentiate our employees from the sector standards by actually investing in them.

At the end of 2004, the number of TEB employees was 2,131. This number increased to 2,633 by the end of 2005, due to the launching of new business lines, the increase of TEB's concentration in marketing activities and the opening of new branches.

	Number of employees	Number of branches
2004	2,131	87
2005	2,633	113

In 2005, training programmes concentrated more on marketing, sales, products, credits, risk management and communications with clients. In addition to practical on the job training, TEB promoted the usage of e-learning (virtual training centre) through the Intranet and achieved an annual 76 hours of classroom and Intranet training per employee.

In line with its targets and strategies, it is the policy of TEB to recruit human resources of high quality, preferring university graduates and individuals that have the capacity to represent the Bank, that are able to think analytically and get along well with colleagues.

Regarding successful employees deemed worthy of promotion, upon completion of the performance evaluation, they are not only considered for promotion within the Bank, but also for positions within all of the TEB Financial Services Group companies, when a vacancy exists.

Information Technology

TEB's Information Technology Division successfully completed and implemented several important software and infrastructure projects during 2005. Projects focusing on ITIL and COBIT were accomplished in this context.

The expansion in business volume and the variety of products necessitated a review of certain processes. These were studied in minute details and projects on workflow and process improvement were completed. A new system infrastructure has been developed for flexible reporting using Data Warehouse infrastructure. Corporate internet banking has been renewed with a new Java-based platform featuring new user interface, more functionality, and upgraded security options. Furthermore, structural changes were made to the customer information system so that the customer uniqueness has been provided in all operational systems in addition to D/W systems. In addition, several new product development projects were developed for the use of Retail, Commercial, Corporate and Private Banking Divisions, as well as implementation of system revisions and upgrades for consistency with legal requirements.

Reengineering projects have been carried out by Organisation, Quality and Business Development Departments together with teams from BNP Paribas. Organisational structures, job definitions, process efficiencies and workforce requirements have been analysed and documented in detail, several sub-projects have been initiated and most of them completed during the year.

TEB's IT infrastructure is well-equipped to support the recent strategy shift emphasising retail and small business banking. It is totally capable of providing the necessary technical platforms on which retail and small business services will be delivered countrywide.

Operations

The project for the centralisation of operations initially started in 2001 was completed in 2005 within the scope of the restructuring exercise. Following the completion of centralisation of foreign trade transactions, credit operations and electronic fund transfer (EFT) in 2003 and 2004, TEB expanded the centralisation project by bringing in credit allocation, cash flow management, retail and business banking functions.

In 2005, TEB had a repeat performance of 2004 for payment orders issued to its correspondent banks abroad allowing transactions to be completed without human intervention (95% error-free); it once again received the Citibank N.A. award.

TEB Financial Services Group

The TEB Financial Services Group is comprised of the subsidiaries of TEB Mali Yatırımlar A.Ş., including TEB, and a leasing, a factoring, an investment and brokerage house, an insurance and an asset management company, as well as The Economy Bank N.V. in the Netherlands.

The TEB Financial Services Group is comprised of the subsidiaries of TEB Mali Yatırımlar A.Ş., including TEB, and a leasing, a factoring, an investment and brokerage house, an insurance and an asset management company, as well as The Economy Bank N.V. in the Netherlands. The synergy that has come about and the cross-selling opportunities between these financial institutions have created strong competitive strength for the entire group.

The Economy Bank N.V. (TEB N.V.)

TEB N.V. is a wholly owned subsidiary of TEB, which became operational in Amsterdam in November 1998. TEB N.V. offers foreign trade finance, corporate banking and private banking services. The presence of TEB N.V. in the international arena is an indication of TEB's aim to become the EU's Turkish market specialist.

TEB N.V. has a paid-up capital of Euro 30 million and is wholly owned by TEB.

TEB Investment (TEB Yatırım Menkul Değerler A.Ş.)

TEB Investment is TEB's subsidiary specialised in investment banking and corporate finance as well as in the trading of equity and fixed income securities on behalf of Turkish and international corporate and private investors.

TEB Investment has a paid-up capital of YTL 12,950,000, which is wholly owned by TEB and its subsidiaries.

TEB Leasing (TEB Finansal Kiralama A.Ş.)

TEB's financial leasing subsidiary, TEB Leasing, provides finance to clients investing in machinery and equipment. Since its establishment in 1997, the Company has been able to secure itself a leading position in the sector. Its mission is to provide the best method of long-term finance to meet the customer's investment requirements.

TEB Leasing has a paid-up capital of YTL 29,500,000 and is wholly owned by TEB.

TEB Factoring (TEB Factoring A.Ş.)

In another step towards TEB's objective of becoming a fully integrated financial services group, TEB Factoring was established in 1997 to provide both domestic and international factoring services. A member of FCI - Factors Chain International, TEB Factoring is a leading organisation in Turkey in export-related and forfaiting transactions.

TEB Factoring has a paid-up capital of YTL 6,200,000 and is wholly owned by TEB.

TEB Insurance (TEB Sigorta A.Ş.)

TEB Insurance offers non-life insurance in the areas of fire, marine, accident and engineering insurance. TEB Insurance was the first Turkish insurance company to be rated by the international rating agency Fitch, which awarded the Company with a national rating of A- in January 2001. This rating carries substantial importance in the Turkish insurance industry and the rating has remained the same since it was first awarded.

TEB Insurance has a paid-up capital of YTL 30,000,000 and is wholly owned by TEB Mali Yatırımlar A.Ş.

TEB Asset Management (TEB Portföy Yönetimi A.Ş.)

TEB A.M. is one of the top five asset management companies of the country. It is also the first one to introduce open-architecture for mutual fund distribution with Citibank in Turkey.

Currently, the mutual funds that are managed by TEB A.M. are distributed through TEB, Citibank and BankEuropa branches.

TEB Precious Metals (TEB Kıymetli Madenler A.Ş.)

TEB Precious Metals is involved in importing and domestic trading of precious metals. The Company has a paid-up capital of YTL 100,000 and is 100% owned by TEB Mali Yatırımlar A.Ş.

Varlık Investment Trust (Varlık Yatırım Ortaklığı A.Ş.)

Varlık Investment Trust is a closed-end mutual fund whose shares are traded on the ISE. The Company was incorporated in early 1998, following the approval of the Turkish Capital Markets Board.

Varlık Investment Trust has a paid-up capital of YTL 3,739,223, of which 34% belongs to TEB.

With regard to staffing and organisational structure, TEB's primary consideration has always focused on efficiency, productivity and practices capable of achieving both.

In line with its targets and strategies, it is the policy of TEB to recruit human resources of high quality, preferring university graduates and individuals that have the capacity to represent the Bank, that are able to think analytically and get along well with colleagues.


TEB
FINISTERE
TEB

Board of Directors, Senior Officers and Auditors

BOARD OF DIRECTORS

Yavuz Canevi Chairman
Dr. Akın Akbaygil Deputy Chairman and Executive Director
Jean Jacques Marie Santini Deputy Chairman
Alain Pierre André Bailly Director
Michel Roger Chevalier Director
Varol Civil Executive Director and CEO
Refael Taranto Director
Metin Toğay Director
İsmail Yanık Director

Yavuz Canevi **Chairman**

1996 to present	TEB, Chairman of the Board of Directors
1993 - 2005	Istanbul Stock Exchange, Deputy Chairman and Board Member
1989 - 2005	EuroTurk Bank, Chairman of the Executive Board
1987 - 1989	Türk Eximbank, Chairman of the Board of Directors
1986 - 1989	Undersecretary of the Treasury and Foreign Trade, Prime Minister's Office
1984 - 1986	Governor of the Central Bank of the Republic of Turkey
1980 - 1984	Deputy Governor of the Central Bank of the Republic of Turkey
1979 - 1980	Assistant General Manager Responsible for International Relations of T. Garanti Bankası
1976 - 1979	Director General of Foreign Exchange (Central Bank)
1974 - 1975	Financial Inspector, Ministry of Finance

Academic Studies:

Georgia State University, USA, Academic Staff Member

University of Southern California, USA, (USC)

Ankara University, Faculty of Political Sciences, Department of Public Finance and Economics

Business Relations:

TEB, Chairman of the Board

TEB Investment, Chairman of the Board

TEB N.V., Holland, Chairman of the Board

TEB Financial Investment, Member of the Board

FNSS Savunma Sistemleri A.Ş., Chairman of the Board

TSKB, Member of the Board

Hedef Alliance A.Ş., Member of the Board

NETAŞ, Member of the Board

Dr. Akın Akbaygil **Deputy Chairman and Executive Director**

2005 to present	TEB Leasing and TEB Factoring, Chairman of the Board
	TEB Financial Investments, Member of the Board
2004 to present	TEB Asset Management, Chairman of the Board
2003 to present	TEB, Deputy Chairman and Executive Director
	TEB Financial Investments, General Manager
1998 to present	TEB N.V., Deputy Chairman of the Board
2003 - 2005	TEB Financial Investments, Deputy Chairman of the Board
2001 - 2002	Banks Association of Turkey (TBB), Deputy Chairman of the Board
1997- 2005	TEB Insurance, Chairman of the Board
	TEB Factoring, Member of the Board
1996 - 2005	TEB Leasing, Member of the Board
1994 - 2001	Banks Association of Turkey (TBB), Member of the Board
1987 - 2003	TEB, Deputy Chairman of the Board, Executive Director and General Manager
1982 - 1987	TEB, Executive Member of the Board
1965 - 1982	Akbank, Director of Foreign Affairs

Academic Studies:

Istanbul University, Faculty of Economics, BA and Ph.D.

Jean-Jacques Marie Santini Deputy Chairman

2005 to present	TEB, Member of the Board of Directors
	TEB Financial Investments, Member of the Board of Directors
2003 to present	BNP Paribas Group, Member of General Management Group Committee and President, International Retail Banking Operations
	BNPP, Morocco Country Chairman and General Manager of Banque Marocaine pour le Commerce et l'Industrie
1994 - 1998	BNPP, Belgium Country Chairman and Bank General Manager
1988 - 1994	BNPP, Director of International Development, Paris
1986 - 1988	Ministry of Finance, Treasury, Director of Financial Market Forecasting Unit
1984 - 1986	Ministry of Finance, Treasury, Deputy Director of European Economies Unit

Academic Studies:

Graduate of Institut d'Etudes Politiques de Paris (ICP) Paris University, MA in Law

Ecole des Hautes Etudes Commerciales (HEC), MBA

Graduate of National School of Public Administration (ENA)

Alain Pierre André Bailly Director

2005 to present	TEB, Member of the Board
	TEB Investment, TEB Insurance and TEB Asset Management, Member of the Board
2001- 2005	BNP Paribas Luxembourg, Executive Director of the Board
	BNP Paribas Singapore, General Manager and Regional Director
1994 - 2000	BNP Singapore, General Manager and Regional Director (Management of branches and representative offices in Indonesia, Thailand, Vietnam, Malaysia and Myanmar and of banks and leasing companies in Jakarta and Surabaya)
	General Manager, Australia Group, Sydney
1990 - 1991	BNP Paris, Asia-Pacific Unit, Deputy Director
1985 - 1990	BNPI, Reunion, General Manager
	BNP Paris, Internal Audit Board, Internal Auditor
	BNP Saint-Brieuc, France, Assistant Branch Manager
	BNP Arles, France, Deputy Branch Manager

Academic Studies:

Institute of Political Sciences (Public Service), Paris, 1971

University of Rouen, BA, 1968

Michel Roger Chevalier Director

2005 to present	TEB, Member of the Board
	TEB Financial Investments, Member of the Board
2005 to present	BNP Paribas Group, President, Europe and Near East
	International Retail Banking and Financial Services - Overseas and Developing Markets
1993 - 2004	BNPP, Latin America Regional Director - International Banking and Finance - Paris
1990 - 1993	BNPP, Deputy General Manager of BICI, a BNP subsidiary - Douala - Cameroon
1987 - 1990	BNPP, Executive Deputy Board Chairman Banco Ciudade de Sao Paulo - Sao Paulo - Brazil
1984 - 1987	BNPP, Deputy General Manager, BNP Taipei Branch - Taiwan
1981 - 1984	BNPP, Inspector - BNP Internal Audit Board
1978 - 1981	BNPP, Deputy General Manager, BNP Manila Branch - the Philippines
1975 - 1978	BNPP, Analyst; Corporate Banking Customer Representative, BNP Canada Inc., Montreal and later Toronto - Canada
1973 - 1975	BNPP, Analyst; BNP Correspondent Banking - Asia

Academic Studies:

University of Bordeaux, France, Foreign Languages, 1971

Varol Civil Executive Director and CEO

2005 to present	TEB Insurance, Chairman of the Board of Directors
2003 to present	TEB, Member of the Board and CEO
	TEB N.V., TEB Leasing, TEB Factoring and TEB Asset Management, Member of the Board
2003 - 2004	TEB Insurance, Deputy Chairman of the Board of Directors
1998 - 2003	TEB Financial Investments, General Manager
	TEB, Member of the Board and Assistant General Manager
1995 - 1997	Bank Kapital, Member of the Board and General Manager
1992 - 1995	Arap Türk Bankası, Assistant General Manager
1985 - 1992	Undersecretariat of Treasury and Foreign Trade, Prime Minister's Office - Certified Bank Auditor
1983 - 1984	TEB, Expert in Credit and Insurance Department

Academic Studies:

Marmara University, Contemporary Business Management Programme, 1992 - 1993

Istanbul University, Faculty of Economics, Economics and Business Administration Department, 1978 - 1982

Rafael Taranto Director

2000 to present	TEB, Member of the Board
1987 - 2000	TEB, Executive Member of the Board
1976 - 1987	Egebank, Izmir, Assistant General Manager and later Member of the Board
1964 - 1976	Türk Dış Ticaret Bankası A.Ş., Izmir, Deputy Manager of Credits and Correspondent Banking
	Türkiye Kalkınma Bankası A.Ş., Izmir, Various positions

Academic Studies:

Graduate of College Saint Michel, Istanbul

Metin Toğay Director

2005 to present	TEB, Member of the Board
2000 to present	BNP Paribas, Turkey Regional Director
	Banque Paribas - Deputy Representative, Representation in Turkey
Before 2000	Finans Yatırım A.Ş., Istanbul, General Manager
	Banque Paribas, Paris, Head Office, International Manager, Commodities Trade Finance
	Ottoman Bank, Istanbul (Subsidiary of Banque Paribas until April 1996), Central Branch Manager
	Finansbank A.Ş., Corporate Finance Department Manager
	Chase Manhattan N.A., Corporate Banking Istanbul Manager
	K-Mart Corporation, Troy, Michigan, USA, Assistant Store Manager

Academic Studies:

University of Wisconsin, USA, MBA in Marketing, 1981

Middle East Technical University (METU), B.Sc. in Business Administration, 1980

İsmail Yanık Director

2005 to present	TEB, Board Member Responsible for Internal Audit
	TEB N.V., Member of the Audit Committee
2002 - 2005	TEB, Member of Board of Directors responsible for Risk Management
1998 - 2005	TEB N.V., Member of the Board
1996 - 2005	Istanbul Gold Exchange, Member of Board of Directors and Deputy Director
1992 - 2001	TEB, Assistant General Manager, Treasury
1984 - 1992	Citibank, Istanbul, Different administrative positions

Academic Studies:

University of Istanbul Faculty of Economics, (Ph.D.) (writing dissertation), 2004

Harvard Business School, AMP diploma, 1999

Boğaziçi University, MS in Industrial Engineering, 1982

METU, BS in Industrial Engineering, 1979

Board of Directors, Senior Officers and Auditors

SENIOR OFFICERS

Nilsen Altıntaş Assistant General Manager - Human Resources
Ünsal Aysun Assistant General Manager - Corporate Banking
Turgut Boz Assistant General Manager - Commercial Banking
Levent Çelebioğlu Assistant General Manager - Financial Institutions
Turgut Güney Assistant General Manager - Information Technology
İ. Cemal Kişmir Assistant General Manager - Retail Banking
Ümit Leblebici Assistant General Manager - Treasury
E. Sevinç Özşen Assistant General Manager - Financial Control
Saniye Telci Assistant General Manager - Operations
Hakan Tıraşın Assistant General Manager - Organisation and Support Services
Nuri Tuncalı Assistant General Manager - Credit Allocations

Nilsen Altıntaş Assistant General Manager, Human Resources

2005 to present	TEB, Assistant General Manager, Human Resources
2002 - 2005	Founder - Inovasyon Bilişim, Danışmanlık ve Eğitim Hizmetleri Ltd., (Innovative-HR), Consultant, Management and Human Resources Department
2000- 2002	Eczacıbaşı Holding A.Ş., Coordinator, Human Resources and Corporate Communications and Executive Board Member
1995 - 2000	Eczacıbaşı Holding A.Ş., Human Resources Manager, Director and later Coordinator
1990 - 1995	STFA Holding A.Ş., Organisation and Human Resources Coordinator
1987 - 1990	STFA Holding A.Ş. Investments and Economic Analyses Director
1979 - 1987	TÜBİTAK - Marmara Scientific and Technical Research Institute, Chemical Technologies Research Group, Research Specialist

Academic Studies:

Boğaziçi University, Associate Professor, 1987

Istanbul Technical University, Ph.D. in Industrial Chemical Engineering, 1983

Boğaziçi University, MS in Chemical (Process) Engineering, 1979

Boğaziçi University, BS in Chemical Engineering, 1977

Ünsal Aysun Assistant General Manager, Corporate Banking

2000 to present	TEB, Assistant General Manager, Corporate Banking
1999 to present	TEB, Assistant General Manager, Corporate Banking and Cash Management
1997 - 1999	TEB, Assistant General Manager, Cash Management
1995 - 1997	Demirbank, Cash Management Department Head
1985 - 1995	İktisat Bankası, Credit Marketing Manager, Branch Manager, Cash Management Unit Director
1984 - 1985	UETB, Medium-term Loans Unit, Project Analysis Expert
1980 - 1984	Türkiye Şişe ve Cam Sanayi A.Ş., Budget and Financial Monitoring Unit - Deputy Expert

Academic Studies:

Istanbul University, Faculty of Business Administration - MA, 1979 - 1980

Istanbul University, Faculty of Business Administration - BA (Finance Department)

Turgut Boz Assistant General Manager, Commercial Banking

2003 to present	TEB, Assistant General Manager, Commercial Banking
2000 - 2003	Garanti Bankası, Commercial Marketing Department Manager
2000 - 2000	Ottoman Bank, Commercial Marketing Coordinator
1995 - 2000	Finansbank, Denizli and Ankara Branch Manager
1994 - 1995	Ata Menkul Kıymetler, Denizli Branch Manager
1989 - 1994	Egebank, Bornova and Denizli Branch Manager
1986 - 1989	Pamukbank Karabağlar, Branch Manager
1981 - 1986	Pamukbank Internal Audit Board, Internal Auditor

Academic Studies:

Ankara University, Academy of Economic and Business Sciences, Banking and Insurance, 1976 - 1980

Levent Çelebioğlu Assistant General Manager, Financial Institutions

2004 to present	TEB, Assistant General Manager, Financial Institutions
1999 - 2004	TEB, Manager, Project Finance and Investor Relations Departments
1992 - 1999	TEB, Treasury Department Manager
1988 - 1992	TEB, Assistant Manager, Correspondent Relations Department
1987 - 1988	Yaşarbank, Assistant Manager, Correspondent Relations Department

Academic Studies:

Dokuz Eylül University, Faculty of Economics, Monetary Economics and Banking Department, 1979 - 1983

Turgut Güney Assistant General Manager, Information Technology

2004 to present	TEB, Assistant General Manager, Information Technology
2000 - 2004	TEB, Information Technology Manager
1997 - 2000	Demirbank, Information Technology Coordinator
1995 - 1997	Oracle Consulting, USA, Senior Consultant
1994 - 1995	CTG (Computer Task Group), USA, Senior Consultant
1992 - 1994	Southern Illinois University, USA, Researcher
1990 - 1992	Türkiye Kalkınma Bankası, Systems Analyst

Academic Studies:

Southern Illinois University, USA, MS in Computer Sciences Engineering, 1992 - 1994

Hacettepe University, Computer Sciences Engineering, 1985 - 1990

İ. Cemal Kişmir Assistant General Manager, Retail Banking

2005 to present	TEB, Assistant General Manager, Retail Banking
	TEB Insurance, Member of the Board
	TEB Asset Management, Member of the Board
2002 - 2005	Garanti Bankası, Retail and Business Banking Manager
2001 - 2002	Garanti Bankası, Marketing Manager
1999 - 2001	Garanti Bankası, Retail Banking Manager
1997 - 1999	Garanti Bankası, Credit Cards Manager
1990 - 1994	Mobil Oil Türk, Retail Programs Assistant Manager
1987 - 1989	Tekfen Foreign Trade Inc., Region Associate

Academic Studies:

University of Hartford, Barney School of Business, USA - Executive MBA and Academic Staff, 1995 - 1996

Marmara University, Contemporary Management, Postgraduate Program, 1986 - 1988

Marmara University, Faculty of Economics and Administrative Sciences, BA, 1982 - 1986

Ümit Leblebici Assistant General Manager, Treasury

2001 to present	TEB, Assistant General Manager, Treasury
1999 - 2001	TEB, Treasury Manager
1997 - 1999	Osmanlı Bankası, Treasury Manager
1997 - 1997	Ulusal Bank, Treasury Manager
1991 - 1997	Midland Bank, Treasury Manager

Academic Studies:

Istanbul University, MS in Finance, 1988 - 1994

Istanbul University, Faculty of Business Administration, 1984 - 1988

E. Sevinç Özşen Assistant General Manager, Financial Control

2001 to present	TEB, Assistant General Manager, Financial Control
2000 - 2001	TEB Factoring, Assistant General Manager
1998 - 2000	TEB Factoring, Assistant General Manager, Finance and Administration
1997 - 1998	Komili Holding, Financial and Administrative Coordinator
1993 - 1997	Bush Boake Allen Perfume and Aromatics, Finance and Administrative Manager
1990 - 1993	Price Waterhouse - Başaran SMMM, Auditor
1988 - 1990	Touche Ross - Denet Mali Danışmanlık, Auditor

Academic Studies:

Marmara University, Department of Economics, 1982 - 1986

Saniye Telci Assistant General Manager, Operations

2005 to present	TEB, Assistant General Manager, Operations
1999-2005	TEB, Operations Manager, Branch and Headquarter Operations & Treasury Operations
1997-1999	T. Garanti Bankası, Operations Manager, Operations Centre
1994-1997	T. Garanti Bankası, Istanbul 1st Region Operations - Kozyatağı Corporate Branch Operations Manager
	Ist. 2nd Region Operations - Istanbul Corporate Branch Operations Manager
1991-1994	T. Garanti Bankası, Istanbul 3rd Region Operations / Assistant Manager
1987-1991	T. Garanti Bankası, Foreign Transactions Department - Assistant Supervisor and Assistant Manager
1984-1987	Anadolu Bankası, Foreign Transactions Department - Foreign Exchange Assistant Expert

Academic Studies:

Istanbul University, Faculty of Economics, 1977-1982

Hakan Tıraşın Assistant General Manager, Organisation, Banknote Markets and Support Services

2005	Head of Internal Audit
2004 - 2005	TEB, Assistant General Manager, Organisation, Banknote Markets and Support Services and Secretary General
1992 - 2004	TEB, Secretary General
1989 - 1992	TEB, Internal Auditor
1973 - 1989	Akbank, Branch Manager and Internal Auditor

Academic Studies:

Istanbul Academy of Economics and Business Sciences, 1972 - 1977

Nuri Tuncalı Assistant General Manager, Credit Allocations

2001 to present	TEB, Assistant General Manager, Credit Allocations
1999 - 2001	TEB, Credit Allocations Department Manager
1996 - 1999	TEB, Credit Allocations Department Assistant Manager
1988 - 1996	TEB, Credit Review, Gayrettepe Branch Credit Allocations Assistant Manager
1986 - 1988	TEB, Internal Audit Board, Internal Auditor
1984 - 1986	Akbank, Internal Audit Board, Internal Auditor

Academic Studies:

Boğaziçi University, Faculty of Economics and Administrative Sciences, Business Administration Department, 1978 - 1982

Board of Directors, Senior Officers and Auditors

INDEPENDENT AUDITORS

Güney Serbest Muhasebecilik Mali Müşavirlik A.Ş., an affiliate firm of Ernst and Young International

STATUTORY AUDITORS

Ayşe Aşardağ Statutory Auditor
Musa Erden Statutory Auditor

Ayşe Aşardağ Statutory Auditor

2001 to present	TEB Financial Investments, Chief Financial Officer
	TEB Insurance and Varlık Investment Trust, Member of Board of Directors
	TEB, TEB Leasing, TEB Factoring, TEB Investment, TEB Asset Management, Auditor
1995 - 2000	TEB, Budget and Financial Control Unit
1987 - 1994	Price Waterhouse, Istanbul, London Audit Unit

Academic Studies:

University of Glamorgan, Lecturer in Accounting, 1994 - 1995

Institute of Chartered Accountants in England and Wales, ACA, 1992

Boğaziçi University, Faculty of Administrative Sciences, Business Administration Department, BS, 1987

Musa Erden Statutory Auditor

2005	The Ottoman Fund Limited - Jersey, Member of the Board
2005 to present	TEB and TEB Financial Investments, Member of the Audit Board
2003	MNG Bank, Member of the Board
2002 - 2003	Banks Association of Turkey, Financial Restructuring Programme Arbitration Board Member
2001	Retired from Ottoman Bank at own request
1996 - 2001	Ottoman Bank Assistant General Manager (Credits)
1993 - 1976	Other duties at Ottoman Bank include: Assistant General Manager and Board Member
	Coordinator for Marmara Region Branches, Şişli Branch Manager and Internal Auditor
1972 - 1973	Yapı ve Kredi Bankası, Iskenderun Branch, Clerk

Academic Studies:

Ankara Academy of Economic and Business Sciences, Banking Department, 1966 - 1970


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Risk awareness and management have always been important elements of TEB's management philosophy. Risk management processes at TEB are designed along the lines of the BRSA directives concerning the internal audit of banks and their risk management systems.

The Risk Management Group effectively oversees the entire risk management process while the Board of Internal Auditors and the Internal Control Centre take part in control and auditing activities, complementing the risk management function.


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Risk Management

As part of its overall strategy, TEB seeks controlled growth paralleling existing economic developments, a capital adequacy ratio exceeding the industry average, prudent credit allocation policies, high asset quality as well as high liquidity levels.

Risk Management

Risk awareness and management have always been important elements of TEB's management philosophy. Risk management processes at TEB are designed along the lines of the BRSA directives concerning the internal audit of banks and their risk management systems. The Risk Management Group effectively oversees the entire risk management process while the Board of Internal Auditors and the Internal Control Centre take part in control and auditing activities, complementing the risk management function.

TEB's timely actions have placed it in a pioneering position in Turkey in terms of achieving risk-control effectiveness required by the supervisory authority. As an indispensable part of TEB's culture, the entire staff strongly adheres to ethical rules of business conduct and corporate governance principles as they act prudently within the framework of "know your customer" to avoid taking part in illegal transactions or money laundering.

The Internal Control and Risk Management Divisions were established in 2001 as part of revised risk management and internal control systems at the Bank and make up supervisory bodies that work alongside the Board of Internal Auditors. Internal control and risk management are independent functions; both report to the Executive Board Member responsible for internal control and risk management in line with BRSA regulations.

The risk management function oversees the analysis, identification, measurement, monitoring, reporting and controlling of risk through the establishment and application of risk management policies, guidelines and rules within principles set forth by the senior management and approved by the Board of Directors. The ultimate goal of the risk management function is to safeguard TEB's assets by maintaining the balance between cost and risk in consistence with the Bank's goals, targets and strategies.

As part of its overall strategy, TEB seeks controlled growth paralleling existing economic developments, a capital adequacy ratio exceeding the industry average, prudent credit allocation policies, high asset quality as well as high liquidity levels. TEB maintains its strong financial position coupled with an adequate return on capital ratio that parallels ongoing macroeconomic trends.

Interest Rate Risk

Interest rate risk involves the likelihood of losses a bank could be exposed to due to fluctuations and volatility in interest rates, depending on the state of its portfolio positions. At TEB, interest rate risk is managed by the Assets and Liabilities Committee. Protection against the impact of fluctuations in interest rates is a top priority of the Bank.

To determine interest rate risk, the interest rate sensitivity of assets, liabilities and off-balance sheet items are closely scrutinised. The management monitors market interest rate movements on a daily basis and makes changes whenever necessary in deposit and loan interest rates.

TEB conducts simulations concerning interest revenue according to estimated macroeconomic indicators in the budget studies. The risk management unit conducts duration, term and sensitivity analysis and relays these calculations to the Assets and Liabilities Committee. The negative effects that fluctuations in market interest rates could have upon the financial position and cash flow are minimised by means of prompt decisions taken.

Market Risk

Market risk involves the likelihood of loss encountered as a result of a bank's exposure in the balance sheet and off-balance sheet accounts to interest rate risk, equity position risk or exchange rate risk ensuing from fluctuations in the financial markets in interest rates, foreign exchange rates or stock prices.

TEB's Board of Directors has ensured that the risk management units and senior management take the necessary steps to properly measure, monitor and manage the Bank's exposure to market risk. The Board of Directors determines the limits related to market risk and periodically revises these limits in accordance with market conditions and the strategies of the Bank.

Stop loss and transaction limits are set on a product basis with regard to the daily transactions of the Bank. These limits are monitored and reported on a daily basis. TEB uses the standard method to calculate and report market risk to supervisory bodies.

The Value-at-Risk (VaR) figure, computed daily, is calculated using a variance/co-variance method on the basis of a 250-business-day data and a one-day holding period at a 99% confidence interval. The daily VaR figures are the main drivers of the Bank's internal reports for the monitoring of market risk. Back-testing is periodically carried out to validate the accuracy of calculations and the method used.

The VaR figures calculated by internal models to predict losses in the event of a possible crisis are also verified by scenario analyses and stress tests and then reported to senior management and the Board of Directors. Scenario analyses and stress tests involve the reapplication of past crises to existing portfolios or the observation of likely losses due to interest and foreign exchange shocks.

Liquidity Risk

Liquidity risk is the risk that a bank might encounter in the event of mismatches in its cash inflows and outflows when it is not able to fully meet its cash obligations in time. Liquidity risk arises when a bank does not possess adequate levels of cash or it is not able to generate cash when needed.

Liquidity risk also includes the risk of loss that may arise when there is an inability to enter or exit the market as needed. When it is not possible for a bank to adequately close positions at favourable prices, at sufficient amounts or as rapidly as required, lack of adequate levels of cash may translate into losses.

TEB's policy has always been to secure high quality in its asset structure in an effort to be able to meet all obligations by liquid assets. TEB considers it of prime importance to be one of the most liquid banks in the sector. The Board of Directors regularly monitors and determines liquidity ratios and the relevant standards for maintaining high liquidity at all times.

Risk Management

One of the foremost characteristics of TEB distinguishing it from the competition is its prudent lending policy and solid asset structure that go hand in hand with its stable growth strategy.

There is an effective management reporting system in place for timely reports of the TEB's liquidity position to the Board of Directors, top management and all related units. The Board has determined limits to ensure that adequate liquidity is always available. Cash flow analyses are carried out on the basis of maturity structures and currency units. Maturity mismatches are monitored and concentrations in funding sources are scrutinised closely.

As a matter of general policy, consistency in maturities, interest rates, currency mix and costs/returns are always maintained between the assets and liabilities and the balance sheet positions are always managed in the positive. It is under this strategy that the maturity risk is also managed within the limits determined by Board of Directors.

While the greater part of liquidity needs of the Bank is met by deposits, syndicated loans and pre-financing products are also used at times to obtain funds in addition to deposits. TEB's policies assure a strong liquidity position at all times and afford the Bank to be a net lender to the markets.

Exchange Rate Risk

Exchange rate risk means the likelihood of loss that a bank may be exposed to in the event of changes in exchange rates. In the calculation of capital adequacy deriving from exchange rate risk, the Bank takes into account all of its foreign exchange assets, liabilities and forward foreign exchange contracts. The VaR is calculated by the standard method and then reported to relevant bodies.

Within the limits approved by the Board of Directors, the Treasury Division is responsible for the management of price, liquidity and fulfilment risk arising from fluctuations in Turkish or foreign currency prices in domestic or international markets. Money market risks and risk-bearing transactions are monitored on a daily basis and reported weekly to the Assets and Liabilities Committee.

Position limits determined by the Board of Directors are monitored on a daily basis and possible value changes in the Bank's monetary positions that may come about as a result of routine foreign currency transactions are also examined. As an important tool of the Bank's risk management strategy, all kinds of foreign currency liabilities are protected against exchange rate risk by derivative instruments. Equity participations in foreign companies are protected from exchange rate risk along the lines of TEB's overall strategy. Foreign currency position risks are hedged by spot and forward transactions within legal limits.

Credit Risk

Credit risk is the loss that may be incurred in the event that the other party with which the bank has entered into a credit relationship does not comply with the requirements of the contract with the bank and fails, partially or entirely, to fulfil its obligations on time.

One of the foremost characteristics of TEB distinguishing it from the competition is its prudent lending policy and solid asset structure that go hand in hand with its stable growth strategy. The Board of Directors has the final authority in the allocation of credit limits. This power is delegated to the Credit Committee and the CEO on certain conditions. The use of these delegated powers are regularly monitored and reported by the internal audit and risk management units.

Branch officers visit credit applicants and obtain financial statements and information related to the potential customer's activities and plans. A credit proposal is prepared containing a commentary on the company's financial position, an industry analysis, information regarding the partners and managers, as well as references from other banks and companies with which the applicant is doing business. This information is then submitted to the Credit Allocation Division which assesses the applicant's creditworthiness and sends its report to the Credit Committee for approval.

In the assessment of customers, TEB uses an internally developed rating system which takes into account both financial and non-financial data on the applicant company. The rating of the collateral proposed for the credit is also calculated using a system developed by the Bank. In line with TEB's credit policy, overall credit risk is assessed through both debtor and collateral ratings.

Developments in the marketplace are closely monitored to minimise credit risk and industry limits are applied. As a result of the prudent policy adopted by TEB, the maximum credit limits that can be allocated to a customer are kept at a lower level than legal limits, minimising the risk of credit concentration.

The Risk Management Division, in collaboration with the Credit Allocation Division, makes assessments of the credit portfolio for the Board of Directors and the Board of Internal Auditors and reports on high-risk bearing cases and on non-performing loans.

The Credit Monitoring and Legal Proceedings Department functions under the CEO. This Department provides regular reports to the Credit Committee and also submits its reports to the Board of Directors via the Board of Internal Auditors. After a credit limit is allocated, the Credit Monitoring Department follows through on the customer's repayment capability and the adequacy and the quality of the collateral. In this manner, any loans that may turn bad are identified at an early stage. Should the credit rating and/or the quality of the collateral be found to arouse doubts, the customer will then be closely reviewed and additional collateral requested.

Limits related to other party risk arising from treasury transactions or from customer-based commercial transactions are monitored on a daily basis. Daily control is also exercised on the limits that have been allocated to correspondent banks in accordance with their ratings and the maximum risk that the Bank is able to bear with its own capital.

Country risk involves the likelihood in international credit transactions of failure, partially or entirely, to fulfil obligations on time, due to the economic, political or social events taking place in the country where the debtor person or company carry out their activities.

TEB exclusively enters into credit transactions with foreign financial institutions or countries that are rated investment grade by international rating agencies. Hence, possible risks that may be encountered in such transactions will not constitute an important loss for the Bank given the current financial structure.

Operational Risk

Operational risk is defined as the risk of loss that may result in a bank from inappropriate or malfunctioning practices, or from human and system errors or external reasons.

Operational risk can occur along the entire spectrum of banking activities. It also includes the likelihood of loss resulting from mistakes and negligence, internal or external fraud and natural disaster.

The main objectives of the Bank are to achieve total compliance with internal and regulatory bodies' rules, to develop a strong internal control culture and to attain all the qualitative standards determined by the Basel Committee. Compliance with legal requirements, rules of information security, contingency and business continuity plans, "know-your-customer" practices, adherence to the ethical values of the banking profession and prevention of internal and external fraud are all fundamental controls for the reduction of operational risk.

Risk Management

Internal control activities are organised in such a manner as to be inseparably tied up with daily activities and cover all areas of basic control.

Committees Related to Risk Management

Audit Committee

The objectives of the Audit Committee are to centralise assessment, validation procedures, control and internal audit of all risk-bearing banking transactions listed below:

- Credit and other party risk
- Market and liquidity risk
- Administrative and operational risk
- Legal risk
- Accounting risk
- IT risk
- Human resources risk
- Reputation and commercial risk

The committee meets at least once a month.

Committee Members:

Chairman:	Alain Pierre André Bailly
Deputy Chairman:	İsmail Yanık

Assessment of Internal Control, Internal Audit and Risk Management Systems

The organisational structure of our bank in the area of internal control, internal audit and risk management systems was put in place in accordance with the provisions of the Regulation Concerning Internal Audit and Risk Management Systems of Banks. This structure is appropriate for the scope and nature of our activities and effectively capable of responding to changing conditions.

The Risk Management Division, the Internal Control Centre and the Board of Internal Auditors, all reporting to the Board of Directors, independent from each other but working in cooperation, have carried out their activities as usual during 2005. Our Board of Directors has taken the necessary measures regarding the approval of important strategies and policies related to the control activities at TEB and to the maintenance of effective internal audit and risk management systems.

The internal audit system has been organised in such a way as to cover all the activities and units of the Bank. The Board of Internal Auditors presently is functioning with one Chairperson, three Deputy Chairpersons and a staff of 26 internal auditors.

Three members of the Board of Internal Auditors have earned the title of Certified Internal Auditor (CIA), having passed the Certified Internal Audit Tests conducted by the International Internal Audit Institute (IIA) in many different countries to assure the execution of auditing in accordance with professional and universal standards.

Our Board of Directors has taken all the necessary measures empowering the Board of Internal Auditors to conduct their audit activities without any restrictions and covering the Bank's consolidated subsidiaries and their respective units. During 2005, the Board of Internal Auditors audited 81 branches/departments and subsidiaries and performed 136 other controls.

Internal control activities are organised in such a manner as to be inseparably tied up with daily activities and cover all areas of basic control. The Internal Control Centre was restructured during the year and organised into the Banking Transactions Control, Treasury Control and Legal Compliance Units; year 2005 ended with a headcount of 21 staff in these units. Within the principle of "know-your-customer", the Internal Control Centre takes an active part in procedures regarding new customer acquisition.

The process of risk management is composed of the phases of risk definition and measurement, establishing risk policies and procedures for its application, risk analysis and monitoring, reporting, all in accordance with the principles that are jointly determined by the top management of TEB and the Risk Management Division and approved by the Board of Directors.

The mission of the Group-wide risk management function is to ensure, jointly with top-level management, that risks undertaken by the TEB Financial Services Group are managed on similar grounds complying with those of the Bank's policies and procedures and meeting the Bank's profitability criteria and rating scale.

The Risk Management Division has a staff of six, including the Chairman of Group Risk Management. In addition to the staff responsible for determining, measuring and reporting of market, credit and operational risks, a risk management officer is employed in each subsidiary to monitor the application of risk management principles and policies. State-of-the-art software is used in risk measurement and monitoring activities and best practices are monitored internationally and within Turkey and adopted accordingly.

At its meeting on November 8, 2005, the Board of Directors decided to establish an Audit Committee responsible for all of the companies comprising the TEB Financial Services Group in accordance with Article 24 of Banking Law number 5411 and further resolved that the powers of the Senior Level Risk Committee established in accordance with Law number 4389 be taken over by the new committee. This committee met six times during the course of the year. It monitors all the risk in a consolidated format at the Group level, establishing points of control, reviewing all written procedures, ensuring achievement of coordination between the Board of Internal Auditors, Risk Management Division, Compliance and Internal Control Centre, as well as working toward the establishment of internal control systems of the same calibre in the Bank and the group companies.

With contributions from our foreign partners, with whom we have been collaborating for approximately one year, new organisational and systemic changes to further increase the effectiveness of internal audit and risk management systems at the Bank and within the group companies will be gradually implemented.

I would like to state that TEB is extremely sensitive to internal audit and risk management issues at all levels of its organisational structure; it closely follows both new legislation and the best practices employed at the international level and swiftly puts them in practice.

İsmail Yanık
Member of the Board responsible for internal audit and risk management

Risk Management

TEB is extremely sensitive to internal audit and risk management issues at all levels of its organisational structure; it closely follows both new legislation and the best practices employed at the international level and swiftly puts them in practice.

Related-party Risks

TEB carries out various banking activities with related parties and commercial transactions are entered into on the basis of market prices. An important indication of TEB's arms-length relationship with related parties is the fact that the group's share of the credit risk stands at a level less than 1% of total cash and non-cash credits.

Volume of credits extended to related parties as of December 31, 2004 and December 31, 2005, respectively, are as follows:

	December 31, 2005	**December 31, 2004**
Share within total cash loans	0.35%	0.04%
Share within total non-cash loans	1.38%	1.39%
Share within total loans	0.73%	0.67%


TEB

TEB aims to fully abide by the Principles of Corporate Governance as issued by the Capital Markets Board (CMB) in July 2003 concerning the principles to be observed by listed companies in the course of their activities to attain professional management, transparency and ethical values.

Believing that compliance with these principles is to become as important as credibility assessments (ratings) in the near future, the Board of Directors set up a Corporate Governance Committee at the Board level.

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Corporate Governance Principles Compliance Report

SECTION I - SHAREHOLDERS

1. Statement of Compliance with Corporate Governance Principles

TEB aims to fully abide by the Principles of Corporate Governance as issued by the Capital Markets Board (CMB) in July 2003 concerning the principles to be observed by listed companies in the course of their activities to attain professional management, transparency and ethical values.

Believing that compliance with these principles is to become as important as credibility assessments (ratings) in the near future, the Board of Directors set up a Corporate Governance Committee at the Board level through Resolution number 3609/4 dated January 24, 2004, to regulate and monitor compliance with these principles. The Corporate Governance Committee has begun to work and has carried out the functions mentioned below.

Although compliance with the CMB principles issued in 2003 requires some time, we would like to point out that these principles have been almost entirely implemented without any conflict of interest.

2. Shareholders Unit

TEB has created a Shareholders Unit within its organisational structure in an effort to inform registered shareholders of transactions regarding dividends and capital increases, as well as the agenda and resolutions of General Assembly Meetings, to keep the Share Register in accordance with the provisions of article 326/1 of the Turkish Commercial Code and to maintain legal and operational relations with its shareholders.

This unit can be contacted via its manager at:
Cüneyt Temiztürk (Unit Manager)
Phone: 0212 251 21 21 (extension 1923)
Fax: 0212 249 65 68
E-mail: cuneyt.temizturk@teb.com.tr

Shareholders Unit reports to the Secretary General of the Board of Directors.

In 2005, the Shareholders Unit organised the announcement of one Extraordinary General Assembly Meeting, one Ordinary General Assembly Meeting, one dividend distribution and notified shareholders regarding:

- six share transfer transactions,
- 21 disclosures (disclosures on various subjects),
- 30 transactions concerning new stock deposits in return for new share coupons (excluding transactions effected through Takasbank), and
- 15 dividend payment transactions (excluding dividend payments made through Takasbank).

TEB's organisational chart also includes an Investor Relations Department set up to establish relations with domestic and foreign investors and to inform them about the Bank's activities and financial results.

This Department is managed by Assistant General Manager and Financial Investments Group Director Levent Çelebioğlu, assisted by Güzin Üstün.

Their contact details are as follows:

Levent Çelebioğlu (Assistant General Manager)
Phone: 0212 251 21 21 (extension 1341)
Fax : 0212 249 65 68
E-mail: levent.celebioglu@teb.com.tr

Güzin Üstün (Manager)
Phone: 0212 251 21 21 (extension 1306)
Fax: 0212 249 65 68
E-mail: guzin.ustun@teb.com.tr

3. Exercising Shareholders' Rights to Obtain Information

TEB's investors as well as the general public are provided with detailed information in Turkish and English in the Investor Relations and Corporate Governance sections on the following websites and under the following headings:

http://www.teb.com.tr/2004/yatirimci_iliskileri.asp

http://www.teb.com.tr/2004/kurumsal_yonetim.asp

- Corporate structure
- Management
- TEB - BNP Paribas
- Policies disclosed within the framework of Corporate Governance Principles
- Share Price Information
- Special Circumstance Disclosures
- Financial Information
- Ratings
- TEB Publications and Research Reports
- Annual Reports
- Press Releases
- Financial Calendar
- Analyst Recommendations
- Prospectus
- Legal Information
- Shareholder e-service
- Frequently Asked Questions

In 2004, nearly 200 queries about TEB were answered by telephone and e-mail; exempt from this were meetings held. The questions asked dealt with different subjects and all requests for information by shareholders not in the nature of a trade secret or of information that has not yet been disclosed to the general public were answered in the shortest time.

Article 36 of our Articles of Association provides for the appointment of a Special Auditor. However, no Special Auditor was chosen in 2005. This article does not define the request for the appointment of a special auditor as an individual right. At the same time, the Articles of Association do not contain any provisions that are contrary to the provision in the Turkish Commercial Code regulating this issue. This right was not exercised in 2005.

4. Information on the General Assembly

Within the course of 2005, two General Assembly Meetings were convened: One was an Extraordinary General Assembly, held on February 7, 2005, and the other an Ordinary General Assembly, held on March 30, 2005. The quorum was 84.53% for the Extraordinary General Assembly and 84.54% for the Ordinary General Assembly. The media was not present at either event.

Invitation letters were sent by registered mail at least 15 days prior to the meeting dates to shareholders recorded in the share register. The meetings were also announced in a national daily newspaper, as well as the Turkish Trade Registry Gazette. In addition, e-mail notices were served to shareholders whose addresses were known.

All TEB shares are registered shares. In view of the fact that all current shareholders were already recorded in the share register prior to the public offering, there was no need to register them again. However, shareholders had to get admission cards to attend the meeting (Article 360/3 of the Turkish Commercial Code imposes this requirement for bearer shares. This obligation does not apply to registered shareholders).

Corporate Governance Principles Compliance Report

Investors who have purchased their shares at the Istanbul Stock Exchange are required to deliver their shares or their shareholder certificates to TEB Headquarters or to our branches in order to obtain their admission cards. Our shareholders may apply for their admission cards until such time when the chair to preside the General Assembly has been formed.

The date, venue, time and agenda of the meeting as well as proxy statement samples for those who wish to be represented by proxy are included in the invitation letter, the newspaper announcements and on our Internet website.

Our shareholders exercise their right to ask questions at General Assembly Meetings and answers are provided to their queries.

Shareholders tabled motions, which were put to the vote of attending shareholders and accepted.

According to the Articles of Association, General Assembly approval is not required for decisions such as dissociation or the sale, purchase and leasing of assets of significant amounts. The powers and the responsibilities of the Board of Directors in relation to these decisions are indicated in Article 26 of the Articles of Association.

In order to facilitate attendance at the General Assembly Meeting, notices are sent out on time, the meetings are held in central localities in Istanbul and the minutes of the General Assembly Meeting are continuously available for shareholders at TEB's Shareholders Unit or on the website.

5. Voting Rights and Minority Shareholder Rights

No privileges regarding voting rights exist, nor are there any cross-shareholding companies. Minority shares are not represented in management, but the views, suggestions and requests of minority shareholders are communicated to TEB's management through the Investor Relations Department and the Shareholders Unit.

The Articles of Association do not provide for cumulative voting.

6. Policy regarding Distribution of Dividends and Time of Distribution

No privileges regarding dividend distribution exist. Our Dividend Distribution Policy was announced to the public on September 19, 2003 and is as follows:

Our Dividend Distribution Policy:

"Provided that there are positive developments in domestic and international circumstances and that the Bank's capital adequacy ratio is at the targeted level, the Bank adopts the policy, effective as of 2003, of paying at least 30% of the net profit available for distribution to its shareholders who are described in its Articles of Association in the form of cash dividend."

The dividend policy was disclosed to shareholders at the General Assembly Meeting and dividend distribution was effected as decided and within the prescribed time period.

7. The Transfer of Shares

Article 9 of the Articles of Association stipulates that:

- Share transfers shall be governed by the provisions of the Turkish Commercial Code and other related legislation,
- The transfer of shares at ratios specified by the Banking Law and of shares holding usufruct rights shall be subject to the permission of the Banking Regulation and Supervision Agency and the Capital Markets Board,
- For transfer and alienation to be valid vis-à-vis third parties, the Board of Directors of the Bank should have approved of and ratified and entered such decision in the share register.

SECTION II - DISCLOSURE AND TRANSPARENCY

8. The Corporate Disclosure Policy

As indicated on its website, the Bank has announced to the public its Disclosure Policy within the context of the Corporate Governance Principles as follows:

"Within the framework of the legislation to which it is subject, the Bank discloses to the public promptly, accurately and completely issues on which there have been requests."

All information that comes within the scope of the above definition is disclosed to the public by the Investor Relations Unit or the Official Reporting Department, subject to the approval of TEB's Board of Directors and the General Management. Announcements made are reported to the Corporate Management Committee.

9. Special Circumstance Disclosures

TEB made a total of 40 Special Circumstance Disclosures during 2005. Among these, none were in the nature of an additional disclosure requirement of the Istanbul Stock Exchange. Our Bank is listed on the London Stock Exchange (LSE) as well as on the Istanbul Stock Exchange; consequently, the Special Circumstance Disclosures that are made to the Istanbul Stock Exchange (ISE) and the Capital Markets Board (CMB) are also made simultaneously to the LSE. No disclosures were made to the LSE other than those made to the ISE and the CMB.

Because of the meticulous care taken by TEB in making Special Circumstance Disclosures, the CMB has not applied any sanctions on the Bank in 2005. All the Special Circumstance Disclosures can be found on our website.

10. The Corporate Website and its Contents

The TEB website can be accessed at www.teb.com.tr. The Bank monitors similar websites in other countries and constantly updates the information on its website in accordance with Section II Article 1.11.5 of the Corporate Governance Principles issued by the CMB. TEB believes that the contents of its website contain sufficient information to satisfy its shareholders as well as those third parties who require information about the Bank.

11. The Disclosure of Real Person/s Holding Ultimate Controlling Shares

The shareholding structure of TEB as of December 31, 2005 is as follows:

TEB Mali Yatırımlar A.Ş.	84.25%
Traded on Stock Markets	15.17%
Other Shareholders	0.58%

The ultimate controlling shares as of the indicated date belong to the Çolakoğlu Group.

12. The Public Disclosure of Persons that may Acquire Insider Information

According to the Banking Law that governs the banking profession and its legal and ethical rules, it is forbidden for bank employees to pass on to third persons bank's or client's confidential information they acquire during the course of their duties. Due to the fact that this liability continues after the termination of their employment, it was not deemed necessary to disclose and publicly announce the list of persons that have access to insider information in view of sector practice as well as employment ethics and discipline.

Corporate Governance Principles Compliance Report

SECTION III - STAKEHOLDERS

13. The Briefing of Stakeholders

TEB provides stakeholders with information concerning its activities through Material Event Disclosures, on its website and in its annual reports. Views, opinions and questions sent to the Bank's website under the heading 'Contact Us' are redirected to the relevant departments and are answered within the framework of legal provisions.

14. The Role of Stakeholders in Corporate Management

As banking practices and legal regulations place strict restrictions on the appointment of executives, no model has been devised for stakeholders to personally take part in management. In the Bank's opinion, this applies equally to other banks in the sector. However, stakeholders are able to communicate their views, opinions, criticisms and demands to the management through the Investor Relations Department, the Shareholders Unit and the Customer Communication Unit.

In 2005, an Internal Customer Satisfaction survey was conducted for our employees and an interdepartmental assessment was made on the survey results.

15. Human Resources Policy

The main objective of the TEB Human Resources Policy is to become one of the 'Best practice examples of human resources in the finance sector.' Our human resources policy in the light of the above is:

"For the utilisation of human resources in the most effective and productive manner to aid in the accomplishment of the Bank's targets and strategies, to support staff with developmental programmes that are in line with professional or personal career development indicated in the mapping of their career planning and to create opportunities for their career and work environment by providing their participation in advanced BNP Paribas training courses,

To develop individual and team performance through continuous quality enhancement using improved methods and systems and to focus upon rewarding schemes in the Performance Assessment System that recognise distinguished performance and in line with career planning, to give everyone equal means and opportunities,

To train future managers from within the organisation and to give priority to evaluating applicants from within the Bank for future positions,

In addition to this, to fill vacancies from the TEB Talent Pool and to train newly recruited young banker candidates and to prepare them for the future,

And in the scope of the TEB Talent Pool, to acquire people for the TEB Financial Services Group who are well educated, open to innovation and change, have entrepreneurial skills, are energetic, dynamic, who possess potential for self-development, are team players and who can adopt and commit to TEB corporate values."

To date, no discrimination complaints have been received.

16. Information on Customer and Supplier Relations

The Customer Communication Unit was founded at TEB to maintain customer service quality, measure customer satisfaction and to assess complaints, views and suggestions sent in by customers. This Unit reports directly to the CEO.

TEB also monitors customer expectations and evaluations via services rendered by consulting companies and reports findings to the Board of Directors.

17. Social Responsibility

As a financial services company, TEB prefers to work with companies that respect the environment and does not allocate investment credits to projects that do not do so.

SECTION IV - THE BOARD OF DIRECTORS

18. The Structure and the Formation of the Board of Directors and Independent Directors

The members of the Board of Directors and their areas of responsibility are listed below as of December 31, 2005:

Name	Position
Yavuz Canevi	Chairman
Dr. Akın Akbaygil	Deputy Chairman and Executive Director
Jean Jacques Marie Santini	Deputy Chairman
Alain Pierre Andre Bailly	Director
Michel Roger Chevalier	Director
Varol Civil	Executive Director and CEO
Refael Taranto	Director
Metin Toğay	Director
İsmail Yanık	Director

An up-to-date listing of Directors of the Board and their CVs appear on our Internet website as well as in this Annual Report.

The concept of Independent Directors of the Board was introduced for the first time in Turkey by the Corporate Governance Principles. The structure and methods related to Corporate Governance and the principles in relation to this will be determined by the Banking Regulation and Supervision Agency after consultation with the Capital Markets Board and its associated agencies, as provided by article 22 of the Banking Law number 5411.

Because the requirements for this position need qualifications above the personal ones as indicated by the law, this limits the number of suitable candidates to the post. We are of the opinion that it is bound to take some time before the number of Independent Directors on the Board of Directors reaches the desired level.

19. The Qualifications of the Board of Directors

The qualifications required for TEB Board Membership have been established by Article 22 of the Articles of Association and relevant provisions of the Banking Law. Qualifications for Members of the Board of Directors are in accordance with legal provisions as well as that of the Corporate Governance Principles.

20. Corporate Mission, Vision and Strategic Targets

As stated on the corporate website, listed under Corporate Governance, TEB;

- Is committed to providing high added value to all of its stakeholders including a its select customer base through universally high quality financial services,
- Considers customer satisfaction to be of primary importance,
- Fully adheres to the best international practice in Corporate Governance, and
- Is committed to employing staff with impeccable business ethics that preserve the values of their organisation and are open to change.

TEB has achieved its mission thanks to its shareholders who help safeguard the Bank's principles and responsibilities as well as the rights of its employees.

The Bank's strategic targets, primarily its budget, are assessed and approved by the Board of Directors. The degree of target attainment, reasons and grounds for failure to attain targets are evaluated at meetings attended by Senior Executives, Branch Managers and other related executives.

The target strategy and operational results are shared with the management teams at Bi-Annual General Management Meetings.

Corporate Governance Principles Compliance Report

21. Risk Management and Internal Control Mechanisms

In accordance with the provisions of the Banking Law number 5411, TEB has established an Audit Committee reporting to the Board of Directors through two non-executive members of the Board of Directors exclusively assigned to this task. This committee's duties cover the Bank as well as its subsidiaries.

The Board of Directors has instituted an Audit Committee for the following purposes:

To centralise risk assessment, to empower procedures for risk monitoring and auditing in the following areas:

- *Credits and Other Party Risk:* Default by the other party
- *Market and Liquidity Risk:* Market price fluctuations
- *Administrative Risk:* Appropriate administration of operations (including operational risk)
- *Legal Risk:* Conformity to tax and legal regulations
- *Accounting Risk:* Conformity to regulations and legally acceptable presentation of accounts
- *IT Risk:* Adequacy of systems and security
- *Human Resources Risk:* Adequacy of staff quality and functions
- *Reputation and Commercial Risk:* Damage of group image

To determine the risk policies and principles for the appropriate conduct of business and internal controls in an effort to achieve sound risk management;

To monitor the Group's adequacy and effectiveness in internal controls for risk management and means of auditing the accounting and reporting systems related to the routine transactions;

To take necessary measures to ensure that the Board of Directors is informed of any incident or condition that may prevent the Bank from functioning in an uninterrupted manner or of any event that violates the laws and legal provisions, to report to the Board of Directors any measures needed to be taken and to continually make recommendations.

22. Powers and the Responsibilities of the Members of the Board of Directors

The powers of the Board Members and executives are governed by Article 26 of the Articles of Association and their responsibilities by Article 30 of the same.

23. The Working Principles of the Board of Directors

The meetings of TEB's Board of Directors are organised by the Secretary General of the Board of Directors. Board Members communicate to the Secretariat items they want to put on the agenda. The final agenda is communicated to the members at least one week before the meeting.

During 2005, the Board made 121 decisions. As mentioned above, there is a Secretary General responsible for the execution of these matters. All decisions taken within this period were made unanimously and no dissenting opinion was recorded.

Members who are unable to attend any meeting(s) due to excusable reasons are informed of the decisions taken in their absence at the first meeting they are able to attend. The decisions taken at the meetings are recorded in the minutes. The Articles of Association contain no provisions on preferred voting rights or negative veto rights.

24. The Prohibition to Transact or to Compete with the Bank

The members of the Board of Directors have no relationships with the Bank that could lead to conflict of interest.

25. Ethics Rules

As announced on the corporate website, the Board of Directors of TEB have agreed to abide by the Ethical Principles of Banking that was issued by the Banking Association of Turkey by a communiqué numbered 1012 and dated November 1, 2001.

26. The Number, Structure and Independence of Committees Formed within the Board of Directors

The committees listed below were formed by TEB during 2005 and functioned along the lines of the Corporate Governance Principles as follows:

Corporate Governance Committee
Description of Duties:

- Monitors and guides Corporate Governance practices at TEB
- Meets when invited by the Chairman

Members:

Chairman	Yavuz Canevi
	Aydın Esen
	Alain Pierre Andre Bailly
	Hakan Tıraşın
	Melis Coşan Baban

Senior Level Risk Management Committee
Description of Duties:

- Prepares risk management strategy and policies of the Bank
- Audits implementation of risk management strategies and policies accepted by the Board of Directors
- Meets on the first Tuesday of each month

Members:

Chairman	İsmail Yanık
Deputy Chairman	Dr. Akın Akbaygil
Other Members	Varol Civil
	Umur Apaydın

TEB's Board of Directors met on November 8, 2005, and decided on the establishment of an Audit Committee responsible for all companies within the TEB Financial Services Group in accordance with Article 24 of Banking Law numbered 5411. It was decided that the authorities of the Senior Level Risk Committee be established in accordance with Law numbered 4389 and undertaken by the said committee.

Audit Committee
Description of Duties:

The Audit Committee is responsible for:

- To monitor effectiveness and adequacy of the Bank's internal risk management and internal audit systems on behalf of the Board of Directors
- To oversee the functioning and assessment of the data produced by these systems and the accounting and reporting systems regulated in accordance with the Banking Law
- To regularly supervise the activities of independent auditors selected by the Board of Directors
- To ensure coordination and consolidated functioning of the internal audit function in the subsidiary institutions as specified in the Banking Law.

Corporate Governance Principles Compliance Report

Members:

Chairman	Alain Pierre Andre Bailly
Deputy Chairman	İsmail Yanık

27. Remuneration of the Board of Directors

TEB pays a gross monthly attendance fee of YTL 500 to members of the Board of Directors and YTL 200 to Statutory Auditors. These amounts are determined by the General Assembly based on motions made by shareholders. The compensation of the Executive Members of the Board of Directors is determined by the Board of Directors based on Article 27 of the Articles of Association and in relation to the nature of the duties assigned to them as well as the time they have to devote to these duties. During 2005, a total of YTL 2,719,045 was paid to the Board Members as wage and attendance fees.

Board Members can be accorded credit within legal limits. It is also possible to reward Board Members with respect to criteria such as the Bank's performance, duty performed and time dedicated.

Appendix 1

Changes in TEB's Articles of Association in 2005 and the reasons thereof:

Amendments to Articles 22 and 24 of TEB's Articles of Association were decided at the Extraordinary General Assembly Meeting held on February 4, 2005, and upon registration at the Istanbul Trade Registry Office on February 7, 2005, the resolution was published in the Trade Registry Gazette of Turkey issue number 6237, dated February 10, 2005.

These changes were made due to the sale of 50% of the shares of our major shareholder TEB Financial Investments to BNP Paribas.

OLD TEXT	NEW TEXT
Board of Directors	**Board of Directors**
Article 22 - The Board of Directors shall consist of at least five and at most eleven members elected by the General Assembly and the CEO or the Deputy General Manager. The CEO, or in his absence, his Deputy are inherent members of the Board of Directors. The number of members constituting the Board shall be determined by the General Assembly before moving on to the elections. More than half of the members of the Board of Directors shall be elected from among holders of at least a BA degree in the fields of law, economics, business management, public finance, banking, public administration or the equivalent thereof, or in a branch of engineering related to these fields. Each member of the Board of Directors shall be a shareholder, able to exercise civil rights and not legally barred from membership.	**Article 22** - The Board of Directors shall be formed of nine (9) members one of whom shall be the CEO. The CEO is an inherent member of the Board. More than half of the members of the Board of Directors shall be selected from among holders of at least a BA degree in the fields of law, economics, business management, public finance, banking, public administration or the equivalent thereof, or in a branch of engineering related to these fields. Each member of the Board of Directors shall be a shareholder or the representative of a shareholder that is a legal person, able to exercise civil rights and not legally barred from membership.

OLD TEXT	NEW TEXT
Board of Directors Meetings	**Board of Directors Meetings**
Article 24 – The Board of Directors shall convene at least once a month, with meetings held at the company headquarters or, if need be, in another city. In order for a meeting to be considered valid, a quorum of one more than half of the members is necessary. Decisions shall be taken by majority of those present. Proxy voting is not permissible.	**Article 24** – The Board of Directors shall convene as required by the business. The Chairman of the Board or his Deputy may invite the Board to a meeting upon his or her own initiative. Should at least two of the members of the Board request a meeting, the Chairman of the Board is obliged to convene Board. Meetings may be held at the company headquarters, or in any other location to be specified in the invitation to the meeting. The quorum for the meeting shall be constituted by the presence of at least seven (7) members. Decisions shall be taken with the positive votes of at least seven (7) members. Proxy voting is not permissible.

Appendix 2

Shares owned by the Chairman and Members of the Board of Directors, Members of the Audit Committee, the CEO and his Deputies:

Yavuz Canevi (Chairman of the Board of Directors)	TL 5,243
Dr. Akın Akbaygil (Deputy Chairman of the Board of Directors)	TL 7,500
Rafael Taranto (Member of the Board of Directors)	TL 5,243
İsmail Yanık (Member of the Board of Directors and of the Audit Committee)	TL 7,340,048,526
Varol Civil (Member of the Board of Directors and CEO)	TL 5,243
Saniye Telci (Assistant General Manager)	TL 250,070,000
Sevinç Özşen (Assistant General Manager)	TL 467,000,000
Nuri Tuncalı (Assistant General Manager)	TL 467,000,000

Türk Ekonomi Bankası Anonim Şirketi

Consolidated Financial Statements

Together with

Report of Independent Auditors

December 31, 2005

ERNST & YOUNG

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Türk Ekonomi Bankası Anonim Şirketi:

We have audited the accompanying financial statements of Türk Ekonomi Bankası Anonim Şirketi (the Bank- a Turkish corporation) and its subsidiaries (collectively the Group), which comprise the consolidated balance sheet as of December 31, 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, 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.

Ernst & Young

February 13, 2006
Istanbul, Turkey

Türk Ekonomi Bankası Anonim Şirketi
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**

The accompanying policies and explanatory notes on pages 68 through 112 form an integral part of these consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
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 68 through 112 form an integral part of these consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
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: 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	Minority interest	Total equity
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 68 through 112 form an integral part of these consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
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**	**1,751,436**

The accompanying policies and explanatory notes on pages 68 through 112 form an integral part of these consolidated financial statements.

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

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası A.Ş. (the Bank) was incorporated in Turkey in 1927 under the name of Kocaeli Halk Bankası T.A.Ş. and in 1982 was acquired by the Çolakoğlu Group. Its name was changed as Türk Ekonomi Bankası A.Ş. and its headquarter moved to İstanbul. Certain shares of the Bank, representing 20% of the total, are listed on the İstanbul 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, Fındıklı-İstanbul/Turkey.

In accordance with the notification made by TEB Mali Yatırımlar A.Ş., the ultimate shareholder of the Group by 84.25% shares, it was announced that TEB Mali Yatırımlar A.Ş. 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 Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.0	100.0
TEB Factoring A.Ş. (TEB Factoring)	Turkey	100.0	100.0
TEB Finansal Kiralama A.Ş. (TEB Leasing)	Turkey	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy) (*)	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 Yatırım purchased 17.5% of shares of TEB Portföy, from ABN Amro Bank N.V. As a result, the Group's effective shareholding and voting right in TEB Portföy increased to 100.0%.

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 Yatırım - 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 Portföy - 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.

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.

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

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.

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.

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 Türk Lirası (New Turkish Lira, YTL), as the new currency unit for the Republic of Turkey effective January 1, 2005. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 throughout the 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.

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

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.

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

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
Land	not depreciated

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.

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.

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.

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

Cash and Cash Equivalents

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

Impairment of Financial Assets

a) Assets carried at amortized cost

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.

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.

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.

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.

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.

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.

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.
- 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.

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

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

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

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.

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

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

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

	2005 Effective interest rate		2004 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%	-

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

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		

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

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.

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 İşlem Opsiyon Borsası (Turkish Derivatives Exchange) and the Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations.

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

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.

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.

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

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

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

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

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

10. INVESTMENT IN ASSOCIATES

	2005		2004	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investment in associate				
Varlık Yatırım Ortaklığı A.Ş.	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)

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

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).

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

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 Portföy by TEB Yatırım 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).

(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		

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

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

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		
		Effective interest rate	
	Amount	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		
		Effective interest rate	
	Amount	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		

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

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

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).

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.

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

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%

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.

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.

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

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

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

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

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)

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.

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

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.

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 Yatırımlar A.Ş.	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 Yatırımlar A.Ş..

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

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

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.

	Number of Shares (in millions) Issued Attributable to				
	Cash	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	Total
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.

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

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 Çolakoğlu 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, Çolakoğlu Group companies, TEB'liler Vakfı 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.

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

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

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.

Litigation

(i) On April 5, 2005, TEB made a public announcement stating they were notified on April 4, 2005 that Borsa Yatırımcıları Derneği (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 Yatırımlar A.Ş. 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 Yatırımcıları Derneği (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 İzmir-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.

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.

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

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.

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

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

	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.

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.

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

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	23,179	6,396,925
Net liquidity gap	(1,612,526)	(148,464)	781,737	1,399,060	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	80,327	415,495

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.

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

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.

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

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.

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	2,275,654	1,396,364	1,319,814	1,223,007	240,657	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	740,609	66,985	168,831	6,396,925
Balance sheet interest sensitivity gap	(2,021,149)	722,667	579,205	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	415,495

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

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%.

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.

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.

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Fax : (232) 343 62 52

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Fax : (224) 524 86 23

Bursa
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Fax : (224) 224 42 92

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Merkez
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Fax : (212) 511 27 15

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Financial Calendar

Announcement of financial results:

1st Quarter	:	Within six weeks from March 31
2nd Quarter	:	Within eight weeks from June 30
3rd Quarter	:	Within six weeks from September 30
Year-end	:	Within ten weeks from December 31

Annual Shareholders Assembly Meeting: No later than March 31

Information for Shareholders

ISE Ticker Symbol	:	<TEBNK.IS>
GDR Ticker Symbol	:	<TKKKYP(144A)
Reuters Code	:	<TURAq.L> on SEAQ International on the London Stock Exchange
Bloomberg Code	:	<TURA LI>

Enquiries

All enquiries, including shareholder enquiries and notifications concerning dividends, share certificates, Global Depository Receipts or transfers and address changes should be sent to:
TEB Investor Relations Division at the following address:

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