Annual Report 2004

TÜRK EKONOMİ BANKASI

BNP PARIBAS

BNP Paribas is a strong, diversified bank with European roots. Today, it is the most profitable bank in the Eurozone, in terms of net income. With a presence in more than 85 countries, BNP Paribas has a staff of about 100,000 employees world-wide. One of the largest international banking networks, BNP Paribas has strong positions in Asia and a significant presence in the United States.

BNP Paribas has built up three major complementary areas of activity; Corporate and Investment Banking, Retail Banking and Asset Management and Services. These are the strategic focus for group activities and the source of its financial strength.

BNP Paribas boasts strong advantages with its well balanced, successful business portfolio, high potential synergies through cross-selling, true control over costs, good command of risk and dynamic innovations, all directed toward serving its clients. In each of its business lines, the Bank strives to maintain a position among leading establishments, both in terms of product quality and effectiveness.

Now sailing full speed ahead!

BNP Paribas' partnership will provide major advantages to TEB on its way to becoming one of Turkey's premier multi-specialist banks. Management believes that strong winds are blowing, filling their sails and swiftly moving TEB toward their ultimate destination. For this reason, we have chosen sailboats under full sail to represent TEB's current direction -- Full speed ahead!

Contents

Bank Profile

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 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 87 branches in Turkey, an offshore branch in Bahrain and a wholly-owned Dutch subsidiary bank.

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.

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 regularly reviews 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 approximately 20% of its shares are currently traded. Similarly, TEB shares have been listed and traded as GDRs on the London Stock Exchange since 2000.

BNP Paribas becomes an indirect shareholder of TEB

On July 12, 2004, a memorandum of understanding was signed between TEB Mali Yatırımlar A.Ş. (the major shareholder of TEB) and BNP Paribas that foresaw a partnership where 50% of the shares of TEB Mali Yatırımlar A.Ş. would be sold to BNP Paribas.

On November 22, 2004, a Share Purchase Agreement was signed between shareholders of TEB Mali Yatırımlar A.Ş. and BNP Paribas concluding the sale of 50% of the shares of TEB Mali Yatırımlar A.Ş. to BNP Paribas.

On February 10, 2005, shares representing 50% of TEB Mali Yatırımlar A.Ş., which in turn controls 84.25% of Türk Ekonomi Bankası A.Ş. was transferred to BNP Paribas pursuant to the Share Purchase Agreement signed on November 22, 2004.

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.

Financial Highlights

Bank-Only Financial Figures (prepared under IFRS)

(TL Billions)	2004	2003	2002
Total Assets	3,542,294	3,201,357	3,052,845
Marketable Securities	419,287	130,232	110,693
Loans, net	1,590,195	1,329,825	1,047,730
Total Deposits	2,429,710	2,283,559	2,231,792
Shareholders' Equity	393,021	368,461	325,395
Interest Income	392,622	363,462	421,674
Interest Expense	229,684	202,838	220,095
Net Income/Loss	35,709	61,655	23,252
Consolidated Net Income/(Loss)	62,069	67,133	30,543

In billions of Turkish Lira in equivalent purchasing power at December 31, 2004

Ratios and Key Operational Indicators

	2004	2003	2002
Capital Adequacy Ratio	14.29%	14.88%	15.40%
ROE	9.38%	17.77%	7.15%
ROA	1.06%	1.97%	0.76%
Number of Staff	2,131	1,849	1,673
Number of Branches	87	77	74

All figures are expressed in the equivalent purchasing power of the Turkish lira on December 31, 2004 and are extracted from audited bank-only financial statements prepared under IFRS.

Within an environment where interest and inflation rates declined and profit margins narrowed significantly, TEB closed the year with TL 66,832 billion in profit before taxes and TL 35,709 billion profit after taxes while maintaining its high asset quality.

TEB's Ratings from Major Rating Agencies*

Moody's Investors Service

Financial Strength	Foreign Currency Bank Deposit
D+ (D+)	B3 (B3)

FitchRatings

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

Note: Country ceilings are given in brackets.
* as of April 2005

The association of one of Turkey's most admired brands TEB with one of the world's best-known names in banking will surely add value to our shareholders, customers and employees. This strategic union received much positive acclaim across the country.

Report of the Board of Directors

In its second year in office, the current government's economic plan, which included structural reforms, continued in 2004. This programme aimed at maintaining budgetary discipline, fighting inflation and restoring macro-economic balances. As a result of these efforts and the declining public sector borrowing requirement, the pressure on resources was alleviated comparatively and the decline in inflation continued. In 2004, the annual CPI sank to its lowest level since 1970 recording a single-digit figure of 9.3%.

Paralleling these developments, it became a necessity to remove six zeros from the Turkish currency. This is going to be our last annual report with abundant zeros since on January 1, 2005, the Turkish Lira (TL) was converted to the New Turkish Lira (YTL) by removing six zeros.

Looking at the banking sector in general, these positive developments in the economic environment produced optimistic consequences:

- **Public confidence in the banking sector was elevated and the international credibility of Turkish banks increased.**
- **Foreign currency risk was eliminated to a large extent and foreign borrowing increased.**
- **Foreign investors' interest in Turkey increased.**
- **Consumer and corporate demand for financial services vitalised.**
- **TL-denominated investments became once again attractive.**
- **Credit supply grew and the ratio of credits in total banking assets and total deposits increased.**

Based on third quarter results, the Turkish banking sector made up of 49 banks had:

- **Total assets of TL 249.2 quadrillion,**
- **Total deposits of TL 189.4 quadrillion,**
- **Total securities portfolio of TL 120.4 quadrillion and**
- **Total credits of TL 97.1 quadrillion.**

These figures indicate that credits made up 39% of total assets and investment securities 48%. Third quarter results compared to results a year ago show that assets have increased by 17%, deposits 16%, credits 41% and securities portfolio 12%. Credits have demonstrated impressive growth elevating the credits-to-deposits ratio to 52% up from 40% a year ago. Affected by prevailing trends in the economy, the share of TL-denominated deposits in total deposits increased to 55% in 2004, from 48% in 2003.

Report of the Board of Directors

Within an environment where interest and inflation rates declined and profit margins narrowed significantly, TEB closed the year with TL 66,832 billion in profit before taxes and TL 35,709 billion profit after taxes. Comparing the 2004 year-end inflation adjusted results and ratios with the same a year ago, we see that:

- Total assets have increased by 11%,
- Shareholders' equity has reached TL 393 trillion,
- The share of deposits in balance sheet footing has risen to 64%,
- The share of investment securities portfolio in total assets stands at only 12%,
- The credit portfolio has expanded by 20% and makes up 45% of total assets,
- The 70% ratio of credits-to-deposits means that every TL 70 out of TL 100 deposits collected has been allocated as credits,
- While the credit portfolio expanded, the NPL ratio has decreased to 1.3% in 2004 from 2.1% in 2003,
- Free capital ratio of 47% in 2003 has increased to 52% in 2004,
- Capital adequacy ratio stands at 14.29%,
- Return on assets has been 1% and
- Return on equity has been 9.4%.

These results point out the fact that TEB has attained its profitability from real banking activities and stands among the banks with the lowest Treasury securities-to-total assets ratios in the banking sector.

We classify our operations under Corporate, Commercial, Retail and Private Banking and Treasury activities. Within core banking lines, we have pursued traditional banking activities with our usual creative, customer-focused approach and attained favourable results.

With ten designated branch offices catering to the needs of the corporate banking segment, we continued to serve top-tier Turkish and multinational corporations. In this segment, TEB is undisputedly among the leaders with much effort devoted to building long-lasting relationships with large-scale blue-chip companies.

In 2004, we achieved a total export transaction volume of US$ 3,460 million and an import transaction volume of US$ 4,242 million. These figures represent an increase of 10% in exports and 30% in imports over the previous year. While processing a significant volume of foreign currency transfers, TEB handles exports of 5.6% and imports totalling 4.3% for the country.

TEB maintains its position as one of the Turkish banks with the highest ratings assigned by international rating agencies. At the end of 2004, TEB's ratings from Moody's were D+ and B2 and from FitchRatings A (tur) National, C/D Individual, BB- Long-Term.

The number of our branches increased to 87, including the offshore branch office in Bahrain; we plan to open ten additional branch offices during 2005. Parallel to our growth, especially in marketing-related activities, TEB personnel grew to 2,131 by the end of 2004, up from 1,846 the previous year.

Pursuing only banking and financial service-related activities, we do not have any investments in industrial or commercial companies. TEB Financial Services Group is made up of companies in leasing, factoring, investment banking and brokerage, insurance, asset management as well as The Economy Bank N.V. in Amsterdam. Synergy and the cross-selling opportunities created among these financial institutions create a strong competitive edge for the entire Group. TEB's credits to shareholders and subsidiaries only make up 0.66% of the total credit portfolio.

TEB maintains its position as one of the Turkish banks with the highest ratings assigned by international rating agencies. At the end of 2004, TEB's ratings from Moody's were D+ and B2 and from FitchRatings A (tur) National, C/D Individual, BB- Long-Term. At the beginning of 2005, FitchRatings upgraded our ratings to BB+ Long-Term, AA- National while support rose to 3, up from 5.

As a strong proponent of Corporate Governance Principles even long before it was regulated in Turkey, TEB set up a Corporate Governance Committee chaired by an independent member of the Board. At the end of this annual report, our Corporate Governance Compliance Report prepared under the directives outlined in the Capital Markets Board Decision dated December 10, 2004, numbered 48/1588, can be found.

Aware of our responsibilities as good corporate citizens, TEB donated TL 149.1 billion to 26 philanthropic activities during 2004.

This year's highlight, among others, was surely the agreement concluded between our shareholders and BNP Paribas for the purchase of 50% of the shares of TEB Mali Yatırımlar A.Ş. making BNP Paribas an indirect shareholder of TEB with a share of 42.12%. Although this agreement was signed between the parties on February 10, 2005, we nevertheless include it within this year's events. We have used this union as the theme of this year's annual report. The association of one of Turkey's most admired brands TEB with one of the world's best-known names in banking will definitely add value to our shareholders, customers and employees. This strategic union received much positive acclaim across the country.

We 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, both new and old, for their commitment.

Board of Directors

Yavuz Canevi Chairman

Dr. Akın Akbaygil Vice Chairman and Executive Director

Jean Jacques Santini Vice Chairman(1)

Varol Civil General Manager

Aydın Esen Executive Director(2)

Cihat Madanoğlu Executive Director(2)

İsmail Yanık Executive Director

Alain Bailly Director(3)

Michel Chevalier Director(1)

Refael Taranto Director

Metin Toğay Director(3)

(1) (as from February 10, 2005)

(2) (until February 10, 2005)

(3) (as from February 4, 2005)

Senior Officers

Ünsal Aysun Assistant General Manager

Turgut Boz Assistant General Manager

Levent Çelebioğlu Assistant General Manager

Turgut Güney Assistant General Manager

Osman Kolat Assistant General Manager(1)

Cemal Kişmir Assistant General Manager(2)

Ümit Leblebici Assistant General Manager

Sevinç Özşen Assistant General Manager

Hakan Tıraşın Assistant General Manager

Nuri Tuncalı Assistant General Manager

(1) (until April 1, 2005)

(2) (as from April 1, 2005)

Auditors

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

Turkish Economy in 2004

For Turkey, 2004 has been a year of noteworthy achievements led by structural disinflation, accompanied by robust economic growth and fiscal discipline. The year started in a positive light regarding economic prospects. As FX inflow continued and the current account kept widening, the CBRT began FX auctioning as early as January. Turkey's clear attempt on the Cyprus issue agreeing to a referendum on the Annan plan, some solid progress on the privatisation front and the governing AKP finally increasing its votes in the municipality elections held in late March all contributed to highlighting the sentiment. Indeed, a CBRT survey in March revealed that market expectations regarding 2004 CPI inflation converged on the official target. At the end of the first quarter, currency was at a 22-month high against the FX-basket. However, starting in April, the mood and focus of international markets turned toward developments in the US economy, related potential interest rate hikes and when liquidity drain might take place. Emerging markets suffered with Turkey among the most affected, as the Turkish lira depreciated to about 18% in the second quarter.

The FED's modest rate hike decision and the language it employed diminished worries over abrupt increases of US rates and markets gradually stabilised while the Turkish lira again embarked in an upward direction. Although, international liquidity conditions have remained a major risk for Turkey, markets were focused on IMF and EU relations during the rest of the year. Turkish Cypriots voted 'yes' for the Annan plan and the Council of Europe removed Turkey from the watch list raising hopes for a positive outcome of the EU commission report on Turkey's accession. In the meantime, a new IMF programme came to the agenda including reduction of onerous IMF repayments over the next three years through fresh financing of US$ 10 billion. With the Northern Iraq and Cyprus issues in the background, the last quarter of the year saw impressive developments in currency rates, interest rates and other macro-economic indicators with disinflation leading the way.

In early October, although settling down strict standards for meeting the criteria and process of accession negotiations and underlining it an open-ended process, the EU commission report recommended the start of talks. As cautious optimism prevailed until the end of the year, the December 17th EU summit decided to start talks in October 2005 aiming full membership. This was well perceived in Turkey and in the international arena, however with some reservations, as it was understood to be conditional on Turkey's extending its association agreement with the EU to take into account accession of ten new members that included Cyprus. Nevertheless, convergence is gaining ground and notwithstanding possible turbulence along the way, the prospects are quite promising.

For Turkey, 2004 has been a year of noteworthy achievements led by structural disinflation, accompanied by robust economic growth and fiscal discipline.

Turkish Economy in 2004

Year-end Inflation (%)

	1998	1999	2000	2001	2002	2003	2004
Wholesale	54.3	59.2	32.7	88.6	30.8	13.9	13.8
Consumer	69.7	68.8	39.0	68.5	29.7	18.4	9.3

Source: State Institute of Statistics (SIS)

The fight against inflation was again the centrepiece of official policies, with employment and infrastructure investment again taking a backseat. The annual CPI inflation rate of 9.3% undershot the official target of 12% for the third year in a row.

During 2004, substantial capital inflow led the way to the appreciation of the Turkish lira, instrumental to the disinflation process. Unlike 2003, domestic demand was triggered by lower interest rates, but the availability of cheaper imports exerted pressure on the price of tradable domestic goods. There has also been improvement in service prices, which still display some inertia and are subject to backward indexation. Higher WPI figures have resulted largely for international commodity prices. Indeed oil prices have been phenomenal, the government tried to balance them by keeping the price of utilities rather constant. Furthermore, the pass through effect of currency rates has considerably decreased. Although the key risk of the Turkish lira's sharp devaluation remains, we think the 8% year-end target is highly attainable.

Central Bank Balance Sheet Selected Items (TL quadrillions)

	Dec. 03	Mar. 04	Jun. 04	Sep. 04	Dec. 04
Foreign assets	52.9	48.3	54.0	57.3	53.6
Domestic assets	23.6	23.7	21.8	21.2	21.1
Foreign exchange liabilities	52.4	46.0	49.6	52.1	49.9
Central Bank money	24.1	26.0	26.1	26.4	24.7
Reserve money	15.0	17.6	19.2	20.7	20.3
Liabilities from OMO	8.3	7.5	5.7	5.3	3.6
FX position	0.5	2.3	4.4	5.2	3.7

Source: Ceutral Bauk of the Republic of Turkey (CBRT)

The fight against inflation was again the centrepiece of official policies, with employment and infrastructure investment again taking a backseat. The annual CPI inflation rate of 9.3% undershot the official target of 12% for the third year in a row.

The floating exchange rate regime has remained in force for the fourth year since its introduction, although there have been some regular FX auctions and occasional interventions. The Turkish lira depreciation in April and May proved permanent for most of the year, with the stable Turkish lira allowing the Central Bank to remain out of the FX market.

Second quarter volatility in international markets and their reflection on the Turkish market induced a cautious stance on the part of the CBRT; the Bank did not cut interest rates from mid-March to early-September. The rate cuts gained momentum toward the end of the year and the O/N borrowing rate of the CBRT came down by 800 bps throughout the year from 26% to 18% in simple terms.

We expect rate cuts to lose momentum in 2005. The CBRT enacted the last 1% rate cut in January 2005, which was followed by 50 bps in next three months. As disinflation is likely to decelerate, the CBRT is trying to reduce short-term capital flows with the single policy tool of short-term interest rates, but this could threaten to push the current account further into unsustainable territory. Hence, further policy coordination is required between the CBRT, Ministry of Finance and the BRSA to ensure more reasonable values for the Turkish lira and lower current account deficits.

Monetary Aggregates (TL quadrillions)

	Dec. 03	Mar. 04	Jun. 04	Sep. 04	Dec. 04
Currency in circulation	10.8	12.1	13.5	14.5	13.5
M1	21.6	22.6	25.9	28.1	29.5
M2	80.9	91.9	97.8	103.3	109.3
M2 + FX deposits	149.9	154.5	166.3	177.7	185.4
Repo transactions	3.1	3.1	2.1	2.1	1.7

Source: CBRT

An interesting phenomenon in 2004 was the rapid decrease in Turkish lira excess liquidity that came down from around YTL 9 billion at the end of 2003 to YTL 4 billion by the end of 2004. This stems partly from credit expansion and Treasury repayments to the CBRT through hefty borrowings from the markets. The Bank expects the excess liquidity to dry up in 2005 and its lending rate to become a benchmark.

The FED's modest rate hike decision and the language it employed diminished worries over abrupt increases of US rates and markets gradually stabilised while the Turkish lira again embarked in an upward direction.

Bank Deposits and Loans

	Dec.03	Mar.04	Jun.04	Sep.04	Dec.04
Residents TL deposits (TL billions)	75,677	86,405	89,873	94,613	103,240
Residents FX deposits (US$ millions)	48,800	47,432	46,200	49,855	56,683
Domestic loans by deposit banks (TL billions)	48,019	53,444	64,267	69,452	77,628

Source: CBRT

Despite losing value, US dollar denominated deposits remained nearly intact, while euro deposits rose sharply 20%. Increase in Turkish lira loans was the highest dragging down the ratio of FX deposits to the total to 43% as investor interest switched to national currency. Turkish lira loans to Turkish lira deposits is an indicator of the rise in credit expansion driven mostly by consumer financing with credit card balances playing the key role.

Consolidated Budget (TL quadrillions)

	2003	2004	% Chg.
Revenue	100.3	119.4	19.1
Tax revenue	84.3	99.5	18.0
Expenditure	140.5	149.8	6.6
Non-interest	81.8	93.2	13.8
Personnel	30.2	36.6	21.2
Other current	8.3	8.1	(1.9)
Investment	7.2	7.5	4.9
Other transfers	36.2	40.9	13.1
Interest payments	58.6	56.6	(3.5)
Budget balance	(40.2)	(30.3)	(24.6)
Primary balance	18.4	26.3	42.7

Source: Ministry of Finance

Turkish Economy in 2004

One of the highlights of recent economic results has been fiscal performance as the government stood by the ambitious primary surplus target of 6.5%. The current results appear on track to meet the target this year also. However, many of the measures employed to attain the 6.5% primary surplus to GNP ratio (which may be exceeded depending on some final SEE figures) were mostly short-term. The level of investments was again extremely low and the social security deficit to GNP ratio exceeded 4.5% of GNP, a very high figure, particularly given the demographics of the country. Little has been done in 2004 to address major problems with regard to taxation and social security. Delays in passing laws that embody related structural reforms have hindered the progress on the new IMF deal. Nonetheless, this situation is expected to be finalised in the spring of 2005 with required legislation in place.

In a long-term perspective, the quality of primary surplus should be improved by implementing tax and social security reforms.

Debt and GNP

(TL quadrillions)	2001	2002	2003	2004
Total gross public debt	189.9	257.3	297.4	332.1
Domestic debt	125.5	154.8	201.3	234.0
External debt	64.3	102.5	96.1	98.1
Net external debt	66.6	88.8	78.8	75.1
Net domestic debt	93.1	127.2	172.3	197.1
GNP	176.5	275.0	356.7	428.9
Total gross debt (% of GNP)	107.5	93.6	83.4	77.4
Total net debt (% of GNP)	90.5	78.5	70.4	63.5

Source: SIS

Net debt to GNP figures continued to come down, particularly relative to their peak of +90% in 2001. This was due to a combination of several factors; first of all, annual growth averaged nearly 8% over the three years since 2001. Secondly, the Turkish lira grew significantly stronger against foreign currencies, influencing a significant portion of the debt stock denominated in or indexed to FX. Next, the primary surplus figures have been impressive and finally, real interest rates are coming down, but not as fast as they could have, since the inflation target is being undershot every year.

Components of Outstanding Domestic Debt (US$ billions)

	1999	2000	2001	2002	2003	2004
Total	42.4	54.2	84.9	91.7	139.3	167.3
Cash	37.4	43.8	40.2	54.6	93.5	123.4
Bonds	31.4	40.7	27.9	32.0	75.8	100.8
Bills	6.0	3.1	12.3	22.6	17.7	22.6
Non-cash	5.0	10.4	44.7	37.1	45.8	43.9

Source: Treasury

The composition of domestic public debt stock changed; the fixed coupon Turkish lira debt rose rapidly, while the Treasury consciously tried to bring down FX-linked debt. The share of the private sector in public debt financing is increasing rapidly while market debt is usually shorter-term relative to debt held by public sector institutions. Tax regulations coupled with the banks' unwillingness to carry excessive government risk, as well as their pursuit of the more lucrative loans market, meant the role of individual investors directly and/or through mutual funds, then corporate investors and finally foreign investors as holders of Treasury paper grew more and more significant. Domestic bonds held by non-banks measured 87% while those of the banks in 2004 previously stood at 53% only two years ago.

Outstanding External Debt (US$ billions)

	1998	1999	2000	2001	2002	2003	2004
Total	96.4	103.0	118.6	113.7	130.2	145.4	161.7
Medium and long-term	75.6	80.1	90.3	97.2	113.8	122.3	129.8
public sector (inc. CBRT)	51.9	52.7	61.1	69.8	84.0	91.1	91.9
private sector	23.7	27.4	29.2	27.5	29.7	31.2	37.9
Short-term	20.8	22.9	28.3	16.4	16.4	23.0	31.9

Source: CBRT

Turkish Economy in 2004

The increase in short-term debt over the last two years is eye-catching. Together with the sharp rise of government securities held by non-residents in 2004, up from YTL 4.3 billion to YTL 21.1 billion, the worries over high current account deficit, the source of its financing and the importance of the new IMF agreement, are understandable.

Significant developments in terms of public debt have been the first sizeable repayment to the IMF on an annual basis. The IMF had been a very important financier for Turkey in 2001 and 2002, while in 2003 net borrowing had essentially been zero. In 2004, on the other hand, the Government decided not to draw upon the final two tranches of the agreed stand-by programme and designed a new programme for the next three years. This meant that the net repayments to the IMF (excluding interest) during 2004 reached US$ 3.5 billion and outstanding debt to IMF came down to US$ 21,434 million from its peak of US$ 24,005 million the year before.

Although the Treasury had no problems with this level of repayment, the net international reserves of the Treasury and the CBRT are barely positive, making the US$ 7.8 billion and US$ 10.5 billion repayments for 2005 and 2006 somewhat intimidating. Therefore a new three-year programme with US$ 10 billion in fresh financing that will bring net principal repayments down to levels similar to 2004 is being designed. The new programme was formally announced in December and the government is working on the pre-requisite reform laws for tax administration, social security, and banking.

Real Growth by Sectors (% annual change)

	1998	1999	2000	2001	2002	2003	2004
Agriculture	8.4	(5.0)	3.9	(6.5)	6.9	(2.5)	2.0
Industry	2.0	(5.0)	6.0	(7.5)	9.4	7.8	9.3
Services	2.5	(5.0)	7.7	(6.6)	6.6	5.6	9.0
GDP	3.1	(4.7)	7.4	(7.5)	7.9	5.8	8.9
GNP	3.9	(6.1)	6.3	(9.5)	7.9	5.9	9.9

Source: SIS

The annual GNP growth reached 9.9% on the back of strong consumer demand and private sector machinery and investment demand. The growth has been very strong since the 2001 crisis year with the government's 5% growth estimate exceeded each year. The annual GNP is exactly US$ 300 billion, more than double 2001 levels. However, there are growing concerns on the mode of growth that is increasingly reliant on the cheap FX and perceived low interest rates that fuel demand components. The reporting quality of national income accounting remains poor, with very high and difficult to interpret inventory figures; a new set of data is being prepared. It has been reported that GNP will be higher under the new methodology by a significant margin. Inventory built up item appears to act as a residual item while other demand components such as the contribution of net exports weakened and finally turned negative, significantly at 3.3% of GNP.

The annual GNP growth reached 9.9% on the back of strong consumer demand and private sector machinery and investment demand. The growth has been very strong since the 2001 crisis year with the government's 5% growth estimate exceeded each year.

Growth in GDP by Expenditures (% annual change)

	1998	1999	2000	2001	2002	2003	2004
Private consumption expenditures	0.6	(2.6)	6.2	(9.2)	2.1	6.6	10.1
Public consumption expenditures	7.8	6.5	7.1	(8.5)	5.4	(2.4)	0.5
Public fixed capital formation	13.9	(8.7)	19.6	(22.0)	8.8	(11.5)	(4.7)
Private fixed capital formation	(8.3)	(17.8)	16.0	(34.9)	(5.3)	20.3	45.5
Exports of goods and services	12.0	(7.0)	19.2	7.4	11.1	16.0	12.5
Imports of good of services	2.3	(3.7)	25.4	(24.8)	15.8	27.1	24.7
GDP	3.1	(4.7)	7.4	(7.5)	7.9	5.8	8.9

Source: SIS

As we have described above, the mode of growth is extremely reliant on cheap imports and 12-month rolling foreign trade deficit that has expanded continuously from US$ 8.6 billion in February 2002 to more than US$ 35 billion in February 2005.

Foreign Trade (US$ billions)

	1998	1999	2000	2001	2002	2003	2004
Exports (FOB)	27.0	26.6	27.8	31.3	36.1	47.3	63.1
Imports (CIF)	45.9	40.7	54.5	41.4	51.6	69.3	97.4
Exports / Imports (%)	58.7	65.4	51.0	75.7	69.9	68.1	64.8
Trade balance	(18.9)	(14.1)	(26.7)	(10.1)	(15.5)	(22.1)	(34.3)

Source: SIS

Turkish Economy in 2004

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The annual trade deficit for 2004 was US$ 34.3 billion, translating into a US$ 15.5 billion current account deficit, despite stellar tourism performance. The 12-month rolling import level stood at above US$ 100 billion by the end of February 2005. Consumption goods are rather modest in import growth at 3.4%, against 23% overall import growth. It is worth noting that intermediary goods play a key role here. In addition to some impact from international commodity prices, it is evidence that Turkish intermediate goods producers are being squeezed with the overvalued Turkish lira and implies their contribution toward weak employment data.

Automotive exports surged last year but net contribution of Turkey's automotive sector is a deficit which rose to US$ 3.37 billion from US$ 1.25 billion in 2003 with skyrocketing imports. The deficit figure accounts for 30% of the deterioration in the current account deficit. The current account deficit reaching 5.2% of GNP has coincided with rapidly expanding short-term external debt (from US$ 23 billion at end-2003 to US$ 32 billion at end-2004) and increasing foreign portfolio investment in domestic assets such as t-bills and equities. In short, the external balance appears quite unsustainable. If international liquidity conditions deteriorate, the adjustment could be abrupt and the Turkish lira can undershoot. However, co-ordinated policy action from fiscal authorities, banking regulators and CBRT together with the blessings of a floating exchange rate regime can make a soft landing possible and prove more benefit to Turkey's macro-economic balances.

The main item on Turkey's political agenda last year was the EU accession process. The key events were the October 6th issue of a favourable EU Commission report on Turkey's progress toward meeting EU criteria and the December 17th EU decision to start accession talks with Turkey in October 2005. What laid the groundwork for these dates was Turkey's new attitude on Cyprus, where Turkey and Northern Cyprus participated in talks for the reunification of the island that culminated in simultaneous referenda in April. Turkish Cypriots agreed to the Annan plan, apparently sponsored by the UN, the EU and the US, while the Greek Cypriots snubbed it by a great majority. Aside from opening the way for Turkey to get a date to start accession talks, the results of the referenda had no impact on the island, such as removing the isolation of the Turkish Cypriots.

The EU insists on Turkey extending its EU Association Agreement to take into account the accession of ten new member states including Cyprus before talks can be started, with a debate surrounding the issue of whether this constituted de facto recognition of Greek Cyprus. The government might opt to sign the Agreement but deny it constitutes recognition of Greek Cyprus. A tough negotiation process is likely to take place before the start of talks. Concrete steps will probably be taken in April after presidential elections in Northern Cyprus. There has been some recent criticism from the EU front of the Turkish government being reform-fatigue. Although the government most probably will remain committed to the target of full membership, it is likely to be a tough journey toward the EU. Changing directions along the road or even regarding expectations will have some impact on the Turkish economy.

Another anchor remains to be the IMF relations. The markets are eagerly watching the new IMF programme to ensure that external financing needs are not too onerous. On the external front, the ratification of the new EU Constitution is a concern for Turkey. The political upheaval in regions surrounding Turkey is ongoing, with changes of government to the north and northeast plus US pressure in the south that could have medium term implications for regional stability. On the macro front, the key risk is the external deficit, while the employment picture has to be improved if political stability is to be sustained.

The main item on Turkey's political agenda last year was the EU accession process. The key events were the October 6th issue of a favourable EU Commission report on Turkey's progress toward meeting EU criteria and the December 17th EU decision to start accession talks with Turkey in October 2005.

Balance of Payments (US$ millions)

	2003	2004	% Chg.
Current account balance	(8,037)	(15,410)	91.7
Exports (FOB)	47,253	63,075	33.5
Trunk trade	3,953	3,880	(1.8)
Imports (FOB)	(62,618)	(87,249)	39.3
Foreign trade balance	(14,010)	(23,792)	69.8
Balance of services	10,505	12,773	21.6
Transport and freight (net)	(523)	(1,065)	103.6
Tourism (net)	11,090	13,364	20.5
Construction services (net)	682	724	6.2
Other business services (net)	(25)	131	n.m.
Financial, official, and other services (net)	(719)	(381)	(47.0)
Investment balance (net)	(5,559)	(5,518)	(0.7)
Current transfers (net)	1,027	1,127	9.7
Capital account	2,994	12,623	321.6
Direct investment	1,195	1,709	43.0
Portfolio investment	2,569	8,023	212.3
Other	3,277	3,715	13.4
Net errors and omissions	5,043	2,787	(44.7)
Change in official reserves	(4,047)	(824)	(79.6)

Source: CBRT

The Corporate Banking Division strives to offer an ever-expanding range of sophisticated services and products. In a fast changing market environment, it tailors solutions to meet even the most complicated financial requirements of its corporate clients.

Overview of Activities in 2004

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 ten corporate branches and covering a majority of Turkey’s most economically developed cities, the Corporate Banking Division serves a diversified portfolio of large-scale business conglomerates.

The Corporate Banking Division strives to offer an ever-expanding range of sophisticated services and products. In a fast changing market environment, it tailors solutions to meet even the most complicated financial requirements of its corporate clients. TEB, operating more like a business partner, facilitates clients’ cash flow by utilising innovative cash management services.

Other corporate banking services and products made available by the Corporate Banking Division include foreign trade transactions, electronic banking, project finance, insurance, leasing and factoring. TEB’s expertise in import and export transactions 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 and 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.

Overview of Activities in 2004

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COMMERCIAL BANKING

Commercial banking services are delivered to small and medium-size companies that operate as sales outlets, distributors or suppliers to larger companies in the corporate segment. TEB has reorganised commercial banking services and extended these services to composite branches which deliver both retail and commercial services. The successful trend that TEB experienced in 2004 in this segment will continue next year with the addition of new services and new business lines within its service scope.

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 to 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.

Targeting a broader client base in a highly competitive marketplace, TEB segmented its corporate clients according to their size and banking needs in an effort to reach more medium and small-size companies. Accordingly, new commercial banking branches were added to the existing network, which totalled seven at the end of the year. Additionally 59 composite branches also provide commercial banking services.

The synergy between the Commercial Banking Division, Corporate Banking Division and the Cash Management Unit continued to bear results in 2004. 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.

The number of companies subscribing to TEB's Continuous Cheques, Direct Debiting, Cheque Automation, and Electronic Supplier Payment Systems increased 50% by the end of 2004. According to the Central Bank's Cheque Clearance data, TEB achieved a 30% increase in the cheque settlement volume and ranked 11th with a market share of 4.4%.

CASH MANAGEMENT SERVICES

Cash management services complement corporate and commercial banking services and create low cost funding opportunities for the Bank. By further expanding its service and product portfolio offered to corporate and commercial banking clientele under cash management services, TEB has maintained its lead 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 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. TEB's cash management service platform (TEB Access) was instrumental in developing client-oriented cash management solutions helping to establish long-term multifaceted relationships with broad-based corporate clientele. The number of companies using this electronic service platform increased 34% in 2004.

In a marketplace characterised by volatility and intense competition, traditional banking practices need to be complemented with high value-added, technology-driven services. Cash management services at TEB are highly dependent on its IT infrastructure as well as the Bank's organisational capabilities. These systems, specifically developed by TEB, greatly facilitate routine payments, collection and reconciliation processes of companies with their parametric structures.

The number of companies subscribing to TEB's Continuous Cheques, Direct Debiting, Cheque Automation, and Electronic Supplier Payment Systems increased 50% by the end of 2004. According to the Central Bank's Cheque Clearance data, TEB achieved a 30% increase in the cheque settlement volume and ranked 11th with a market share of 4.4%. These services create an important funding source for the Bank in the form of call deposits. Cash management is also an important source of fee and commission revenue.

Overview of Activities in 2004

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RETAIL BANKING

Credit cards, debit cards and consumer credits are TEB's traditional retail banking products; these are distributed over a wide network of branches and alternative distribution channels.

This past year was a successful period for TEB in the area of retail banking as it focused on the needs of target clientele while improving the scope and quality of its products and services. The content of the Financial Investment management was enlarged and discretionary portfolio management services were launched for individual customers willing to receive professional help in managing their investments. Additionally, the scope of the TEB Elite Service, catering to high net worth individuals, was enlarged in 2004 to include all branches.

Credit and Debit Cards

TEB targeted low risk clients and aimed to position its credit cards as their first choice. The marketing strategy was geared to increasing the volume of spending made by TEB credit cards while raising customer loyalty.

Consumer Credits

Consumer lending activities performed flawlessly during the year, due in part to the careful credit evaluation process to which TEB adheres. The share of consumer credits within the total lending portfolio increased from 4.6% in 2003 to 5.5% in 2004.

Alternative Distribution Channels

TEB offers a number of retail banking services via the Internet, a call centre and ATMs, which serve as alternatives to branch offices. TEB enjoyed a rapid increase in the number of customers and transaction volume through these channels in 2004, with the help of newly added services and promotional campaigns. TEB's new Internet banking infrastructure enables non-Turkish customers get fast and secure multilingual banking service. Number of ATMS increased by 56% reaching 125, and creating the opportunity to serve more customers.

Small Business Banking

In the second half of 2005, a new marketing and sales department will be set up to deliver specifically tailored banking services to small-scale companies. Fifty sales representatives will be assigned for this purpose until the end of 2005. At the end of 2006, the goal is to designate 100 sales representatives in existing and new branches to serve small business portfolios.

In addition to serving small business companies, their owners will also be served by the same sales representatives for their personal banking needs. It is expected that small businesses will contribute to both the assets and liabilities of the balance sheet helping the Bank grow its balance sheet footing with relatively less risky customers.

TEB will be offering plain and practical banking instruments to facilitate the cash flows of small-size companies and all other retail banking products to meet their financial needs.

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MUTUAL FUNDS

Asset management has always been an important area at TEB. The Bank has been a pioneer with regard to the introduction of new products to the mutual fund business. Key elements in TEB's mutual fund strategy have been the generation of new products and the diversification of distribution channels coupled with expansion of the customer base.

In 2004, TEB continued to market mutual funds from all of its alternative distribution channels and launched a series of innovative services to facilitate the sales of mutual funds. The Instant Overdraft For Mutual Funds is a new application that provides customers instant cash for an amount equal to the discounted value of their funds.

Since the launch of its first mutual fund in 1993, TEB has become one of the leading mutual fund management institutions in Turkey. Currently TEB, including its subsidiary TEB Investment's funds, has three private-label funds and 15 mutual funds. The management of these funds is subcontracted to TEB Asset Management.

In addition to its own funds during 2004, TEB also marketed four ABN Amro Bank mutual funds and aimed at deeper market penetration by offering mutual funds from other financial institutions. On the other hand, TEB's funds are marketed by Citibank and BankEuropa branches.

Total assets under management reached US$ 472.7 million (including private funds) at the end of 2004 and recorded an increase of 34% over 2003. The number of customers having TEB mutual funds increased 50%; TEB had a market share of about 3% in terms of total mutual fund asset size at the end of 2004.

TEB Mutual Funds

	Asset Size at December 31, 2003 (US dollars)	Asset Size at December 31, 2003 (US dollars)	Appreciation Rate
TEB B-type T-bills & Bonds Fund	4,951,338	43,719,217	18.24%
TEB B-type Liquid Fund	313,272,522	399,090,440	17.65%
TEB A-type Composite Fund	18,544,323	13,695,539	18.58%

Although the subsidiary, TEB Asset Management, manages the funds, the Bank tightly monitors the operations via a joint committee of executives from the Bank and TEB Investment. This committee oversees performance and sets the basic investment criteria. The overriding principle in fund management is to generate above market-level returns while maintaining a well-balanced portfolio of financial instruments, assuring high liquidity for the investor. The ability to provide efficient service and reliable information are also essential features of TEB mutual funds. Ernst and Young is the independent auditor for all TEB and TEB Investment funds.

Overview of Activities in 2004

PRIVATE BANKING

TEB sustained its lead position in private banking activities by targeting high net worth individuals along with the advantage of being the first institution to offer private banking services in Turkey, since the 1980s. In an increasingly competitive environment where other banks also launched their private banking businesses to compensate for narrowing profit margins, TEB Private Banking keeps a high threshold in terms of asset size as a criterion to accept clients. This is a strong evidence of its dynamic positioning and quality backed by its global private banking perspective. The prevailing 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, services and closely monitors service quality. This perfectionist approach to serving client needs is being adopted as a model for private banking activities enhancing TEB's reputable brand name and strengthening TEB Private Banking franchise.

TEB Private Banking operates in a centralised format consisting of highly qualified, senior private bankers complemented with a branch in Etiler and a unit in İzmir. The division completed its structural positioning within the Bank in terms of the sales channels. The synergetic approach is successfully implemented with related business units. 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.

Starting in 2004, the Private Banking Division focused 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.

The next focus area is tax advisory that 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 Division.

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.

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TREASURY

Year 2004 has been a rapidly changing environment for Turkish FX and capital markets. TEB has made considerable achievements in treasury operations and product marketing given its capability to adapt itself to the evolving needs of its clients and rapidly changing Turkish financial markets. TEB's Treasury maintained its role as an active market participant and increased its share of FX trading and customer-based transactions volume.

TEB has guided its clients on their way to gauge and manage their risk more effectively. This role has gained a faster pace with the introduction of FX option transactions where the rapidly growing derivatives market not only enabled TEB to construct and market new products for its clients but also demonstrated that these efforts were rewarded with an increase in the number of clients using the tools as a means to hedge their risk.

Active marketing of treasury products by the Treasury Marketing Unit (TMU) provided invaluable results during 2004 and in addition to meeting their investment needs, TEB also presented its customers with new perspectives for the management of risk more efficiently. As a result, in addition to the vast corporate portfolio there has been considerable growth in commercial and individual client portfolio as well.

Overview of Activities in 2004

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INTERNATIONAL RELATIONS

Financial Institutions Division handles correspondent banking relationship with international financial institutions.

In 2004, TEB successfully maintained its share of the country's total international trade at a level of approximately 5% despite ever increasing competition in the marketplace. Thanks to its international credibility, TEB was able to provide its clients most convenient and creative solutions, differentiating itself among its competitors by the service quality. In order to meet the clients' changing needs, innovative solutions were put in place to absorb exotic countries' risks more easily. Moreover, it decided on a new strategy to visit the banks in these countries more frequently, in order to develop the relationship and closely monitor associated risk.

STRUCTURED FINANCE

The Structured Finance Division provides tailor-made advisory, corporate finance and international capital market services including syndicated loans, international capital market issues, project finance, commodity finance and structured trade finance transactions for the Bank and its corporate clients.

In 2004, TEB renewed the US$ 125 million-syndicated loan facility which matured in 2004 with another facility in the amount of US$ 200 million in international money markets. The deal, concluded in November, was largely over-subscribed and sizeable cutbacks were requested from the participants.

In 2004, the Division enhanced its market position in commodity finance activities for Turkey's traditional agro export products, such as tobacco, olive oil, raisins, dry fruits and herbs. The Bank maintained its market lead in this area, extending US$ 175 million self-liquidating export finance facilities, raised through bilateral loans from international banks with TEB acting as an agent, guarantor or creditor.

In addition to this facility, the Division raised in excess of US$ 60 million medium-term financing from supranational institutions such as KfW, World Bank and the one provided by a US bank under OPIC guarantee.

The Structured Finance Division closely monitors international markets and informs clients of opportunities together with advice on tailoring business and financing methods.

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BANKNOTE TRADING

In 2004, TEB maintained its market share and position in the foreign banknote business reaching a trading volume of US$ 3.1 billion and providing service in ten cities. With its experience and service quality, TEB is one of the top players in foreign banknote trading in Turkey.

OPERATIONS

Following meticulous efforts, all of TEB's foreign trade transactions, credit operations and EFT transactions are now fully centralised. The centralisation project will continue into 2005, transferring some other major activities to the centralised operations platform.

The Regulations Consultation Line

The Regulations Consultation Line, launched in January 2003, is a first of its kind in Turkey's banking industry. Accessible via the telephone number 444 0 832, this service is available to all who require information on Turkish and international trade regulations whether a TEB customer or not. The free-of-charge service, Regulations Consultation Line is used extensively by existing TEB clients.

RISK MANAGEMENT

Risk awareness and risk 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 risk management process while the Board of Internal Auditors and the Internal Control Centre take part in control and auditing activities, assuring complementing the entire risk management function. 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.

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 culture, the entire staff strongly adheres to ethical rules of business conduct and corporate governance principles as they act prudently within a framework of "know your customer" to avoid taking part in illegal transactions or money laundering.

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 top 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 aims and strategies.

As part of its overall strategy, TEB seeks controlled growth in line with current 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 macro-economic trends.

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Market Risk

Market risk refers to the risk of loss resulting from volatility in interest rates, exchange rates, equity prices and commodity prices that arise from the Bank's trading, investment and funding activities.

The Market Risk Department measures interest and foreign exchange risk arising from the positions held by the Bank using the standard method. TEB also adopted an internal risk management system for its own decision-making processes. Value at risk (VaR) methods (Historical Simulation, Monte Carlo and VarCovar) are applied to estimate the potential loss arising from portfolios with a predetermined probability and holding period, using market movements.

Scenario analysis and stress tests are applied to portfolios on a regular basis to estimate the impact of past extreme market movements and hypothetical scenarios on financial positions. Back testing is used to test the accuracy of VaR models. Treasury trading and stop loss limits, approved by the Board of Directors, are monitored and reported daily by the Market Risk Department.

The Bank's asset and liability management process is designed to maintain a balance between enhancing interest revenue and maintaining strong liquidity within a framework of sound and prudent practices. Asset-liability ratio, liquidity and gap limits, approved by the Board of Directors, are monitored and reported by the Market Risk Department. The ALCO decisions are supported by risk management reports, which include duration and gap analysis.

Credit Risk

Credit risk is the potential for loss when a client or counter-party fails to meet its obligation to repay the Bank.

The Credit Allocation Department works in strict adherence to the Bank's traditionally prudent credit allocation and review policies whereby all credit clients are assigned in-house ratings. Distribution of credit risk within rating categories and industry groups is monitored periodically. Counter-party limits are reviewed regularly by the Credit Allocation Committee and the Bank's and its subsidiaries' credit exposures are monitored daily by the Credit Risk Department.

Overview of Activities in 2004

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Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems and/or external events. This definition includes legal risk but excludes strategic, reputation and systemic risk.

TEB is applying policies and procedures to meet the standards of the Basel Committee, ensuring the strict observance of the internal code of conduct and developing an internal control culture. Compliance with legal rules, information security, fraud prevention, incident management and contingency planning and disaster recovery are the main subjects of the operational risk mitigation controls.

Disaster Recovery and Business Continuity

Establishing a disaster recovery and business continuity plan that covers business and technology operations, TEB has maintained a leading position in this regard in the banking sector.

As part of its business continuity plan, TEB's disaster recovery project was completed in 2003. This project had been achieved with hardware and network installations at the Bank's Izmir premises and with all the necessary software adjustments for real-time data mirroring. In addition to an education and awareness programme for the entire organisation, a full test of the plan that involved systems and people had been carried out to ensure the successful applicability of TEB's business continuity plan. TEB also included its subsidiaries as part of its strategy to build an integrated disaster recovery and business continuity plan.

With a new project concluded in 2004, loan collateral was rated providing the basis for a sound and effective credit risk management system. Additionally, interest calculations were changed to comply with International Accounting Standards (IAS 39).

INFORMATION TECHNOLOGY

Conversion to the New Turkish Lira was one of the major projects in 2004 which was successfully completed on January 1, 2005.

The facsimile automation project was completed in 2004. The Bank is now able to receive facsimile messages from customers electronically, automatically save them into the document management system and integrate them into the workflow management system. Thus, customer orders are processed automatically through the Central Operations Department (TEBOPS), cutting down on paper costs and increasing operational efficiency.

A commercial loan application and allocation platform was developed on the main computer system and integrated into the Bank's workflow system. Operational efficiency was increased and the status of loan processing can now be tracked in the system by all related parties. With a new project concluded in 2004, loan collateral was rated providing the basis for a sound and effective credit risk management system. Additionally, interest calculations were changed to comply with International Accounting Standards (IAS 39).

The user interface of the Retail Internet Banking system was renewed and new functions were added, including an English language interface. A new project was completed for the Customer Relations Department to track down customer contacts and complaints. This system allows related parties to view and take action on customer complaints and messages using the workflow system.

Overview of Activities in 2004

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HUMAN RESOURCES AND TRAINING

With regard to staffing and organisational structure, TEB's primary consideration has always focused on efficiency, productivity and practices capable of achieving both. The number of personnel increased from 1,849 at the end of December 2003 to 2,131 at the end of December 2004, paralleling the emphasis TEB placed on marketing staff.

In 2004, training programmes concentrated more on marketing, sales, products, credits, risk management and communications with clients. In addition to practical on the job training on a rotation basis, TEB promoted the usage of e-learning (virtual training centre) through the Intranet and achieved an annual 67.5 hours of classroom and Intranet training per employee.

For the first time, TEB participated in the Investor Relations Global Rankings and Awards organised by MZ Consult and was chosen by the investor community as one of the top ten institutions with superior and most informative websites in Europe.

INVESTOR RELATIONS

In 2004, the Investor Relations Division concentrated on re-structuring activities along with daily activities and organisations. After the decision by the Board of Directors in 2003 to comply fully with corporate governance principles of the Capital Markets Board, the relevant committees were established, the Investor Relations Committee included. The Investor Relations Committee, which works in close co-operation with the Corporate Governance Committee, held four meetings during the year. The Investor Relations team also launched the Corporate Governance webpage at TEB's website that documents the Bank's corporate values and resulting management principles.

The Investor Relations Division has also continued its marketing oriented approach to increase and where necessary maintain its recognition by both domestic and international investors. For this purpose, the Investor Relations Division participated in four international investor forums in 2004 arranged by well-known international investment houses. During these events in London, together with the investors who visited TEB's Headquarters in Istanbul, the Investor Relations team established contact with approximately 60 investors.

The Investor Relations Division continued its tradition of quarterly teleconferences with three such activities during 2004 to inform investors of results and developments. The Division also arranged an analyst meeting and its first press conference in Istanbul. As a result of the continuous information outflow in the form of meetings and announcements by the Investor Relations Division, the foreign shareholding of TEB's shares reached a record high level in 2004.

The Investor Relations team, cognisant that communications with the investor community is a top priority, sought to use the Internet as a means to provide up-to-date information directed at investors. For the first time, TEB participated in the Investor Relations Global Rankings and Awards organised by MZ Consult and was chosen by the investor community as one of the top ten institutions with superior and most informative websites in Europe.

TEB Financial Services Group is made up of TEB's subsidiaries in leasing, factoring, investment banking and brokerage, insurance, asset management as well as The Economy Bank N.V. in Amsterdam. Synergy and the cross-selling opportunities created among these financial institutions create a strong competitive edge for the entire Group. TEB's credits to shareholders and subsidiaries only make up 0.66% of the total credit portfolio.

TEB Financial Services Group

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

TEB N.V., a wholly owned subsidiary of TEB, became operational in Amsterdam in November 1998. The synergy created between TEB Financial Services Group companies and TEB N.V. helped to develop all of the Group's activities.

The Bank offers foreign trade finance, corporate banking, private banking and correspondent banking services. The presence and availability of TEB financial services beyond national borders is yet another indication of TEB's aim to become the EU's Turkish Market Specialist.

TEB N.V. has a paid-up capital of € 30 million and is 100% owned by TEB.

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

TEB Investment is the Bank's investment banking subsidiary and provides corporate finance, fixed income and equity brokerage services to Turkish and international institutional and retail investors.

TEB Investment enjoys a significant origination capacity for corporate finance transactions and has the financial strength to underwrite security issues.

TEB Investment has a paid-up capital of TL 12,950 billion, of which 100% belongs to TEB.

TEB Leasing (TEB Finansal Kiralama A.Ş.)

The Bank's long-term equipment financing subsidiary, TEB Leasing, provides financial leasing services 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 in terms of financial aggregates. Its business philosophy is to identify the adequate financing method that best meets the requirements of the customer's investment project.

TEB Leasing has a paid-up capital of TL 29,500 billion, of which 100% belongs to TEB.

TEB Factoring (TEB Factoring A.Ş.)

As a further step toward the Bank'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 player in export-related and forfaiting transactions.

TEB Factoring has a paid-up capital of TL 6,200 billion, of which 100% belongs to TEB.

TEB Financial Services Group

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TEB Insurance (TEB Sigorta A.Ş.)

TEB's non-life insurance subsidiary, TEB Insurance, provides risk coverage to clients in the areas of fire, marine, accident and engineering insurance.

TEB Insurance was the first Turkish insurance company to be rated by an international rating agency. FitchRatings awarded an A- (tur) rating to TEB Insurance in January 2001, interpreted as a major event in the Turkish insurance industry. Since then, TEB Insurance has retained this favourable rating.

TEB Insurance has a paid-up capital of TL 25,000 billion.

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

The management of TEB's mutual funds, which was the responsibility of TEB Investment until January 2000, was turned over to TEB Asset Management with a view toward enhancing efficiency and independence. TEB Asset Management is one of the country's larger fund managers and has an extensive Internet distribution capacity. The Company has a marketing agreement with Citibank.

TEB Asset Management has a paid-up capital of TL 2,409 billion, of which 100% belongs to TEB.

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

TEB Precious Metals is involved in importing and domestic trading of precious metals.

TEB Precious Metals has a paid-up capital of TL 100 billion.

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 TL 1,000 billion.

Corporate Governance Principles Compliance Report

SECTION I - SHAREHOLDERS

1. Statement of Compliance with Corporate Governance Rules

TEB aims to fully abide by the Principles of Corporate Governance as issued by the Capital Markets Board (CMB) of Turkey in July 2003 concerning the principles to be observed by publicly held 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 credit worthiness assessment (ratings) in the immediate future, the Board of Directors founded a Corporate Governance Committee with decision number 3609/4 dated January 24, 2004 to regulate and monitor compliance with these principles. The Corporate Governance Committee started working and carried out the functions mentioned below.

In spite of the fact that compliance with these principles issued in 2003 requires a lengthy process, we would like to point out that these principles have been almost entirely implemented at the TEB without any conflicts of interest.

2. Shareholder Relations Unit

TEB has instituted a Shareholder Relations Unit (called the "Shareholders Unit" in the organisation chart) in order to communicate the agendas and the decisions of the Shareholders Assembly Meetings as well as dividend and capital increase transactions to registered shareholders; to keep the stock ledger in accordance with the provisions of article 326/1 of the Turkish Commercial Code and to maintain legal and operational relations with our shareholders. The information concerning this unit is as follows:

Cüneyt Temiztürk (Assistant Manager)
Phone: 0212 251 21 21 (extension 1923)
Fax: 0212 249 65 68
E-mail: ctemizturk@teb.com.tr

This unit reports to the Secretary General of the Board of Directors.

In 2004, the Shareholders Unit organised the announcement of one Ordinary Shareholders Assembly Meeting, one Extraordinary Shareholders Assembly Meeting, one dividend distribution and one capital increase activity in addition to -

- 4 share transfers,
- 3 disclosures on various subjects,
- 44 transactions concerning new stock deposits in return for new share coupons (excluding transactions effected through Takasbank), and
- 20 dividend payment transactions (excluding dividend payments made through Takasbank).

The organisation chart also contains an Investor Relations Department founded to establish relations with domestic and foreign investors and to inform them about the activities and the financial results of TEB.

This Department is managed by Assistant General Manager and Financial Investments Group Head Levent Çelebioğlu and by Manager Güzin Üstün, who reports to him.

These executives can be reached at:

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

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

3. The Exercise of Shareholders' Right to Obtain Information

The Bank's investors as well as the 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/investor_relations.asp
http://www.teb.com.tr/2004/corporate_governance.asp

- Ownership
- Management
- Policies disclosed within the framework of Corporate Governance Principles
- Share Price Information
- Special Announcements
- Financial Information
- Ratings
- Annual Reports
- Press Releases
- Financial Calendar
- Broker Forecasts
- Offering Circular
- Legal Information
- Shareholder e-service
- Frequently Asked Questions

In 2004, nearly 100 questions concerning TEB were received by phone and e-mail and were answered. Additionally, several meetings were held with the inquirers for the same purpose. All requests for information by our shareholders are answered as soon as possible, unless they involve trade secrets or information that has not yet been disclosed to the public.

Article 36 of our Articles of Association deals with the appointment of a Special Auditor. However, no Special Auditor was appointed in 2004. 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 contrary provision to the related provision of the Turkish Commercial Code. This right was not exercised in 2004.

4. Information on the General Shareholders Assembly

In 2004, two Shareholders Assembly Meetings were held: An Ordinary Shareholders Assembly on March 26, 2004 and an Extraordinary Shareholders Assembly on December 17, 2004. The quorum was 71.09 % at the Ordinary and 84.52% at the Extraordinary Shareholders Assembly. The media was not present at either meetings.

Invitation letters were sent to the shareholders recorded in the stock ledger by registered and reply-paid post at least 15 days prior to the meeting dates. The meetings were also announced in the Turkish Trade Registry Gazette and a national daily newspaper. In addition, e-mail notices were sent to the shareholders whose addresses were known.

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

Investors that bought their shares at the Istanbul Stock Exchange are required to deliver their shares or their shareholder certificates to the Headquarters or to the branches of TEB in order to obtain their admission cards. TEB associates are allowed to apply for their admission cards up to the moment the presidential board of the Shareholders Assembly is formed.

The date, the venue, the time and the agenda of the meetings as well as proxy statement samples for those who wish to be represented by proxy are included in both the invitation letter and the newspaper announcements. They are also announced on the TEB website.

At Shareholders Assembly Meetings, TEB associates were able to use their right to ask questions and were provided with answers to their queries.

Shareholders made suggestions which were put to the vote of attending shareholders and were accepted.

The Articles of Association do not require General Assembly approval for decisions like dissociation or the sale, purchase and leasing of fixed assets. The powers and the responsibilities of the Board of Directors in relation to these decisions are governed by Article 26 of the Articles of Association.

In order to make it easier to attend the Shareholders Assembly Meeting, timely notices are sent, the meetings are held in central districts of Istanbul; Shareholders Assembly Meeting minutes are continuously made available to the shareholders at the Shareholders Unit or on the TEB website.

5. Voting Rights and Minority Shareholder Rights

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

TEB Articles of Association do not provide for cumulative voting.

6. The Dividend Policy and the Dividend Period

No privileges regarding dividend distribution have been granted. TEB would like to point out that it is one of the two Turkish banks that announced the Dividend Distribution Policy to the public on September 19, 2003 which is as follows:

Dividend Distribution Policy:

"Effective on its 2003 financials, Türk Ekonomi Bankası will pay minimum 30% of the net distributable profit to its shareholders who are described in its Articles of Association as cash dividend. This policy will be dependent on relevant market conditions and sustenance of a comfortable level of capital adequacy ratio."

The dividend policy was disclosed to the shareholders at the Shareholders 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 rules that:

- Share transfers will be governed by the provisions of the Turkish Commercial Code and other related legislation,

- The transfer of shares and shares holding benefit rights at the ratios specified by Banking Law are subject to the permission of the Banking Regulation and Supervision Agency and the Capital Markets Board,

- The transfer and assignment of shares to third persons will only be valid if the conditions of the said transfer or assignment is approved and confirmed by the Board of Directors of the Bank and is registered in the stock ledger.

SECTION II – DISCLOSURE AND TRANSPARENCY

8. The Corporate Disclosure Policy

As indicated on the website, TEB announced its Disclosure Policy to the public within the context of the Principles of Corporate Governance in the following words:

"TEB discloses the aspects regarding its activities as asked by the regulations it abides within promptly, accurately and completely."

All information within the domain of the above stated definition is disclosed to the public by the Investor Relations Unit or the Shareholders Unit with the approval of the Bank's Board of Directors and the General Manager.

9. Material Event Disclosures

TEB made a total of 39 Material Event Disclosures in 2004. Only one of these is in the nature of an additional disclosure required by the Istanbul Stock Exchange. TEB is listed on the London Stock Exchange (LSE) as well as on the Istanbul Stock Exchange; consequently, the Material Event Disclosures that are made to the Istanbul Stock Exchange and the Capital Markets Board are also made simultaneously to the LSE. No disclosures were made to the LSE other than those made to the ISE and the CMB.

Due to the Material Event Disclosures duly made by TEB, the CMB did not apply any sanctions to the Bank in 2004.

All Material Event Disclosures can also be found on TEB's website.

10. The Corporate Website and its Contents

The TEB website can be reached 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 Principals of Corporate Governance issued by the CMB.

In TEB's opinion, the contents of its website contains sufficient information to satisfy its associates as well as third persons that wish to find out about TEB.

11. The Disclosure of Real Persons that Hold Ultimate Controlling Shares

The shareholding structure of TEB as of December 31, 2004 is as follows:

• TEB Mali Yatırımlar A.Ş.	84.25%
• Free Float	15.17%
• Other Associates	0.58%

The ultimate controlling shares as of that date belonged 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 or client secrets 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.

SECTION III – STAKEHOLDERS

13. The Briefing of Stakeholders

TEB provides its stakeholders with information concerning its activities through Material Event Disclosures, its website and its annual reports. Views, opinions and questions sent to TEB's website under 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 TEB'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 Unit, the Shareholders Unit and the Customer Communication Unit.

In 2004, an employee-oriented survey was conducted on Personnel Satisfaction; the management evaluated the results.

15. The Human Resources Policy

TEB's Human Resources Policy was announced and explained on the website as follows:

"To hire qualified human resources in keeping with the targets and the strategies of the Bank; to equip new personnel through professional and personal development-oriented training programmes; to regularly monitor personnel productivity via the Performance Evaluation System and to report the results; to establish a rewarding system in order to enhance motivation, creativity and advancement; to keep career opportunities open at the Bank, as well as at the companies within the TEB Financial Services Group; and to develop and promote managers from the inside."

In parallel with the corporate vision and mission, matters regarding the selection and the placement of personnel that are able to contribute to corporate growth; personnel training and development; career planning, rewarding and incentive policies are presented to the committees for approval under the leadership of the department that determines human resource policies before they are put into effect. The relevant decisions are organised into regulations and guidelines before they are published on the website or made available for reading.

Proposed changes in core human resource policies are presented to the Board of Directors for approval before they are put into effect. Related changes and advances are announced to personnel via memos or meetings.

No representative was appointed to exclusively co-ordinate relations with employees because the corporate approach to management provides for human resources policies to be governed by a committee in addition to the Human Resources Department. The members of this committee are changed every six months. The objective is to ensure that management is based on participation and sharing. The permanent members of the Bank's Human Resources Committee are the General Manager, the Human Resources Director and Group Presidents from groups employing the highest number of personnel. Other members that make up the committee are senior executives that change every six months.

The proposal incentive system works independently from the Committee in order to collect and communicate the suggestions of all employees and to reward them accordingly.

To date, no discrimination complaints have been received.

16. Information on Customer and Supplier Relations

A Customer Communications Department was founded at the Bank to sustain customer service quality, measure customer satisfaction and assess complaints, views and suggestions sent in by customers. This Department reports directly to the General Manager.

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

17. Social Responsibility

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

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, 2004:

Name	Duty
Yavuz Canevi	Chairman of the Board of Directors
Dr. Akın Akbaygil	Vice-Chairman of the Board of Directors and Executive Member
Varol Civil	General Manager
Aydın Esen	Independent Member
Cihat Madanoğlu	Executive Member (Financial Affairs)
İsmail Yanık	Executive Member (Risk Management)
Refael Taranto	Member

The Corporate Website includes an up-to-date list of the members of the Board of Directors as well as their CVs.

In Turkey, the concept of independent members has initially been recognised with Corporate Governance Principles. This, however, is bound to take some time before the number of independent members on the Board of Directors reaches the desired level. This is because the requirements needed for this position are high and the number of suitable candidates is limited. There are additional legal responsibilities attached to this position on top of the personal qualifications required. The Banking Law, presently at the drafting stage, will also establish some guidelines for banks in relation to this matter.

19. The Qualifications of the Board of Directors

The qualifications required for TEB's Board Members 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 Corporate Governance Principles.

20. The Corporate Mission, Vision and Strategic Targets

As stated on the Corporate Website under Corporate Governance, TEB;

- is committed to adding value to all its stakeholders including a select customer portfolio by providing universal quality financial services,
- aspires to ensure customer satisfaction,
- adheres to the best international practice in corporate governance,
- employs staff with impeccable business ethics who preserve the values of their organisations and are open to innovations.

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 and 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 of the Bank are shared with TEB Managers at the biannual General Management Meetings.

21. Risk Management and Internal Control Mechanisms

In accordance with Banking Regulation and Supervision Agency regulations, TEB has instituted a Superior Risk Committee that reports to the Board of Directors through a Board Member assigned exclusively to this task. This Committee's scope of duty covers the Bank as well as its subsidiaries.

The duties of the Superior Risk Committee can be summarised as follows:

- To prepare risk management strategies and policies for the Bank and its subsidiaries.
- To supervise the implementation of the risk management strategies and policies adopted by the Board of Directors of the Bank and of its subsidiaries.

In addition, there are also the Internal Audit Committee, the Internal Control Centre and the Risk Management Division that also report to the Executive Member of the Board of Directors in charge of Risk Management and Internal Control. Activities and reports of these supervisory mechanisms are sent directly to the Board of Directors through the Board Member in charge.

22. Powers and the Responsibilities of 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 the Board of Directors of the Bank are organised by the General Secretariat 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.

In 2004, the Board held nearly 100 meetings. Decisions were made and recorded in the resolutions book at 86 of these meetings. As mentioned above, there is a secretariat that takes care of such matters. All decisions within this period were taken 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 relationship with the Bank that could lead to conflict of interest.

25. Ethics Rules

As announced on the Corporate Website, the Board of Directors of the Bank has agreed to abide by the Ethical Principles of Banking numbered 1012 and dated November 1, 2001 issued by the Banks Association of Turkey. TEB was among the participants that helped prepare these Principles.

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

The below listed committees were formed by the Bank and were active in 2004 in accordance with Corporate Governance Principles:

The Corporate Governance Committee

Description of Duties:

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

Members:
Chairman: Independent Member of the Board
Other Members:
Chairman of the Board
General Manager
Secretary to the Board

The High-Level Risk Committee

Description of Duties:

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

Members
Chairman: Vice-Chairman of the Board of Directors
Other Members:
Board Member in charge of Risk Management and Internal Control
General Manager
Risk Management Director

Audit Committee Project Group

Description of Duties:

- To prepare the infrastructure of the Audit Committee that is to be founded in accordance with the requirements of the New Banking Law

Members
Chairman: Independent Member of the Board of Directors
Other Members:
Chairman of the Internal Audit Committee
Financial and Audit Co-ordinators of TEB Mali Yatırımlar A.Ş.

Performance Committee (the Compensation Committee)

Description of Duties:

- To establish the criteria regarding compensation by taking into consideration general and specific factors
- To present to the Board of Directors its proposals concerning bonus and premium payments and awards to be distributed to Board Members and personnel
- To examine industry practices regarding fringe benefits and develop suggestions to put to the Board of Directors
- To meet before each salary increase period; Chairman can also invite the committee to an extraordinary meeting if he deems it necessary.

Members
Chairman: Independent Member of the Board of Directors
Other Members:
Vice-Chairman of the Board of Directors
General Manager
Committee Secretary: Human Resources Manager

In 2004, Aydın Esen, the Independent Member of the Board of Directors acted as Chairman of the Corporate Governance and Performance Committees as well as that of the Audit Committee Project Group.

If the number of Independent Members of the Board of Directors increases, which was one as of December 31, 2004, for reasons explained in Article 18, the number of Independent Members that assume duties on these committees will also increase.

27. Remuneration of the Board of Directors

The Bank pays a gross monthly attendance fee of TL 500,000,000 to Members of the Board of Directors and TL 200,000,000 to Statutory Auditors. These amounts are determined by the Shareholders 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. In 2004, a total of TL 1,069,120,232,784 was paid to the Board Members in wages 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.

Türk Ekonomi Bankası Anonim Şirketi

Consolidated Financial Statements
Together With Report of
Independent Auditors

December 31, 2004

ERNST & YOUNG

Güney S.M.M.M. A.Ş.
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İstanbul - Turkey

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

We have audited the accompanying consolidated balance sheet of Türk Ekonomi Bankası Anonim Şirketi (the Bank - a Turkish corporation) and its subsidiaries (collectively the Group) as of December 31, 2004 and the related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2004. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

March 29, 2005
Istanbul, Turkey

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED BALANCE SHEET
As at December 31, 2004

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

ASSETS	Notes	2004	2003
Cash and balances with Central Banks	4	856,404	660,401
Deposits with banks and other financial institutions	4	823,778	929,193
Other money market placements	4	95,666	494,846
Reserve deposits at Central Banks	5	211,860	194,805
Trading securities	6	17,552	59,752
Investment securities	6	437,643	104,660
Originated loans and advances	7	2,055,498	1,964,065
Factoring receivables	9	124,010	130,032
Minimum lease payments receivable	10	189,105	173,675
Derivative financial instrument assets	18	6,890	4,992
Investments in associates	2	656	1,016
Premises and equipment	11	49,310	55,171
Intangible assets	12	3,913	4,796
Deferred tax asset	17	8,708	6,213
Other assets	13	20,849	46,851
Total assets		4,901,842	4,830,468

LIABILITIES AND EQUITY	Notes	2004	2003
Deposits from other banks	14	109,391	175,290
Customers' deposits	14	3,165,817	3,323,882
Other money market deposits	14	155,783	17,572
Funds borrowed			
- Subordinated debt	15	20,336	24,078
- Other funds borrowed	15	859,281	687,800
Factoring payables	9	56,021	73,542
Derivative financial instrument liabilities	18	10,315	8,097
Other liabilities and provisions	16	101,839	118,757
Income taxes payable	17	7,518	10,222
Deferred tax liability	17	46	-
Total liabilities		4,486,347	4,439,240
Minority interest		1,628	20,150
Share capital issued	19	57,800	55,125
Adjustment to share capital	19	252,676	252,383
Net unrealized gains/losses on available-for-sale securities, net of tax		3,996	-
Other reserves and accumulated profits	20	99,395	63,570
Total equity		413,867	371,078
Total liabilities and equity		4,901,842	4,830,468

The accompanying policies and explanatory notes on pages 52 through 93 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2004

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

	Notes	2004	2003 (As restated - Note 20)
Interest income			
Interest on originated loans and advances		263,978	242,758
Interest on securities		80,020	28,479
Interest on deposits with banks and other financial institutions		41,793	51,372
Interest on other money market placements		61,555	99,346
Interest on financial leases		22,084	20,789
Other interest income		17,340	24,472
Total interest income		**486,770**	**467,216**
Interest expense			
Interest on deposits		(225,972)	(211,558)
Interest on other money market deposits		(16,460)	(18,463)
Interest on funds borrowed		(44,237)	(40,253)
Other interest expense		(184)	(251)
Total interest expense		**(286,853)**	**(270,525)**
Net interest income		**199,917**	**196,691**
Provision for impairment of loan, lease, factoring and other receivables	7, 9, 10	1,623	(5,247)
Net interest income after provision for impairment of loan, lease, factoring and other receivables		201,540	191,444
Foreign exchange gain (loss)		11,913	(274)
Net interest income after foreign exchange gain (loss) and provision for impairment of loan, lease, factoring and other receivables		213,453	191,170
Other operating income			
Fees and commissions income		44,536	34,957
Fund management fee income		27,677	16,328
Income from banking services		30,189	25,431
Trading income, net		1,731	39,044
Insurance technical income, net		-	3,283
Other income	24	7,305	18,189
Total other operating income		111,438	137,232
Other operating expense			
Fees and commissions expense		(20,122)	(18,882)
Salaries and employee benefits	23	(99,931)	(86,030)
Depreciation and amortization	11, 12	(15,628)	(16,680)
Taxes other than on income		(6,308)	(14,628)
Insurance technical expense, net		(936)	-
Other expenses	24	(66,106)	(61,789)
Total other operating expense		(209,031)	(198,009)
Profit from operating activities before income tax, monetary loss and minority interest		115,860	130,393
Income tax	17	(23,221)	(35,040)
Monetary loss		(29,822)	(26,958)
Net profit for the year		62,817	68,395
Minority interest		(748)	(1,262)
Net profit		62,069	67,133
Earnings per share (full TL)			
Basic	21	537	609

The accompanying policies and explanatory notes on pages 52 through 93 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2004

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

	Notes	Share Capital	Adjustment to share capital	Net unrealized gains/losses on available-for-sale securities, net of tax	Currency translation differences	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2003 as previously stated		55,125	252,383	-	8,188	17,965	333,661
Effect of restatement	20	-	-	-	(2,259)	2,259	-
At January 1, 2003 as restated		55,125	252,383	-	5,929	20,224	333,661
Share capital increase		-	-	-		-	-
Dividend paid		-	-	-		(18,588)	(18,588)
Currency translation differences		-	-	-	(11,128)	-	(11,128)
Net profit for the period		-	-	-		67,133	67,133
At December 31, 2003		55,125	252,383	-	(5,199)	68,769	371,078
At January 1, 2004		55,125	252,383	-	(5,199)	68,769	371,078
Share capital increase	19	2,675	293	-	-	(2,968)	-
Dividend paid	20	-	-	-	-	(14,985)	(14,985)
Currency translation differences		-	-	-	(8,653)	-	(8,653)
Net profit for the period		-	-	-	-	62,069	62,069
Net unrealized gains/losses on available-for-sale securities, net of tax		-	-	3,996	-	-	3,996
Change in consolidation structure		-	-	-	-	362	362
At December 31, 2004		57,800	252,676	3,996	(13,852)	113,247	413,867

The accompanying policies and explanatory notes on pages 52 through 93 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2004

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

	2004	2003
Cash flows from operating activities		
Interest received	474,275	486,147
Interest paid	(291,388)	(270,967)
Fees and commissions received	55,406	34,957
Income from banking services	30,189	25,431
Trading loss	1,731	49,301
Recoveries of loans previously written off	6,872	6,172
Fees and commissions paid	(20,122)	(18,882)
Cash payments to employees and other parties	(96,780)	(85,190)
Cash received from other operating activities	42,360	27,542
Cash paid for other operating activities	(105,975)	(12,659)
Income taxes paid	(32,596)	(119,643)
Cash flows from operating activities before changes in operating assets and liabilities	**63,972**	**122,209**
Changes in operating assets and liabilities		
Net (increase) decrease trading securities	33,499	(959)
Net (increase) decrease in reserve deposits at Central Banks	(40,602)	(21,241)
Net (increase) decrease in due from banks and other financial institutions	18,376	(1,948)
Net (increase) in originated loans and advances	(324,798)	(461,834)
Net (increase) decrease in factoring receivables	(9,792)	(54,304)
Net (increase) decrease in minimum lease payments receivable	(34,394)	(74,796)
Net (increase) decrease in other assets	20,151	(16,483)
Net increase (decrease) in deposits from other banks	(43,592)	54,997
Net increase in customers' deposits	248,981	229,512
Net increase (decrease) in other money market deposits	140,283	(8,399)
Net increase in factoring payables	(8,580)	41,686
Net increase (decrease) in other liabilities	(5,273)	3,556
Net cash from operating activities	**(5,741)**	**(310,213)**
Cash flows from investing activities		
Purchases of available-for-sale securities	(352,335)	-
Proceeds from sale and redemption of available-for-sale securities	-	19,621
Purchases of held-to-maturity securities	(33,401)	(63,484)
Proceeds from redemption of held-to-maturity securities	53,824	4,295
Disposal of subsidiaries and associates net of cash disposed	(4,500)	-
Purchases of premises and equipment	(15,292)	(17,971)
Proceeds from the sale of premises and equipment	1,259	2,430
Purchases of intangible assets	(1,426)	(1,842)
Net cash provided by (used in) investing activities	**(351,871)**	**(56,951)**
Cash flows from financing activities		
Proceeds from funds borrowed	326,525	592,474
Repayments of funds borrowed	(74,687)	(435,465)
Dividends paid	(14,987)	(18,588)
Net cash provided by (used in) financing activities	**236,851**	**138,421**
Effect of net foreign exchanges difference and monetary gain (loss) on monetary items	(233,427)	(230,866)
Net increase in cash and cash equivalents	(290,216)	(337,400)
Cash and cash equivalents at beginning of period (Note 4)	**2,041,652**	**2,379,052**
Cash and cash equivalents at end of period (Note 4)	**1,751,436**	**2,041,652**

The accompanying policies and explanatory notes on pages 52 through 93 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası A.Ş. a joint stock company, (TEB or the Bank) was incorporated in Turkey in 1927 and in 1982 was acquired by the Çolakoğlu Group and renamed as Türk Ekonomi Bankası A.Ş. Certain shares of the Bank, representing 20% of the total, are listed on the Istanbul Stock Exchange since February 2000. TEB's shares are also listed and traded on the London Stock Exchange as GDRs since 2000. The registered office address of TEB is at Meclis-i Mebusan Caddesi, No: 35, Fındıklı-İstanbul/Turkey.

The parent and ultimate parent of the Bank is TEB Mali Yatırımlar A.Ş.. TEB Mali Yatırımlar A.Ş. owns and controls 84.25% of the shares of the Bank. The consolidated financial statements of the Bank were authorized for issue by the management on March 29, 2005. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

Nature of Activities of the Bank / Group

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

The operations of the Group consist of banking, leasing, factoring and brokerage and portfolio management in capital markets, which are conducted mainly with local customers. Until November 4, 2004, The Group was also involved in insurance activities. (Note 8)

The Bank provides banking services through 87 (2003 - 76) branches and 2,129 employees (2003 - 1,847) (excluding the subsidiaries) as of December 31, 2004 in Turkey. The Bank also has an offshore branch in Bahrain with 2 employees.

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

	Place of Incorporation	Effective Shareholding and Voting Rights % 2004	2003
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
Petek International Holdings B.V. (Petek International)	Netherlands	100.0	100.0
Stichting Custody Services TEB	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.0	92.1
TEB Factoring A.Ş. (TEB Factoring)	Turkey	100.0	73.5
TEB Finansal Kiralama A.Ş. (TEB Leasing)	Turkey	100.0	72.7
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	82.5	99.5
TEB Sigorta A.Ş. (TEB Sigorta)	Turkey	-	50.0

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.

Petek International - Private holding company.

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 The Economy Bank NV in the Netherlands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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 Sigorta - Rendering all types of property and casualty insurance services (incorporated in Turkey). In November 2004, TEB Sigorta was fully disposed through the sale of shares to the TEB Mali Yatırımlar A.Ş.

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Standards Accounting Committee (IASC) that remain in effect. The consolidated financial statements have been prepared on a historical cost convention except for the measurement at fair value of derivative financial instruments, trading securities and available-for-sale financial assets. As of December 31, 2004, the Group did not early adopt the changes in IFRS effective for annual periods beginning on or after January 1, 2005.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law and accounting standards promulgated by the other relevant laws and regulations. The 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 Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise the effects of deferred taxation, employee termination benefits, deferred acquisition costs related to insurance contracts and unearned premium reserve and claim provisions.

Reclassification

Certain reclassifications mainly related to reserve deposits at Central Banks derived from a foreign subsidiary, were made in the accompanying December 31, 2003 financial statements to be consistent with the current year financial statements amounting to TL 24,498.

And also Cash Flow Statement for the year ended December 31, 2003 is revised to present the monetary gain or loss on cash and cash equivalents and the effect of inflation on operating, investing and financing cash flows as a single line item.

Measurement and Reporting Currency

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

As a result of a long period of high inflation, the TL has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), as the new currency unit for the Republic of Turkey effective January 1, 2005. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 throughout the period until complete phase-out of TL. In accordance with the declaration of the Banking Regulation and Supervision Agency (BRSA) dated January 5, 2005, the Bank continued to present its financial statements as of December 31, 2004 in billions of TL. Effective January 1, 2005 the Bank's functional and presentation currency will be YTL and financial statements including comparative figures for the prior period / year(s) will be presented in thousands of YTL.

Measurement currency of the Bank and its subsidiaries which operate in Turkey is Turkish Lira (TL). The restatement for the changes in the general purchasing power of TL as of December 31, 2004 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2004, the three-year cumulative rate has been 69.72% (2003 - 181.11%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three-year period ended December 31, 2004 are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951.7	1.697
December 31, 2002	6,478.8	1.297
December 31, 2003	7,382.1	1.138
December 31, 2004	8,403.8	1.000

The main guidelines for the above-mentioned restatement are as follows:

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2004.

- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2004 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.

- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property transferred to share capital from the date they were contributed.

- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity are restated by applying the relevant conversion factors.

- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).

- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets which have been calculated based on the restated gross book values and accumulated depreciation/amortization.

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

Measurement and Reporting Currencies of Foreign Subsidiaries:

As of December 31, 2004 the foreign subsidiaries (The Economy Bank NV and Petek International Holdings B.V.) adopted Euro as their measurement and reporting currency.

The foreign subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to the reporting date each period.

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

The consolidated financial statements of the Group include the Bank and its subsidiaries which it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

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

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 or 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. As the Group conducts majority of its business activities with local customers in Turkey business segments are the basis on which the Bank reports its primary segment information.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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

Dates	TL (full) / US$	TL (full) / EUR
December 31, 2002	1,639,745	1,718,945
December 31, 2003	1,393,278	1,757,480
December 31, 2004	1,336,300	1,823,300

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyper-inflationary economy) are translated at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are also translated at period-end exchange rates, which are considered as a proxy to restate such income statement amounts at period-end purchasing power of TL. On consolidated exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity as currency translation differences.

Premises and Equipment

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

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

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	4 - 5 years
Furniture, fixtures and vehicles	2-25 years
Leasehold improvements	Lease period
Land	not depreciated

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

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years.

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

Investments in Associates

Investment in associate, which is traded in an organized financial market, is accounted for by the equity method of accounting in the accompanying financials.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. 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; for assets classified as trading or as available-for-sale, the change in value is recognized through profit and loss and in equity, respectively. The Group maintains three separate securities portfolio, as follows:

Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

Held-to-maturity securities

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

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

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

Available-for-sale securities

All other investments are classified as available-for-sale. Available-for-sale securities are subsequently carried at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

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

For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted price in an active market, fair value is determined by using valuation techniques such as discounted cash flows using one or more discount rates equal to the prevailing rates of return for the financial instruments having substantially the same terms and characteristics or recent transaction prices. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment (if any).

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

Repurchase and Resale Transactions

The Group enters into short-term sales of securities under agreements to repurchase such securities. Such securities continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio to which they relate. 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.

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

Offsetting

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

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion financial asset. The Group derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expired.

Cash and Cash Equivalents

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

Originated Loans and Advances to Customers

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

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

Provisions for Impairment of Loan, Lease and Factoring and Other Receivables

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectible amounts in the Group's loan and receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan or the loan is overdue by more than 90 days, such loans are considered impaired and are classified as "loans in arrears".

The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

The Group ceases to accrue interest on those loans that are classified as "loans in arrears".

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

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

Deposits and Funds Borrowed

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

Employee Termination Benefits

(a) Defined Benefit Plans:

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

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

(b) Defined Contribution Plans:

Employer contributions to the Social Security Funds are recognized as employee benefit expense when they are due.

The Bank employees are members of Teb'liler Foundation. The Bank does not have any other liability to this foundation other than paying 20% of the first monthly contribution fee of the employee.

Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Leases

The Group as Lessee

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

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.

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.

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

Fund management fee income is recognized in the income statement on an accrual basis.

Commission income, fees for various banking services are recorded as income when collected. Dividends are recognized when the shareholders' right to receive the payments is established.

Premium income is recognized in the period in which insurance cover is provided to the customer. Premiums received relating to future periods are deferred on a daily pro-rated basis and only recognized in the income statement when earned.

Reinsurance premiums are recognized on the same basis as the related premium income.

Income Tax

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

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except for the taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

Deferred and current tax related to fair value remeasurement of available-for-sale securities which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss.

Derivative Financial Instruments

The Group enters into transactions in 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 in the balance sheet at cost and subsequently are remeasured at their fair value.

Fair values are obtained from quoted market prices, to the extent publicly available or, discounted cash flow and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Fiduciary Assets

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

Use of Estimates

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

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

3. SEGMENT INFORMATION

Segment information is prepared on the following bases:

Business segments

The Group conducts the majority of its business activities in the following areas:

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)	15,255	(364)	(118)	(964)	103	(1,999)	11,913
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	**96,907**	**9,960**	**3,624**	**(6,835)**	**10,451**	**1,753**	**115,860**
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)	10,657	(29,822)
Minority interest	-	-	-	-	-	(748)	(748)
Net profit(loss)	**44,496**	**7,447**	**1,641**	**(7,954)**	**4,777**	**11,662**	**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)**	**-**	**(1,997)**

Year ended December 31, 2003:

	Banking	Leasing	Factoring	Insurance	Brokerage and Other	Eliminations	Group
Net interest income	171,147	16,742	4,620	289	3,835	58	196,691
Provision for impairment of loan, lease and factoring receivables	(2,806)	(1,142)	(521)	(778)	-	-	(5,247)
Foreign exchange gain (loss)	4,965	(2,676)	(147)	(236)	(1,292)	(888)	(274)
Other operating income	125,446	846	2,787	4,928	21,979	(18,754)	137,232
Other operating expense	(167,821)	(5,673)	(4,467)	(5,805)	(17,549)	3,306	(198,009)
Profit (loss) from operating activities	130,931	8,097	2,272	(1,602)	6,973	(16,278)	130,393
Income tax	(33,963)	2,945	(781)	(1,158)	(2,083)	-	(35,040)
Monetary gain(loss)	(23,141)	(2,750)	(776)	157	(2,689)	2,241	(26,958)
Minority interest	-	-	-	-	-	(1,262)	(1,262)
Net profit(loss)	73,827	8,292	715	(2,603)	2,201	(15,299)	67,133
Segment assets	4,556,774	248,324	141,717	42,198	36,645	(195,190)	4,830,468
Total assets	4,556,774	248,324	141,717	42,198	36,645	(195,190)	4,830,468
Segment liabilities	4,072,225	211,089	130,056	29,855	7,201	(11,186)	4,439,240
Total liabilities	4,072,225	211,089	130,056	29,855	7,201	(11,186)	4,439,240
Capital expenditures							
Tangible fixed assets	14,676	97	49	3,689	180	(721)	17,970
Intangible fixed assets	1,464	7	13	311	48	-	1,843
Depreciation	(12,560)	(253)	(191)	(332)	(1,461)	-	(14,797)
Amortization	(1,504)	(59)	(58)	(98)	(164)	-	(1,883)

Transactions between the business segments are on normal commercial terms and conditions. Those transactions are eliminated in consolidation.

Geographical segments:

The Group conducts majority of its business activities with local customers in Turkey.

4. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	81,591	75,213
Balances with Central Banks	774,813	585,188
Cash and balances with Central Banks	856,404	660,401
Deposits with banks and other financial institutions	823,778	929,193
Funds lent under reverse repurchase agreements	618	2,854
Interbank placements	95,048	491,992
Other money market placements	95,666	494,846
Less: Time deposits with original maturities of more than three months	(24,412)	(42,788)
Cash and cash equivalents in the cash flow statement	1,751,436	2,041,652

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

The analysis by currency and the effective interest rates on deposits and placements are as follows:

	2004			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign Currency
Balances with Central Banks	21,918	752,895	-	0.55% - 0.64%
Deposits with banks and other financial institutions	103,902	719,876	18.26% - 26%	2.23% - 3.5%
Funds lent under reverse repurchase agreements	618	-	17.2% - 18%	-
Interbank placements	95,048	-	18%	-
Total	221,486	1,472,771		

	2003			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign Currency
Balances with Central Banks	61,498	523,690	-	0.43%-0.80%
Deposits with banks and other financial institutions	104,319	824,874	24%- 58%	1% - 4.5%
Funds lent under reverse repurchase agreements	2,854	-	25.7% - 26%	-
Interbank placements	419,000	72,992	26% - 26.1%	0.5% - 0.75%
Total	587,671	1,421,556		

5. RESERVE DEPOSITS AT CENTRAL BANKS

	2004	2003
Turkish lira	27,898	22,224
Foreign currency	183,962	172,581
Total	211,860	194,805

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 reserves are deposited with the Central Bank.

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

As of December 31, 2004, the interest rates applied for Turkish lira and foreign currency reserve deposits are 10% and 0.55% - 2.20% (2003 - 16% and 0.43%-0.8%), 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.

6. INVESTMENTS IN SECURITIES

Trading Securities:

	2004		2003	
	Amount	Effective Interest rate	Amount	Effective Interest rate
Trading securities at fair value				
Debt instruments				
Turkish government bonds	5,733	23.74%	35,683	26.25%
Turkish treasury bills	4,995	22.00%	8,539	26.22%
Foreign currency government bonds	91	5.50%	916	5.8% - 6.8%
Eurobonds issued by the Turkish government	6,178	9.63% - 11.69%	13,323	7.87% - 8.81%
	16,997		58,461	
Others	555		1,291	
Total trading securities	17,552		59,752	

Investment Securities:

	2004		2003	
	Amount	Effective Interest rate	Amount	Effective Interest rate
Available-for-sale securities at fair value				
Debt instruments				
Turkish government bonds	287,099	20.62% - 23.0%	-	-
Turkish treasury bills	18,298	21.45% - 23.6%		
Eurobonds issued by the Turkish government	56,864	6.5%	-	-
Total available-for-sale securities at fair value	362,261		-	-
Available-for-sale securities at cost				
Equity instruments -unlisted	9	-	10	-
Total available-for-sale securities	362,270		10	-
Held-to-maturity securities at amortized cost				
Debt instruments				
Turkish government bonds	67,636	26.0%	97,089	30.1% - 33,36%
Turkish treasury bills	-	-	5,987	30.2%
Foreign currency government bonds	7,737	4.81%	1,574	5.00%
Total held-to-maturity securities	75,373		104,650	
Total investment securities	437,643		104,660	

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

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

	2004	2003
Trading securities	8,034	17,791
Available-for-sale securities	150,433	-
Total	158,467	17,791

In addition, as of December 31, 2004, government securities with carrying values of TL 118,006 (2003 - TL 97,728) are pledged to the Central Bank and the Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Bank Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations.

7. ORIGINATED LOANS AND ADVANCES

	2004						
	Amount				Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	656,730	1,152,489	135,986	1,945,205	22.31% - 32.74%	4.12% - 6.02%	6.8%
Consumer loans	60,609	5,689	22,157	88,455	20.50%	3.81%	9.8%
Credit cards	21,388	1,048	-	22,436	38.63%	38.63%	-
Total performing loans	738,727	1,159,226	158,143	2,056,096			
Loans in arrears	-	-	-	20,881	-	-	-
Less: Specific reserve for impairment	-	-	-	(11,244)	-	-	-
Less: Portfolio reserve for impairment	-	-	-	(10,235)	-	-	-
Total	738,727	1,159,240	158,143	2,055,498			

	2003						
	Amount				Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	474,987	1,327,590	95,460	1,898,037	25% - 72%	1.75% - 14%	6.6% - 14.4%
Consumer loans	28,362	68	16,030	44,460	24% - 66%	4.2% - 13%	5.28% - 13%
Credit cards	19,694	1,209	-	20,903	83.4%	83.4%	-
Total performing loans	523,043	1,328,867	111,490	1,963,400			
Loans in arrears	-	-	-	27,794	-	-	-
Less: Specific reserve for impairment	-	-	-	(18,151)	-	-	-
Less: Portfolio reserve for impairment	-	-	-	(8,978)	-	-	-
Total	523,043	1,328,867	111,490	1,964,065			

Movements in the reserve for impairment on loans:

	2004	2003
Reserve at beginning of year	27,129	27,739
Provision for impairment	7,689	6,499
Recoveries	(9,588)	(3,693)
Provision net of recoveries	(1,899)	2,806
Loans written off during the year	(393)	(88)
Monetary gain	(3,358)	(3,328)
Reserve at end of the year	**21,479**	**27,129**

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 amounting to TL 20,881 (2003 - TL 27,794). There is no uncollected interest accrued on impaired loans.

8. DISPOSAL OF INVESTMENT IN SUBSIDIARIES

On November 4, 2004, the Group sold its 75.00% share in TEB Sigorta A.Ş. to TEB Mali Yatırımlar A.Ş. The results of TEB Sigorta A.Ş. for the period until disposal have been included in the consolidated income statement. Details of assets and liabilities disposed of and the disposal consideration are as follows (all expressed in equivalent purchasing power at December 31, 2004):

Cash and cash equivalents	5,250
Investment securities	2,804
Premises, equipment and intangible assets	5,067
Other assets	19,437
Total Assets	**32,558**
Funds borrowed	6,239
Other liabilities	26,872
Total Liabilities	**33,111**
Net Liabilities	**(553)**
Proceeds from sale:	
Receivables	-
Cash	750
Gain on disposal	1,303
The net cash outflow on disposal is:	
Disposed cash and cash equivalents	(5,250)
Cash received	750
Net cash outflow as of December 31, 2004	(4,500)

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

9. FACTORING RECEIVABLES AND PAYABLES

	2004						
	Amount				Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Open accounts	39,216	25,216	4,548	68,980	29.32%	5.95%	8.39%
Checks receivable	55,782	-	-	55,782	-	-	-
Notes receivable	673	-	-	673	-	-	-
Factoring receivables in arrears	1,574	-	-	1,574	-	-	-
Total factoring receivables	**97,245**	**25,216**	**4,548**	**127,009**			
Less: Reserve for impairment	(1,540)	-	-	(1,540)			
Less: Deferred income	(1,446)	-	(13)	(1,459)			
Net factoring receivables	**94,259**	**25,216**	**4,535**	**124,010**			
Factoring payables	(38,659)	(13,600)	(3,762)	(56,021)			
Funds in use, net	**55,600**	**11,616**	**773**	**67,989**			

	2003						
	Amount				Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Open accounts	55,384	28,718	10,325	94,427	25.33%-53%	6.02%-6.50%	6.02%-6.50%
Checks receivable	31,708	-	-	31,708	-	-	-
Notes receivable	5,642	-	-	5,642	-	-	-
Factoring receivables in arrears	863	-	-	863	-	-	-
Total factoring receivables	**93,597**	**28,718**	**10,325**	**132,640**			
Less: Reserve for impairment	(1,243)	-	-	(1,243)			
Less: Deferred income	(1,133)	-	(232)	(1,365)			
Net factoring receivables	**91,221**	**28,718**	**10,093**	**130,032**			
Factoring payables	(51,007)	(18,848)	(3,687)	(73,542)			
Funds in use, net	**40,214**	**9,870**	**6,406**	**56,490**			

Movements in the reserve for impairment:

	2004	2003
Reserve at beginning of year	1,243	826
Provision for impairment	476	521
Recoveries	(13)	-
Provision net of recoveries	463	521
Monetary gain	(166)	(104)
Reserve at end of the period	**1,540**	**1,243**

10. MINIMUM LEASE PAYMENTS RECEIVABLE

	2004	2003
Not later than 1 year	125,369	117,043
Later than 1 year and not later than 5 years	87,590	76,954
Later than 5 years	-	-
Minimum lease payments receivables, gross	**212,959**	**193,997**
Less: Unearned interest income	**(24,113)**	**(19,429)**
Net investment in finance leases	**188,846**	**174,568**
Invoiced lease receivables	2,069	1,649
Loans in arrears	259	66
Less: Reserve for impairment (*)	(2,069)	(2,608)
Minimum lease payments receivables, net	**189,105**	**173,675**

(*) Includes the specific reserve of TL 233 (2003 - TL 39) for loans in arrears and portfolio reserve on minimum lease payments receivable.

Net investment in finance leases are analyzed as follows:

	2004	2003
Not later than 1 year	109,276	103,604
Later than 1 year and not later than 5 years	79,570	70,964
Later than 5 years	-	-
Total	**188,846**	**174,568**

As of December 31, 2004 and 2003, TL 203,585 and TL 182,458 of gross lease receivables are denominated in foreign currency (mainly US$ and Euro), respectively. The average interest rates are between 11.03% and 11.14% (2003 - 11% to 12%) for foreign currency and average of 52.9% (2003 - 58.5%) for TL denominated receivables.

Movements in the reserve for impairment:

	2004	2003
Reserve at beginning of year	2,608	1,702
Provision for impairment	201	1,142
Recoveries	(388)	-
Provision net of recoveries	(187)	1,142
Minimum lease payments receivable written off during the year	-	(2)
Monetary gain	(352)	(234)
Reserve at end of the year	**2,069**	**2,608**

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

11. PREMISES AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office Equipment, Leasehold Improvements and Construction in Progress	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 period	(333)	(1,006)	(12,293)	(13,632)
Exchange adjustment	-	(7)	(635)	(642)
At December 31, 2004, net of accumulated depreciation	**20,223**	**560**	**28,527**	**49,310**
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	22,892	1,966	107,721	132,579
Accumulated depreciation	(2,669)	(1,406)	(79,194)	(83,269)
Net carrying amount	**20,223**	**560**	**28,527**	**49,310**

Leased land with a carrying value of TL 5,867 (2003 - TL 5,867) and leased office equipments with a carrying value of TL 3,354 (2003 - TL 7,688) are included in the related asset groups.

Cost of fully depreciated items is amounting to TL 42,389.

12. INTANGIBLES

	Software Licenses and Other
At January 1, 2004, net of accumulated amortization	4,796
Additions	1,426
Disposals	-
Disposal of subsidiary	(305)
Amortization charge for the year	(1,996)
Exchange adjustment	(8)
At December 31, 2004 net of accumulated amortization	**3,913**
At December 31, 2003	
Cost	13,597
Accumulated amortization	(8,801)
Net carrying amount	**4,796**
At December 31, 2004	
Cost	13,930
Accumulated amortization	(10,017)
Net carrying amount	**3,913**

Cost of fully depreciated items is amounting to TL 3,590.

13. OTHER ASSETS

	2004	2003
Transitory accounts and prepaid expenses	7,894	4,876
Accounts receivable	3,751	6,762
Equipment to be leased	3,578	5,283
Advances given to suppliers	1,052	-
Assets held for resale	620	355
Prepaid taxes	572	187
Insurance premium receivables	-	25,867
Value added taxes receivable	-	494
Others	3,382	3,027
Total	**20,849**	**46,851**

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 year. As of December 31, 2004 and 2003, the equipment to be leased balance includes cost of the equipment to be leased as described above together with the related expenses.

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

14. DEPOSITS

Deposits from other banks

	2004				2003			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	1,896	19,947	0%-5%	-	2,854	28,796	0%-5%	-
Time	42,509	45,039	16% - 23%	2% - 5%	89,207	54,433	20%-37%	0.75%-4.25%
Total	**44,405**	**64,986**			**92,061**	**83,229**		

Customers' deposits

	2004				2003			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	40,991	25,258	0%-5%	0.75%-4%	36,778	28,420	0%-5%	0.75%-4%
Time	421,647	132,851	15% - 41%	3.4%	300,108	133,207	12%-46%	0.75%-5%
	462,638	**158,109**			**336,886**	**161,627**		
Commercial and other								
Demand	111,104	554,124	0%-5%	0.62%-4%	122,564	426,847	0%-5%	0.75%-4%
Time	147,656	1,732,186	14% - 28%	0.75%-5.25%	307,282	1,968,676	12%-46%	0.75%-5%
	258,760	**2,286,310**			**429,846**	**2,395,523**		
Total	**721,398**	**2,444,419**			**766,732**	**2,557,150**		

Other money market deposits

	2004				2003			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	8,571	-	7.69% - 19.23%	-	17,572	-	13.85%-25.96%	-
-Due to banks and other financial institutions	147,212	-	18%	-	-	-	-	-
	155,783	**-**		**-**	**17,572**	**-**		

15. FUNDS BORROWED

	2004			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term				
Fixed interest	72,806	143,156	13.0%-28.07%	2.87% - 8.0%
Floating interest	-	283,224	-	2.9% - 5.71%
Medium/long-term				
Fixed interest	-	194,160	-	1.27% - 6.5%
Floating interest	1,591	164,344	28.2%	3.25% - 5.71%
Floating interest subordinated loan	-	20,336	-	6.71%
Total	**74,397**	**805,220**		

	2003			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term				
Fixed interest	79,961	153,890	22.68%-36.31%	2.09%-5.10%
Floating interest	-	380,132		1.27%-7.94%
Medium/long-term				
Fixed interest	-	-	-	-
Floating interest	-	73,817	-	1.43%-7.10%
Floating interest subordinated loan	-	24,078	-	5,68%
Total	**79,961**	**631,917**		

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

	2004		2003	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2005	78,454	88,185	-	49,634
2006	42,090	42,024	-	17,419
2007	14,594	25,027	-	11,808
2008	510	8,914	-	9,517
2009	33,727	8,459	-	9,517
Thereafter	24,785	13,662	-	-
Total	**194,160**	**186,271**	**-**	**97,895**

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 Banking Regulation and Supervision Agency of Turkey (BRSA)'s Tier II Capital definitions as well as contributing to the Bank's capital adequacy ratio. Subsequent to year-end, the share convertibility option of the mentioned loan lost its validity upon payment in cash benefits attributable to such rights to IFC. 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 TEB' clients with 3-month to 5-year maturity from IFC's own account investment. The third part of the loan allows for the syndication of up to US$50 million from private commercial banks.

As of December 31, 2004, the Bank's foreign currency funds borrowed includes US$200 million of syndicated loan obtained at November 9, 2004 with a maturity of 1 year.

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

16. OTHER LIABILITIES AND PROVISIONS

	2004	2003
Transitory accounts	35,491	15,623
Blocked bank cheques	11,457	8,944
Payable to credit card member firms	11,169	10,683
Taxes other than on income	10,775	6,877
Employee termination benefits	4,460	3,588
Vacation pay liability	4,561	3,431
Advances taken	7,742	3,793
Trade payables	6,607	14,781
Payments for PDSF (Public sector development and supporting fund) and other premiums	2,451	6,175
Payment orders	2,299	18,277
Insurance technical reserves	-	14,733
Others	4,827	11,852
Total	**101,839**	**118,757**

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 TL 1.575 and TL 1.390 at December 31, 2004 and 2003 respectively - historical) per year of employment at the rate of pay applicable at the date of retirement or termination. Full provision is made in the financial statements for the present value of obligation calculated using the Projected Unit Credit Method.

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

	2004	2003
Discount rate	16%	25%
Expected rates of increase in salaries	10%	18%

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

	2004	2003
At January 1,	3,588	2,268
Utilized / paid	(912)	(926)
Interest cost	504	498
Increase during the year	1,516	2,025
Monetary gain	(236)	(277)
At December 31, 2004	**4,460**	**3,588**

Actuarial gains/(losses) arising from changes in discount rates and expected rates of salary/limit increases and other demographic assumptions that are recognized in the income, amounted to TL 217, net.

Insurance Technical Reserves

	2004	2003
Unearned premiums reserve	-	13,682
Unearned premiums reserve, reinsurer's share	-	(5,504)
		8,178
Deferred commission income	-	2,436
Claims provision	-	9,863
Claims provision, reinsurer's share	-	(5,744)
		4,119
Total	-	14,733

17. INCOME TAXES

General Information for Taxation in Turkey

In 2003, the effective corporation tax rate was 30%. However, with Law No. 5035 published at January 2, 2004, only for the year 2004 the corporation tax is calculated at 33%. Effective corporate tax rate will revert back to 30% in 2005.

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

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

In 2003 and prior years corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting. With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code, Income Tax Law and Corporation Tax Law, starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet is not subject to corporation tax, and similarly accumulated 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. Certain changes have been made in the application of the inflation adjustment to the statutory accounts with Law No. 5228 published on July 31, 2004. The Group has adjusted its statutory accounts at December 31, 2004 considering the requirements of the new law and has reflected the tax charge accordingly in the accompanying financial statements.

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

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchases of the brand-new fixed assets having economic useful life and exceeding TL 6,000 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 companies' will. All investment allowances can be carried forward indefinitely.

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 distributions 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 billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

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 Company 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.

Deferred income tax liabilities have not been established for the withholding and other taxes that would be payable on the unremitted earnings of subsidiaries and associate 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 5% tax.

As of December 31, 2004, effective tax rate of consolidated foreign subsidiaries is 34.50% (2003 - 34.5%).

As of December 31, 2004 and 2003, prepaid income taxes are netted off with the current income tax payable as stated below:

	2004	2003
Income tax payable	31,190	47,576
Prepaid income taxes	(23,672)	(37,354)
	7,518	10,222

	2004	2003
Consolidated income statement		
Current income tax		
Current income tax charge	26,083	43,649
Deferred income tax		
Relating to origination and reversal of temporary differences	(2,300)	(8,609)
Relating to reduction in income tax rates	(562)	-
Income tax expense reported in consolidated income statement	**23,221**	**35,040**
Consolidated statement of changes in equity		
Current income tax		
Unrealized gain (loss) on available-for-sale securities	1,535	-
Deferred income tax		
Unrealized gain (loss) on available-for-sale securities	136	-
Income tax charge reported in equity	**1,671**	**-**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended December 31, 2004 and 2003 was as follows:

	2004	2003
Net profit from ordinary activities before income tax	86,038	102,173
At Turkish statutory income tax rate of 33% (2003 - 30%)	28,393	30,652
Income not subject to tax	(17,037)	(15,827)
Expenditure not allowable for income tax purposes and other	11,865	20,215
Income tax	23,221	35,040

Deferred income tax

Deferred income tax at December 31, 2004 and 2003 relates to the following:

	2004	2003
Deferred income tax liabilities		
Difference between tax and reporting bases of premises and equipment and intangible assets	2,165	636
Deferred acquisition costs related to insurance contracts	-	1,461
Others	114	206
Gross deferred income tax liabilities	2,279	2,303
Deferred income tax assets		
Impairment provisions	2,348	3,577
Unearned premium reserve and claim provisions	-	1,169
Deferred gains and losses on foreign exchange contracts	1,388	1,008
Valuation differences of trading and investment securities	933	-
Employee termination benefits and vacation pay liability	2,707	1,642
Accounting for financial leases	17,221	2,064
Tax credits of unused investment incentive allowances	25,845	10,294
Others	1,662	84
Less: Valuation allowance	(41,163)	(11,322)
Gross deferred income tax assets	10,941	8,516
Deferred income tax liability	(46)	-
Deferred income tax asset	8,708	6,213

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

	2004	2003
Balance at January 1	6,213	(2,700)
Deferred income tax credit (charge) recognized in income statement	2,862	8,609
Deferred income tax credit (charge) recognized in equity	(136)	-
Monetary gain/(loss)	(277)	304
Balance at December 31	8,662	6,213

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 billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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 Bank 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 of the Bank and the resulting gain or loss is reflected to the income statement taking into account exercisability of the option. Premiums received and paid for the option transactions, are calculated on accrual basis using effective yield (IRR) method.

				2004				
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Forward purchase contracts	4,738	7,589	282,210	132,929	110,928	19,384	18,969	-
Forward sale contracts	919	1,107	287,729	132,742	115,991	20,100	18,896	-
Currency swap purchase	546	1,278	185,770	148,726	-	6,682	22,624	7,738
Currency swap sale	540	-	189,632	148,133	-	7,575	26,906	7,018
Interest swap purchase	-	341	3,424	2,494	-	930	-	-
Interest swap sale	147	-	3,646	2,658	-	988	-	-
Option purchase contracts	-	-	32,163	30,201	1,962	-	-	-
Option sale contracts	-	-	32,146	30,184	1,962	-	-	-
	6,890	10,315	1,016,720	628,067	230,843	55,659	87,395	14,756

				2003				
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Forward purchase contract	4,719	-	231,790	91,951	93,069	29,815	16,955	-
Forward sale contract	-	6,821	234,792	92,698	94,356	30,746	16,992	-
Currency swap purchase	260	-	155,106	155,106	-	-	-	-
Currency swap sale	-	1,236	156,102	156,102	-	-	-	-
Interest swap purchase	13	-	467	-	-	467	-	-
Interest swap sale	-	40	526	-	-	526	-	-
	4,992	8,097	778,783	495,857	187,425	61,554	33,947	-

19. SHARE CAPITAL

	2004	2003
Number of founder shares, TL 500 (in full TL), par value	0.00006 billion	0.00006 billion
Number of common shares, TL 500 (in full TL), par value Authorized; Issued and outstanding in 2004 and 2003	115.59994 billion	110.24994 billion
Total Authorized shares	**115.600 billion**	**110.250 billion**

Shares traded in the Istanbul Stock Exchange are in the form of units of two shares with a combined nominal value of TL 1,000 each.

As of December 31, 2004 and 2003, the Bank's historical subscribed and issued share capital was TL 57,800 and TL 55,125 respectively (historical terms).

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

	2004		2003	
	Amount	%	Amount	%
TEB Mali Yatırımlar A.Ş.	48,699	84.25	38,681	70.17
Publicly traded	8,766	15.17	11,025	20.00
Çolakoğlu Metalurji A.Ş.	-	-	4,740	8.60
Other shareholders	335	0.58	679	1.23
	57,800	**100.00**	**55,125**	**100.00**
Restatement effect	252,676		252,383	
Total	**310,476**		**307,508**	**100**

The Bank has increased its share capital from TL 55,125 to TL 57,800 (within its registered share capital ceiling of TL 100,000) by transferring the gain on sale of property with a nominal amount of TL 2,675 upon the approval of BRSA dated January 21, 2004.

7% of the Bank's remaining net profit corresponding to 60,000 shares of TL 30,000,000 (full) 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..

20. OTHER RESERVES AND ACCUMULATED PROFIT

Restatement:

Currency translation differences (Note 2) relating to investments in foreign subsidiaries was restated retroactively as of January 1, 2003, to properly reflect the cumulative effect of the difference between foreign currency translation and restatement of such equity items in current purchasing power. The effect of such restatement was to decrease currency translation differences and increase accumulated profits by TL 2,259. Other effected items are as follows for the year then ended as of December 31, 2003;

	Previously Stated	Restated
Monetary Loss	(32,010)	(26,958)
Currency Translation Differences	(6,076)	(11,128)

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

As of December 31, 2004 the total amount of legal reserves of the Group is TL 52,483.

Dividends

In accordance with the decision related with the distribution of profit, declared at the Annual General Meeting of the Bank dated March 26, 2004, the Bank has paid dividends to its shareholders who are subject to and not subject to withholding tax with a rate of 22.89% and 25.43% respectively on April 5, 2004.

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, 2004.

	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
	45,844	10,501	3,920	55,335	115,600

There is no dilution of shares as of December 31, 2004 and 2003.

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

	2004	2003
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	536.93	608.92
Weighted average number of ordinary shares (in billions) for basic earnings per share	115.6	110.25

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.

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 TEB Mali Yatırımlar A.Ş., which owns 84.25% (2003 - 70.17%) of ordinary shares, and included in Çolakoğlu Group of companies. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders and Çolakoğlu Group companies 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 banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

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

Related party		Placements with bank	Cash loans (*)	Non-cash loans	Premium receivable	Funds borrowed	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other Operating expense
Shareholders	2004	-	31	13,024	-	-	237,660	5,282	3,008	(7,009)	2,594	(3,505)
	2003	-	73,890	1,532	924	-	188,690	25,656	7,257	(6,343)	26	(1,075)
Others	2004	27,755	548	3,687	-	9,373	677,306	-	4,704	(17,087)	4,106	(1,989)
	2003	46,634	3,093	5,249	591	58,828	773,038	38,525	3,412	(14,779)	76	(492)

(*) As of December 31, 2003, cash loans granted to related parties include TL 79,032 of cash collateralized loans.

Directors' Remuneration

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling TL 10,338.

In July 2004 the shareholding percentage of TEB Finansal Kiralama A.Ş. and TEB Factoring A.Ş. of the Group increased to 100% (which were formerly 72.7% and 73.5% respectively) by purchase from TEB Mali Yatırımlar A.Ş..

In November 2004 it has been decided to sell the shares of TEB Sigorta A.Ş. to TEB Mali Yatırımlar A.Ş.

23. SALARIES AND EMPLOYEE BENEFITS

	2004	2003
Staff costs		
Wages and salaries	73,791	64,069
Cost of defined contribution plan (employers' share of social security premiums)	9,913	8,593
Other fringe benefits	7,759	7,249
Provision for employee termination benefits	2,020	2,523
Bonuses	6,448	3,596
Total	**99,931**	**86,030**

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

The average number of employees during the period is:

	2004	2003
The Bank	1,992	1,849
Subsidiaries	248	329
Total	**2,240**	**2,178**

24. OTHER EXPENSES

	2004	2003
Various administrative expenses	28,149	25,769
Rent expense	12,601	13,057
Communication expense	8,313	7,713
Advertisement expenses	6,018	4,157
Saving Deposit Insurance Fund (SDIF) premium	4,429	5,599
Maintenance and other expenses	5,596	5,494
Total	**66,106**	**61,789**

25. COMMITMENTS AND CONTINGENCIES

	2004	2003
Letters of guarantee		
- issued by the Bank	926,104	786,222
- obtained by consolidated subsidiaries from other banks	25,216	45,711
Letters of credit	515,191	490,301
Acceptance credits	45,697	55,228
Total non-cash loans	1,512,208	1,377,462
Other commitments	275,131	263,023
Credit card limit commitments	123,660	122,001
Total	**1,910,999**	**1,762,486**

Trust Assets

The nominal values of the assets held by the Group in agency or custodian capacities amounted to TL 2,391,404 and EUR 55.1 millions (2003 - TL 1,680,671 and EUR 57.7 millions) at December 31, 2004.

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

As of December 31, 2004 and 2003, in line with the requirements of IGM, letters of guarantee amounting to US$1,410,000 and US$ 1,610,000 respectively had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of December 31, 2004, according to the general requirements of the ISE, letters of guarantee amounting to TL 3,929 (in historical terms) and US$15.05 million, (2003; TL 1,902 -historical- and US$ 17million) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as of December 31, 2004 and 2003 according to the general requirements, letters of guarantee amounting to TL 722 (in historical terms), were given to the Capital Markets Board.

Other

The Group manages sixteen 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.

As of December 31, 2004 and 2003 the total value of such investment funds managed by the Group amounted to TL 673,512 and TL 559,409 respectively.

Except for the Head-Office-Istanbul and Izmir-Konak branch building, all branch premises of the Bank are leased under operational leases. As of December 31, 2004, the operating lease expense was reflected to the income statement. The lease periods vary between 1 and 5 years and lease agreements are cancelable subject to a period of notice.

26. FINANCIAL RISK MANAGEMENT

General

The Risk Management Group is headed by a dedicated member of the Board who is assigned as Risk Supervisor. The group reports to the Board of Directors and is responsible for measuring and monitoring Market, Credit and Operational Risk.

All risk; including treasury and counterparty risks are taken according to the limits set by the Board of Directors.

Credit Risk

Credit risk represents the risk generating from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally.

Firm's credit limit and accepted guarantees are defined according to in-house rating system together with conservative lending policies applied by the Loan Lending and Risk Follow up Group. The monitoring of credit risk is established accordingly. Although sectoral limits are imposed and monitored there is no geographical region limitation.

Credit allocations are made within limits defined by individual borrowers or borrower groups. Various financial and non-financial criteria are taken into account in the Bank's internal rating system used in the credit approval process. Geographical and industrial segments are included in these criteria. Sectoral distribution of loans is monitored closely. In accordance with the Bank's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored.

The risks and limits generated from treasury are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily.

The credibility of the debtors of the Group is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Majority of the accepted statements presenting the financial position of the borrowers are audited. The sole reason for accepting unaudited financials is the timing differences between the lending of the money and the audit period of the borrowers. The unaudited financials are replaced with the audited statements when they become available. The loan limits are determined based on the audited financials and the loan committee according to the borrowers' financial structure and the quality of the transactions determines the guarantees.

Transaction limits for the forward and other similar agreement positions held by the Bank is determined by the Board of Directors and transactions are realized within these limits.

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

The fulfillment of liabilities in the forward agreements is only possible at the maturity of the agreement. However, in order to minimize the risk, reverse positions of the present positions are taken from the market and by means of that the risk is closed.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans.

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.

Foreign country and institution risks of the Bank are generally determined for foreign countries and institutions, which are considered at the investment level, in other words, which are stated as carrying minimum level of default risk by the international rating companies. Counterparty limits are monitored daily on a consolidated basis.

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

	2004		2003	
	Cash	Non-cash	Cash	Non-cash
Textiles	278,774	132,502	250,413	163,011
Financial institutions and discounted bills	255,870	129,407	250,207	86,318
Food, beverage, tobacco	217,209	155,443	175,950	169,035
Wholesale and retailing	190,026	132,926	173,059	95,556
Metals	143,024	155,737	196,014	139,081
Chemicals and chemical products	134,380	112,340	123,821	98,386
Tourism, transportation, warehousing	108,525	58,894	29,588	40,345
Ready-to-wear textiles	81,730	39,649	102,940	54,976
Transportation	75,699	43,271	128,242	23,790
Machinery	62,069	71,182	42,252	46,490
Mining, other than metals	48,511	35,822	38,470	30,651
Construction	44,677	62,405	34,439	49,231
Fiber and plastic	40,057	54,101	30,970	38,200
Fuel products	33,206	24,724	35,881	5,300
Electricity and optic devices	31,027	41,030	22,769	31,142
Leather and leather products	19,319	2,006	8,827	3,740
Wood products	11,262	5,804	74,940	30,440
Others	143,270	91,394	164,784	81,701
Corporate loans	1,918,635	1,348,637	1,883,566	1,187,393
Consumer loans and credit cards	118,811	8,449	64,238	5,715
Letters of guarantee secured by counter guarantees	-	68,072	-	64,388
Confirmed and collateralized letters of credit	-	61,834	-	74,255
Interest accruals	18,650	-	15,596	-
Loans in arrears	20,881	-	27,794	-
Provision for impairment	(21,479)	-	(27,129)	-
Total	**2,055,498**	**1,486,992**	**1,964,065**	**1,331,751**

Liquidity Risk

Liquidity risk occurs when there is insufficient amount of cash inflows to fulfill the cash outflows completely on time.

Liquidity risk may occur when market penetration is not adequate, when the open positions cannot be closed at a suitable price and sufficient amount due to barriers and conditions at the markets. The Group's policy is to establish a liquid asset structure that provides comfort in meeting all kinds of liabilities by liquid assets. The Board of Directors of the Bank continuously determines the standards for the liquidity ratios, and controls them in order to keep this structure.

According to the general policies of the Group, the matching of the maturity and interest rate structure of assets, and liabilities is always established within the asset liability management strategies. A positive difference is tried to be established between the yields of TL and foreign currency assets and liabilities at the balance sheet and their costs. According to this strategy, the Group pays special attention not to take maturity risk, and no banking service is marketed when the price is lower than the financing cost.

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of prefinancing and syndication products to generate additional sources. Generally the Bank does not prefer to utilize liquidity from interbank money markets and keeps its position as a net lender position in interbank money markets.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date. Assets and liabilities with no fixed maturity are presented in over 1 year column.

	Up to 1 Month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
As at December 31, 2004						
Assets:						
Cash and balances with Central Banks	856,404	-	-	-	-	856,404
Deposits with banks and other financial institutions	774,533	24,833	7,382	17,030	-	823,778
Other money market placements	95,666	-	-	-	-	95,666
Reserve deposits at Central Banks	211,860	-	-	-	-	211,860
Trading securities	1,228	848	3,649	2,783	9,044	17,552
Investment securities	-	-	8,338	152,080	277,225	437,643
Originated loans and advances	810,291	407,005	387,603	178,586	272,013	2,055,498
Factoring receivables	45,227	63,633	15,150	-	-	124,010
Minimum lease payments receivable	12,808	20,739	29,260	47,535	78,763	189,105
Derivative financial instrument assets	3,045	2,069	503	765	508	6,890
Premises and equipment	-	-	-	-	49,310	49,310
Intangible assets	-	-	-	-	3,913	3,913
Investments in associates	-	-	-	-	656	656
Deferred tax asset	-	-	-	-	8,708	8,708
Other assets	14,791	1,097	4,042	519	400	20,849
Total assets	2,825,853	520,224	455,927	399,298	700,540	4,901,842
Liabilities:						
Deposits from other banks	88,277	19,949	1,165	-	-	109,391
Customers' deposits	2,471,879	511,175	70,429	61,620	50,714	3,165,817
Other money market deposits	155,783	-	-	-	-	155,783
Funds borrowed	93,156	77,023	62,335	433,311	213,792	879,617
Factoring payables	29,142	25,342	1,537	-	-	56,021
Derivative financial instrument liabilities	2,809	5,036	1,159	1,311	-	10,315
Other liabilities and provisions	84,498	8,011	-	-	9,330	101,839
Income taxes payable	-	7,518	-	-	-	7,518
Deferred tax liability	-	-	-	-	46	46
Total liabilities	2,925,544	654,054	136,625	496,242	273,882	4,486,347
Net liquidity gap	(99,691)	(133,830)	319,302	(96,944)	426,658	415,495
As at December 31, 2003						
Total assets	3,023,279	573,082	423,639	370,459	440,009	4,830,468
Total liabilities	2,858,171	597,878	273,535	516,017	193,639	4,439,240
Net liquidity gap	165,108	(24,796)	150,104	(145,558)	246,370	391,228

Market Risk

The interest rate and exchange rate risks of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to in market risk is taken into consideration by the standard method. Scenario analysis and stress tests are used additionally in Value at Risk (VAR) computations and reported to senior management.

The Group has determined market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks".

The Board of Directors of the Bank evaluates basic risks than can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management group and senior management have taken necessary precautions to identify, evaluate, control and manage risks faced by the Bank.

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and off balance sheet transactions of the Bank are taken into account and are calculated by using the standard method.

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

As a result of the Group's risk management strategies, foreign currency liabilities are hedged against exchange rate risk by derivative instruments.

The Board of Directors of the Bank determines the short position limits that the Bank can hold in accordance with the current legal limitations. The Treasury Department of the Bank is responsible for the management of Turkish Lira or foreign currency price, liquidity and affordability risks that could occur in the domestic and international markets. The monitoring of risk and risk related transactions occurring in the money markets is performed daily and reported to the Bank's Asset-Liability Committee.

The Loan Committee determines the related principles and limitations of the counterparties. The Asset-Liability Committee monitors the limits concerning the maturity structure of the foreign currency transactions and interest rates.

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

	Turkish Lira	US Dollars	Euro	Others	Total
As at December 31, 2004					
Assets:					
Cash and balances with Central Banks	34,306	790,859	25,573	5,666	856,404
Deposits with banks and other financial institutions	103,902	660,601	42,953	16,322	823,778
Other money market placements	95,666	-	-	-	95,666
Reserve deposits at Central Banks	27,898	142,525	41,437	-	211,860
Trading securities	10,728	6,238	31	555	17,552
Investment securities	373,042	64,601	-	-	437,643
Originated loans and advances	738,129	962,913	337,879	16,577	2,055,498
Factoring receivables	94,259	5,202	15,362	9,187	124,010
Minimum lease payments receivable	4,319	54,689	127,892	2,205	189,105
Derivative financial instrument assets	4,585	-	2,305	-	6,890
Premises and equipment	41,508	-	7,802	-	49,310
Intangible assets	3,727	-	186	-	3,913
Investments in associates	656	-	-	-	656
Deferred tax asset	8,708	-	-	-	8,708
Other assets	16,902	2,191	1,756	-	20,849
Total assets	**1,558,335**	**2,689,819**	**603,176**	**50,512**	**4,901,842**

	Turkish Lira	US Dollars	Euro	Others	Total
Liabilities:					
Deposits from other banks	44,405	13,438	8,564	42,984	109,391
Customers' deposits	721,389	2,005,397	396,104	42,927	3,165,817
Other money market deposits	155,783	-	-	-	155,783
Funds borrowed	74,397	592,551	165,946	46,723	879,617
Factoring payables	38,659	2,718	10,805	3,839	56,021
Derivative financial instrument liabilities	9,208	-	1,107	-	10,315
Other liabilities and provisions	83,314	7,797	10,331	397	101,839
Income taxes payable	6,222	-	1,296	-	7,518
Deferred tax liability	46	-	-	-	46
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
At December 31, 2003					
Total assets	**1,485,941**	**2,627,656**	**641,859**	**75,012**	**4,830,468**
Total liabilities	**1,119,730**	**2,708,070**	**473,471**	**137,969**	**4,439,240**
Effect of foreign currency swap transactions	**(991)**	**991**	**-**	**-**	**-**
Net on-balance sheet position	**365,220**	**(79,423)**	**168,388**	**(62,957)**	**391,228**
Off-balance sheet position	**(19,749)**	**68,884**	**(112,611)**	**59,419**	**(4,057)**

Türk Ekonomi Bankası Anonim Şirketi
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

Interest Rate Risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and the Asset-Liability Committee is responsible to manage interest rate risk. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk.

The first priority of the Bank's risk management is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the risk management and reported to the Asset-Liability Committee.

The estimations on interest income are performed in connection with economic indicators used in the budget of the Group. Revising budget targets minimizes the negative effects of the fluctuations in the market interest rates on the financial position and the cash flows.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank when necessary.

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 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2004								
Assets:								
Cash and balances with Central Banks	752,088	-	-	-	-	-	104,316	856,404
Deposits with banks and other financial institutions	765,794	23,049	6,892	16,000	-	-	12,043	823,778
Other money market placements	95,617	-	-	-	-	-	49	95,666
Reserve deposits at Central Banks	210,025	-	-	-	-	-	1,835	211,860
Trading securities	2,274	1,148	2,838	2,659	8,486	-	147	17,552
Investment securities	104,221	101,074	8,098	43,500	161,420	7,065	12,265	437,643
Originated loans and advances	805,717	402,455	384,252	175,819	269,302	-	17,953	2,055,498
Factoring receivables	45,227	63,633	15,150	-	-	-	-	124,010
Minimum lease payments receivable	10,390	20,561	29,009	47,129	78,059	-	3,957	189,105
Derivative financial instrument assets	-	-	-	-	-	-	6,890	6,890
Premises and equipment	-	-	-	-	-	-	49,310	49,310
Intangible assets	-	-	-	-	-	-	3,913	3,913
Investments in associates	-	-	-	-	-	-	656	656
Deferred tax asset	-	-	-	-	-	-	8,708	8,708
Other assets	3,199	-	-	-	-	-	17,650	20,849
Total assets	**2,794,552**	**611,920**	**446,239**	**285,107**	**517,267**	**7,065**	**239,692**	**4,901,842**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities:								
Deposits from other banks	87,570	19,776	1,000	-	-	-	1,045	109,391
Customers' deposits	2,366,070	509,293	70,082	60,624	50,145	-	109,603	3,165,817
Other money market deposits	155,705	-	-	-	-	-	78	155,783
Funds borrowed	149,027	368,642	169,970	74,678	84,019	24,222	9,059	879,617
Factoring payables	29,142	25,342	1,537	-	-	-	-	56,021
Derivative financial instruments	-	-	-	-	-	-	10,315	10,315
Other liabilities and provisions	1,970	-	-	-	-	-	99,869	101,839
Income taxes payable	-	-	-	-	-	-	7,518	7,518
Deferred tax liability	-	-	-	-	-	-	46	46
Total liabilities	2,789,484	923,053	242,589	135,302	134,164	24,222	237,533	4,486,347
Balance sheet interest sensitivity gap	5,068	(311,133)	203,650	149,805	383,103	(17,157)	-	
Off balance sheet interest sensitivity gap	(163)	-	(59)	-	-	-	-	-
Total interest sensitivity gap	4,905	(311,133)	203,591	149,805	383,103	(17,157)	-	-

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2003								
Assets:								
Cash and balances with Central Banks	585,407	-	-	-	-	-	74,994	660,401
Deposits with banks and other financial institutions	530,832	7,217	13,373	6,566	-	-	371,205	929,193
Other money market placements	494,846	-	-	-	-	-	-	494,846
Reserve deposits at Central Banks	194,805	-	-	-	-	-	-	194,805
Trading securities	27,871	3,568	5,119	4,106	17,446	1,642	-	59,752
Investment securities	51,706	42,098	5,847	141	4,868	-	-	104,660
Originated loans and advances	647,755	414,213	356,469	285,280	200,212	-	60,136	1,964,065
Factoring receivables	26,339	71,445	10,675	19,939	1,634	-	-	130,032
Minimum lease payments receivable	811	30,618	26,484	46,448	69,314	-	-	173,675
Derivative financial instrument assets	1,978	2,130	441	443	-	-	-	4,992
Premises and equipment	-	-	-	-	-	-	55,171	55,171
Intangible asset	-	-	-	-	-	-	4,796	4,796
Investments in associates	-	-	-	-	-	-	1,016	1,016
Deferred tax asset	-	-	-	-	-	-	6,213	6,213
Other assets	9,746	3,927	7,515	6,325	813	-	18,525	46,851
Total assets	2,572,096	575,216	425,923	369,248	294,287	1,642	592,056	4,830,468
Liabilities:								
Deposits from other banks	112,153	49,957	8,453	4,727	-	-	-	175,290
Customers' deposits	2,521,480	399,005	135,704	172,987	94,706	-	-	3,323,882
Other money market deposits	17,572	-	-	-	-	-	-	17,572
Funds borrowed	271,064	131,401	205,169	89,090	4,231	-	10,923	711,878
Factoring payables	15,212	39,940	17,501	-	889	-	-	73,542
Derivative financial instrument liabilities	3,323	3,214	1,297	263	-	-	-	8,097
Other liabilities and provisions	5,607	2,229	7,116	5,040	150	-	98,615	118,757
Income taxes payable	-	-	-	-	-	-	10,222	10,222
Deferred tax liabilities	-	-	-	-	-	-	-	-
Total liabilities	2,946,411	625,746	375,240	272,107	99,976	-	119,760	4,439,240
On-balance sheet interest sensitivity gap	(374,315)	(50,530)	50,683	97,141	194,311	1,642	-	-
Off-balance sheet interest sensitivity gap	-	-	(59)	-	-	-	-	-
Total interest sensitivity gap	(374,315)	(50,530)	50,624	97,141	194,311	1,642	-	-

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

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 Bank'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.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. In accordance with the Regulation on the Establishment and Operations of Banks, it is required to maintain minimum 12% capital adequacy ratio on consolidated and unconsolidated basis the for the Banks that have a branch at the offshore banking regions (standard ratio is 8%). As of December 31, 2004, the Bank's capital adequacy ratio on a consolidated basis is 16.27% (2003 - 15.21%).

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2004	2003	2004	2003
Financial assets				
Originated loans and advances to customers	2,055,498	1,964,065	2,073,911	1,992,177
Investment securities	437,643	104,660	438,208	105,700
Minimum lease payments receivables	189,105	173,675	184,285	169,810
Financial liabilities				
Deposits from other banks	109,391	175,290	109,536	175,062
Customer deposits	3,165,817	3,323,882	3,179,316	3,320,511
Other money market deposits and funds borrowed	1,035,400	729,450	1,037,240	729,450

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

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

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

Originated loans and advances:

	Interest Rates Applied (%)	
Currency	2004	2003
Turkish lira	24.62	29.50
US$	5.12	3.50
EURO	4.92	4.50

Lease contract receivables:

	Interest Rates Applied (%)	
Currency	2004	2003
Turkish lira	34.59	41.08
US$	10.81	12.23
EURO	9.68	11.25
CHF	11.23	11.23

Deposits:

	Interest Rates Applied (%)	
Currency	2004	2003
Turkish lira	19.61	27.54
US$	2.47	2.51
EURO	2.38	3.01

Funds borrowed:

	Interest Rates Applied (%)	
Currency	2004	2003
Turkish lira	24.32	29.50
US$	3.51	3.19
EURO	3.05	5.01

28. SUBSEQUENT EVENTS

Upon the notification made by TEB Mali Yatırımlar A.Ş., the ultimate shareholder of the Bank, at February 10, 2005, the Bank announced to the public that TEB Mali Yatırımlar A.Ş. has transferred shares representing 50% of its capital to BNP Paribas.

Upon the notification made by TEB Yatırım, a subsidiary of the Bank, at February 28, 2005, the Bank announced to the public that TEB Yatırım has purchased 17.5% of shares of TEB Portföy, another subsidiary of the Bank, from ABN Amro Bank N.V. As a result of this, group's effective shareholding and voting right in TEB Portföy has increased to 100%.

29. SEPARATE FINANCIAL STATEMENTS OF THE BANK

The extracts from the Bank's separate balance sheets and income statements prepared in accordance with IFRS as of and for the years ended December 31, 2004 and 2003 are included in the Appendix for information purposes only and do not form part of the consolidated financial statements. In the separate financial statements, the Bank adopted to account for investments in subsidiaries at restated cost in accordance with IAS 27 and foreign currency denominated subsidiaries are valued with period-end foreign exchange rates. These financial statements have been included within the consolidated financial statements as of the respective dates.

Türk Ekonomi Bankası Anonim Şirketi
SEPARATE BALANCE SHEET
As at December 31, 2004

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

APPENDIX 1/2

ASSETS

	2004	2003
Cash and balances with the Central Bank	856,393	660,284
Deposits with banks and other financial institutions	175,410	207,579
Other money market placements	95,048	491,992
Reserve deposits at the Central Bank	191,979	170,306
Trading securities	9,716	32,152
Investment securities	409,571	98,080
Originated loans and advances	1,590,195	1,329,825
Derivative financial instrument assets	7,117	5,056
Investments in subsidiaries and associates	146,474	149,397
Premises and equipment	39,698	41,382
Intangible assets	3,437	3,866
Deferred tax asset	6,697	4,785
Other assets	10,559	6,653
Total assets	3,542,294	3,201,357

LIABILITIES AND EQUITY

	2004	2003
Deposits from other banks	96,534	142,778
Customers' deposits	2,174,566	2,123,209
Other money market deposits	158,610	17,572
Funds borrowed		
- Subordinated debt	20,336	24,078
- Other funds borrowed	594,843	431,836
Derivative financial instrument liabilities	10,425	8,097
Other liabilities and provisions	88,533	77,167
Income taxes payable	5,426	8,159
Total liabilities	3,149,273	2,832,896
Share capital issued	57,800	55,125
Adjustment to share capital	252,676	252,383
Unrealized gains/losses on securities, net of tax	3,836	-
Other reserves and accumulated profits	78,709	60,953
Total equity	393,021	368,461
Total liabilities and equity	3,542,294	3,201,357

Türk Ekonomi Bankası Anonim Şirketi
SEPARATE INCOME STATEMENT
For the year ended as of December 31, 2004

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

APPENDIX 2/2

	2004	2003
Interest income		
Interest on originated loans and advances	227,199	196,822
Interest on securities	78,459	27,587
Interest on deposits with banks and other financial institutions	25,397	32,257
Interest on other money market placements	60,181	99,240
Other interest income	1,386	7,556
Total interest income	**392,622**	**363,462**
Interest expense		
Interest on deposits	(188,348)	(158,337)
Interest on other money market deposits	(16,472)	(18,463)
Interest on funds borrowed	(24,643)	(25,760)
Other interest expense	(221)	(278)
Total interest expense	**229,684**	**(202,838)**
Net interest income	**162,938**	**160,624**
Provision for impairment of loans	1,912	(2,806)
Net interest income after provision for impairment of loans	**164,850**	**157,818**
Foreign exchange gain	14,825	4,891
Net interest income after foreign exchange gain and provision for impairment of loans	**179,675**	**162,709**
Other operating income		
Fees and commissions income	18,344	14,779
Fund management fee income	16,808	10,257
Income from banking services	25,336	23,943
Trading income	-	36,842
Other income	14,677	30,596
Total other operating income	**75,165**	**116,417**
Other operating expense		
Fees and commissions expense	(11,256)	(14,814)
Salaries and employee benefits	(80,233)	(67,502)
Depreciation and amortization	(13,472)	(13,718)
Taxes other than on income	(5,051)	(13,460)
Trading loss	(741)	-
Other expenses	(60,777)	(49,638)
Total other operating expense	**(171,530)**	**(159,132)**
Profit from operating activities before income tax and monetary loss	**83,310**	**119,994**
Income tax	(16,478)	(30,148)
Monetary loss	(31,123)	(28,191)
Net profit	**35,709**	**61,655**

Directory of Branches (*)

Main
Tel : (212) 251 21 21
Fax : (212) 249 65 68

Adana
Tel : (322) 363 17 74
Fax : (322) 363 13 41

Adapazarı
Tel : (264) 282 37 80
Fax : (264) 282 37 87

Afyon
Tel : (272) 214 34 00
Fax : (272) 213 43 00

Aksaray
Tel : (212) 632 68 78
Fax : (212) 632 69 68

Alanya
Tel : (242) 511 05 14
Fax : (242) 511 05 24

Altıyol
Tel : (216) 414 85 84
Fax : (216) 414 60 86

Altunizade
Tel : (216) 474 35 63
Fax : (216) 474 10 52

Ankara
Tel : (312) 468 11 32
Fax : (312) 467 01 49

Antakya
Tel : (326) 225 28 80
Fax : (326) 225 28 87

Antalya
Tel : (242) 248 48 01
Fax : (242) 248 06 69

A.O.S./Çiğli
Tel : (232) 376 83 43
Fax : (232) 376 83 50

Atatürk Caddesi
Tel : (322) 457 80 28
Fax : (322) 459 00 63

Avcılar
Tel : (212) 690 21 90
Fax : (212) 690 22 10

Aydın
Tel : (256) 213 67 80
Fax : (256) 213 90 96

(*) As of July 2005

Bahçeşehir
Tel : (212) 669 23 00
Fax : (212) 669 23 11

Bahrain
Tel : (00973) 17 54 00 70
Fax : (00973) 17 54 00 71

Bakırköy
Tel : (212) 543 66 36
Fax : (212) 543 74 24

Balıkesir
Tel : (266) 244 01 30
Fax : (266) 245 00 97

Bayrampaşa
Tel : (212) 565 28 50
Fax : (212) 565 33 36

Bayramyeri
Tel : (258) 264 94 64
Fax : (258) 264 85 45

Bebek
Tel : (212) 287 79 31
Fax : (212) 287 79 39

Beşevler Sanayi
Tel : (224) 443 40 44
Fax : (224) 443 40 66

Beşiktaş
Tel : (212) 227 70 65
Fax : (212) 236 09 94

Beşyüzevler
Tel : (212) 477 57 57
Fax : (212) 477 57 65

Beylikdüzü
Tel : (212) 852 33 80
Fax : (212) 852 33 91

Private Finance Centre
Tel : (212) 251 21 21
Fax : (212) 252 08 74

Bodrum
Tel : (252) 317 22 02
Fax : (252) 317 24 41

Bornova
Tel : (232) 343 84 85
Fax : (232) 343 62 52

Bursa Free Zone
Tel : (224) 524 86 20
Fax : (224) 524 86 23

Bursa
Tel : (224) 224 41 61
Fax : (224) 224 42 92

Büsan Sanayi
Tel : (332) 345 35 00
Fax : (332) 345 35 10

Caddebostan
Tel : (216) 359 47 06
Fax : (216) 359 47 16

Çarşı
Tel : (232) 469 73 10
Fax : (232) 469 73 19

Çorlu
Tel : (282) 650 30 10
Fax : (282) 650 19 48

Çukurova Corporate
Tel : (322) 457 14 12
Fax : (322) 457 14 62

Davutpaşa
Tel : (212) 501 82 14
Fax : (212) 612 23 28

Denizli
Tel : (258) 241 28 01
Fax : (258) 241 28 10

Ege Corporate
Tel : (232) 483 55 55
Fax : (232) 445 10 38

Eskişehir
Tel : (222) 220 24 24
Fax : (222) 234 24 24

Etiler
Tel : (212) 257 78 00
Fax : (212) 257 39 39

Gayrettepe
Tel : (212) 356 21 51
Fax : (212) 356 21 36

Gaziantep
Tel : (342) 215 41 00
Fax : (342) 215 41 19

Gaziosmanpaşa
Tel : (312) 447 74 40
Fax : (312) 447 74 02

Gebze
Tel : (262) 643 02 65
Fax : (262) 643 02 75

Gül Sokak
Tel : (232) 463 00 02
Fax : (232) 463 42 37

Güneydoğu Corporate
Tel : (342) 322 05 80
Fax : (342) 322 05 89

Hadımköy
Tel : (212) 886 67 77
Fax : (212) 886 61 21

Harbiye
Tel : (212) 234 12 16
Fax : (212) 231 64 67

İkitelli
Tel : (212) 549 17 05
Fax : (212) 549 16 43

İmes Sanayi Sitesi
Tel : (216) 527 12 01
Fax : (216) 527 12 10

İskenderun
Tel : (326) 614 19 19
Fax : (326) 613 22 25

İst. AHL Free Zone
Tel : (212) 465 04 41
Fax : (212) 465 04 38

Işıkkent
Tel : (232) 436 47 70
Fax : (232) 436 47 73

İzmir
Tel : (232) 489 10 60
Fax : (232) 482 33 72

İzmit
Tel : (262) 322 36 00
Fax : (262) 322 36 04

Kadıköy
Tel : (216) 445 08 38
Fax : (216) 445 08 37

Kahramanmaraş
Tel : (344) 231 20 81
Fax : (344) 231 20 91

Kalamış
Tel : (216) 330 12 35
Fax : (216) 330 24 19

Karabağlar
Tel : (232) 254 53 43
Fax : (232) 265 06 60

Karadeniz Ereğli
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Fax : (212) 282 33 37

Levent
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Fax : (212) 325 91 94

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Fax : (212) 219 38 71

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Fax : (422) 325 48 07

Maltepe
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Fax : (216) 457 61 66

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Marmaris
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Fax : (212) 274 37 33

Merkez
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Fax : (212) 249 63 10

Mersin Free Zone
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Fax : (324) 238 83 51

Mersin
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Fax : (362) 432 89 68

Sefaköy
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Fax : (212) 599 03 13

Suadiye
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Fax : (216) 416 51 38

Sultanhamam
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Fax : (212) 511 27 15

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Fax : (462) 323 08 83

Trakya Corporate
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Ulus
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Uşak
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Ümraniye
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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:

TEB Investor Relations Division

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