Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

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

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

We have audited the accompanying financial statements of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (formerly named C Kredi ve Kalkınma Bankası A.Ş.) (the Bank - a Turkish corporation) and its subsidiaries (collectively the Group), which comprise the consolidated balance sheet as of December 31, 2005, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, all expressed in the equivalent purchasing power of New Turkish Lira as of December 31, 2005. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 3, 2006
Istanbul, Turkey

CONSOLIDATED BALANCE SHEET
At December 31, 2005
(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004
ASSETS			
Cash and balances with the Central bank	3	**51**	38
Deposits with other banks and financial institutions	3	**19,859**	14,356
Other money market placements	3	**8,185**	5,769
Reserve deposits at the Central bank	4	**11,415**	9,585
Trading securities	5	**1,807**	-
Derivative financial instruments	17	**89**	404
Receivables from customers due to brokerage activities		**10,123**	3,574
Loans and advances	7	**94,443**	68,046
Minimum lease payments receivable	8	**49,059**	38,247
Investment securities-available for sale	6	**20,099**	8,487
Loaned securities	6	**-**	305
Property and equipment	9	**2,457**	2,198
Intangible assets	10	**1,923**	2,365
Deferred tax asset	15	**660**	620
Other assets	11	**2,235**	2,439
Total assets		**222,405**	156,433
LIABILITIES			
Other money market deposits	12	**5,509**	4,490
Derivative financial instruments	16	**2**	8
Funds borrowed	13	**75,322**	37,719
Other liabilities	14	**49,906**	31,498
Provisions	14	**161**	152
Income taxes payable	15	**38**	53
Total liabilities		**130,938**	73,920
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	17	**47,500**	47,500
Adjustment to share capital	17	**23,311**	23,311
Unrealized gains in available for sale investments, net of tax		**124**	101
Other reserves and retained earnings	18	**20,532**	11,601
		91,467	82,513
Minority interest		**-**	-
Total equity		**91,467**	82,513
Total equity and liabilities		**222,405**	156,433

The accompanying policies and explanatory notes on pages 6 through 47 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2005
(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004
Interest income			
Interest on loans and advances		**13,125**	18,970
Interest on securities		**89**	96
Interest on deposits with other banks and financial institutions		**2,082**	1,512
Interest on other money market placements		**692**	971
Interest on financial leases		**3,596**	2,216
Other interest income		**1,411**	608
Total interest income		**20,995**	24,373
Interest expense			
Interest on other money market deposits		**(247)**	-
Interest on funds borrowed and debt securities		**(2,276)**	(2,274)
Other interest expense		**(1,525)**	(1,525)
Total interest expense		**(4,048)**	(3,799)
Net interest income		**16,947**	20,574
Provision for impairment of loan and lease receivables	7, 8	**(663)**	(193)
Net interest income after provision for impairment of loan and lease receivables		**16,284**	20,381
Foreign exchange gain (loss)	21	**2,526**	1,600
Net interest income after foreign exchange loss and provision for impairment of loan and lease receivables		**18,810**	21,981
Other operating income			
Fees and commissions income	23	**6,080**	5,039
Commission income on brokerage activities		**3,143**	2,409
Gains less losses from investment securities	6	**1,916**	1,364
Net trading income	22	**329**	136
Other income	25	**1,482**	351
		12,950	9,299
Other operating expenses			
Fees and commissions expense	23	**(381)**	(316)
Salaries and employee benefits	24	**(7,467)**	(5,367)
Depreciation and amortization	9, 10	**(806)**	(650)
General and administrative expenses		**(4,674)**	(4,128)
Taxes other than on income		**(479)**	(558)
Other expenses	26	**(515)**	(416)
		(14,322)	(11,435)
Profit from operating activities before income tax and monetary loss		**17,438**	19,845
Income tax – current	15	**(1,952)**	(314)
Income tax – deferred	15	**68**	984
Monetary loss		**(3,575)**	(8,705)
Net profit for the year		**11,979**	11,810
Attributable to:			
Equity holders of the parent		**11,979**	11,810
Minority interest		**-**	-
Net Profit		**11,979**	11,810

The accompanying policies and explanatory notes on pages 6 through 47 form an integral part of these consolidated financial statements.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi
(Formerly C Kredi ve Kalkınma Bankası A.Ş.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2005
(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	Attributable to equity holders of the parent Share capital	Adjustment to share capital	Unrealized gain (loss) in available for sale investments, net of tax	Legal and other reserves and Retained Earnings / accumulated deficit	Total	Minority Interest	Total Equity
At January 1,2004		47,500	32,974	143	(9,872)	70,745	-	70,745
Accumulated losses netted off	17	-	(9,663)	-	9,663	-	-	-
Net change in unrealized gain on available- for -sale investments		-	-	(42)	-	(42)	-	(42)
Total income and expense for the year recognized directly in equity				(42)		(42)	-	(42)
Net profit for the year		-	-	-	11,810	11,810	-	11,810
Total income / expense for the year				(42)	11,810	11,768	-	11,768
At December 31, 2004 / January 1, 2005		47,500	23,311	101	11,601	82,513	-	82,513
Net change in unrealized gain on available- for -sale investments		**-**	**-**	**23**	**-**	**23**	**-**	**23**
Total income and expense for the year recognized directly in equity		**-**	**-**	**23**	**-**	**23**	**-**	**23**
Net profit for the year		**-**	**-**	**-**	**11,979**	**11,979**	**-**	**11,979**
Total income / expense for the year		**-**	**-**	**23**	**11,979**	**12,002**	**-**	**12,002**
Dividends declared and paid	19	**-**	**-**	**-**	**(3,048)**	**(3,048)**	**-**	**(3,048)**
At December 31, 2005		**47,500**	**23,311**	**124**	**20,532**	**91,467**	**-**	**91,467**

The accompanying policies and explanatory notes on pages 6 through 47 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2005
(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

	Notes	2005	2004
Cash flows from operating activities			
Interest received		**22,290**	25,936
Interest paid		**(3,945)**	(3,657)
Fees and commissions received		**9,223**	7,448
Trading income		**329**	136
Recoveries of loans previously written off		**440**	-
Fees and commissions paid		**(381)**	(316)
Cash payments to employees and other parties		**(7,451)**	(5,338)
Cash received from other operating activities		**1,482**	351
Cash paid for other operating activities		**(5,668)**	(5,100)
Income taxes paid		**(2,340)**	(1,566)
Cash flows from operating activities before changes in operating assets and liabilities		**13,979**	17,894
Changes in operating assets and liabilities			
Net increase trading securities		**(1,807)**	-
Net increase decrease in reserve deposits at central banks		**(2,218)**	(4,604)
Net(increase)/decrease in loans and advances		**(29,193)**	9,503
Net increase in minimum lease payments receivable		**(12,255)**	(24,320)
Net (increase)/decrease in other assets		**430**	(5)
Net increase in receivables from customers due to brokerage activities		**(6,705)**	(2,792)
Net increase in other money market deposits		**1,205**	4,008
Net increase in other liabilities		**19,772**	6,342
Net cash (used in) provided by operating activities		**(16,792)**	6,026
Cash flows from investing activities			
Purchases of available for sale securities	6	**(14,346)**	(5,948)
Proceeds from sale and redemption of available for sale securities		**2,657**	2,218
Purchases of property and equipment	9	**(971)**	(905)
Proceeds from the sale of premises and equipment		**284**	1,546
Purchases of intangible assets	10	**(374)**	(1,754)
Proceeds from sale of intangible assets		**532**	-
Net cash used in investing activities		**(12,218)**	(4,843)
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		**71,221**	36,938
Repayment of funds borrowed and debt securities		**(31,867)**	(30,709)
Dividends paid to equity holders of the parent	19	**(3,048)**	-
Net cash provided by financing activities		**36,306**	6,229
Effect of net foreign exchange difference and monetary gain/ loss on monetary items		**636**	339
Net increase in cash and cash equivalents		**7,932**	7,751
Cash and cash equivalents at beginning of year	3	**20,163**	12,412
Cash and cash equivalents at end of year	3	**28,095**	20,163

The accompanying policies and explanatory notes on pages 6 through 47 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. (formerly C Kredi ve Kalkınma Bankası A.Ş.) (the Bank) was incorporated in Turkey in April 9, 1999 as Toprak Yatırım Bankası A.Ş. Based upon the decision of the Banking Regulation and Supervision Agency (BRSA), on December 1, 2001, the management and all shares of Toprak Yatırım Bankası A.Ş.'s previous main shareholder , except its rights on dividends, were transferred to the Saving Deposit Insurance Fund (SDIF) in accordance with Article 14 items 3 and 4 of the Banking Law. C Faktoring A.Ş. (formerly Elit Finans Faktoring Hizmetleri A.Ş.) acquired 89.92% of the Bank's shares on November 1, 2002 in an auction from Savings Deposit Insurance Fund and following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş.

As of December 31, 2005 99.99% (2004 - 98.32%) of the shares of the Bank belongs to C Faktoring A.Ş. and are controlled by Damla Cıngıllıoğlu.

On December 13, 2005, C Faktoring A.Ş. and Bankpozitif signed a final share subscription agreement with Tarshish-Hapoalim Holdings and Investments Ltd (Bank Hapoalim-Tarshish), a wholly-owned subsidiary of Bank Hapoalim B.M., Israel's largest bank, and with RP Explorer Master Fund (RP). According to the provisions of the agreement, Bank Hapoalim-Tarshish will hold 57.55% of Bankpozitif's shares through a capital increase. Additionally, the agreement allows RP to participate in the capital increase process and become a shareholder of Bankpozitif with 7.45%. Subsequent to the capital increase, Bankpozitif's equity will reach around USD 200 million, while C Faktoring Group's stake in the Bank will decline to 35% under the new ownership structure. Necessary applications to obtain the official permits have been submitted to the relevant regulatory authorities in Turkey and Israel for this transaction and have not been finalized as of the date of authorization of these consolidated financial statements. As of December 23, 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş.

The registered head office address of the Bank is located at Büyükdere Caddesi, Beybi Giz Plaza Kat: 7 Meydan Sok. No: 28 Maslak 80670 İstanbul -Turkey.

The consolidated financial statements of the Bank are authorized for issue by the management on February 3, 2006. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Bank / Group

The Bank operates as an investment bank and is mainly involved in corporate services such as financial leasing, trade finance, corporate lending and project finance. As an investment bank, the Bank borrows funds from financial markets, its counterparties and obtains cash blockages and cash collaterals from its credit customers but is not entitled to receive deposits from customers. Its subsidiary C Menkul Değerler A.Ş. (C Menkul) is involved in intermediary and brokerage activities and another subsidiary, C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. (C Bilişim) is specialized in software development and other technological affairs related to financial industry. C Bilişim also holds A type long distance telephone service license through its subsidiary C Telekomünikasyon Hizmetleri A.Ş. (C Telekom). C Bilişim's effective shareholding in C Telekom which was established in 2005, is 99% and it is carried at cost less impairment in the accompanying consolidated financial statements. It has not been consolidated into C Bilişim financials, as the effect is not material.

The Bank provides services through its head office and also has two branches located in Ankara and İzmir.

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

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			2005	2004
C Menkul Değerler A.Ş.	Istanbul/Turkey	intermediary and brokerage activities	**100**	100
C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş.	Istanbul/Turkey	software development and technology	**100**	100

2.1 Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in New Turkish Lira (YTL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of YTL, consolidation of subsidiaries, deferred taxation and employee termination benefits.

2.2 Changes in Accounting Policies

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

The changes in accounting policies result from the adoption of the following new or revised standards which are relevant to the Group's operations:

IAS 1	(revised)	Presentation of Financial Statements
IAS 8	(revised	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	(revised)	Events after the Balance Sheet Date
IAS 16	(revised)	Property, Plant and Equipment
IAS 17	(revised)	Leases
IAS 21	(revised)	The Effects of Changes in Foreign Exchange Rates
IAS 24	(revised)	Related Party Disclosures
IAS 27	(revised)	Consolidated and Separate Financial Statements
IAS 28	(revised)	Investments in Associates
IAS 32	(revised)	Financial Instruments-Disclosure and Presentation
IAS 36	(revised)	Impairment of assets
IAS 38	(revised)	Intangible Assets
IAS 39	(revised)	Financial Instruments: Recognition and Measurement
IFRS 3		Business Combinations
IFRS 5		Non-current Assets Held for Sale and Discontinued Operations

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In summary:

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

IAS 21(revised) had no effect on the Group's policy. All the Group entities have the same functional currency as their measurement currency.

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

IFRS 3, IAS 36 and IAS 38 resulted in the Group ceasing annual goodwill amortization and commencing testing for impairment at the cash- generating level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from January 1, 2005.

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

IAS 8, 10, 16, 17, 27, 28, 32 and 39 (all revised) and IFRS 5 had no material effect on the Group's accounting policies.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 6 "Exploration for and Evaluation of Mineral Resources"- This Standard does not apply to the activities of the Group.

IFRS 7 "Financial Instruments-Disclosures"- This Standard supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after January 1, 2007.

IFRIC 4 "Determining Whether an Arrangement Contains a Lease"- This Interpretation is required to be applied for annual periods beginning on or after January 1, 2006 but is not expected to be relevant for the activities of the Group.

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"- This Interpretation is required to be applied for annual periods beginning on or after January 1, 2006 but is not expected to be relevant for the activities of the Group.

The Group expects that adoption of the pronouncements listed above will have no impact on the Group's financial statements in the period of initial application other than presentation of additional disclosures on financial instruments as required by IFRS 7.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification of Comparative Information

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

- YTL 305 representing available-for-sale securities given as collateral for repurchase agreements has been reclassified from investment securities to loaned securities.

- YTL 1,364 representing gains less losses from available-for-sale securities has been reclassified from interest on securities to gains less losses from investment securities.

2.3 Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Application of IAS 29:

Although there is a declining trend in inflation rates and the rulings of the regulatory authorities governing the reporting requirements of the Group in Turkey ceased the application of restatement, the Group concluded that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 were still applicable in Turkey in 2005 and consequently continued to apply such restatement for IFRS reporting purposes.

(b) Impairment of available-for-sale equity instruments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2005 was YTL 234 (2004 - YTL 234). More details are given in Note 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Impairment Losses on Loans and Advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. 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. Total carrying value of such loans, advances and receivables as of December 31, 2005 YTL 153,625 (2004 - YTL 109,867 net of impairment allowance of YTL 3,957 (2004 - YTL 3,444).

(c) Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 29.

(d) Income Taxes

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of December 31, 2005 the Group carried YTL 38 income taxes payable (2004 - YTL 53).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly. As of December 31, 2005, the Group carries a net deferred tax asset amounting to YTL 660 (2004 - YTL 620).

(e) Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 14 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2005 is YTL 161 (2004 - YTL 152).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies

Functional and Presentation Currency

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted in 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. The conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 (full) through out the period of one year until complete phase-out of TL. Effective January 1, 2005, the Group's functional and presentation currency is YTL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of YTL.

The restatement for the changes in the general purchasing power of YTL as of December 31, 2005 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. Determining whether an economy is hyperinflationary in accordance with IAS 29 requires judgment as the standard does not establish an absolute rate, instead it considers the following characteristics of the economic environment of a country to be strong indicators of the existence of hyperinflation: (a) the general population prefers to keep its wealth in non monetary assets or in a relatively stable currency; amounts of local currency held are immediately invested to maintain purchasing power, (b) the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable currency; prices may be quoted in that currency, (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, (d) interest rates, wages and prices are linked to a price index and (e) the cumulative inflation rate over three years is approaching, or exceeds 100%.

Although as of December 31, 2005, the three-year cumulative rate has been 35.6% (December 31, 2004 – 69.7%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics, considering the economic characteristics indicated above, IAS 29 is continued to be applied in the preparation of the current period financial statements.

Index and conversion factors as of the end of the three year period ended December 31, 2005 are given below:

Dates	Index	Conversion Factors
December 31, 2002	6,478.80	1.356
December 31, 2003	7,382.10	1.190
December 31, 2004	8,403.80	1.045
December 31, 2005	8,785.74	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, 2005.

- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2005 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

Basis of Consolidation

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

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities .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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill.

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

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

The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

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

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

	EUR / TL (full)	USD / TL (full)
December 31, 2003	1.7450	1.3958
December 31, 2004	1.8268	1.3421
December 31, 2005	1.5904	1.3430

Property and Equipment

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

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

Buildings	50 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years
Leasehold improvements	Lease period

Expenses for repairs and maintenance are charged to expenses as incurred.

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

The carrying values of property 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 or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary or associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Following initial recognition goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units.

Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to that entity sold.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. 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. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Research costs are expensed as incurred. An intangible asset arising from development expenditure incurred on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Other Financial Assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available for sale financial assets

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

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used. Equity securities whose fair values cannot be measured reliably are recognized at cost less impairment (if any).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase and Resale Transactions

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

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

Offsetting Financial Instruments

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

Recognition and Derecognition of Financial Instruments

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

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset , but has assumed an obligation to pay them in full without material delay to a third party under a ' pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Cash and Cash Equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

a) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

c) Available-for-sale financial assets

If an available- for- sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest -bearing Customer Accounts and Borrowings

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

Employee Benefits

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

(a) Defined Benefit Plans:

In accordance with existing social legislation in Turkey, the 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.

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

(b) Defined Contribution Plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Leases

The Group as Lessee

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease 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 termination takes place.

The Group as Lessor

Finance Lease

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

Income and Expense Recognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

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

Dividends are recognized when the shareholders' right to receive the payments is established.

Income Tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

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

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models 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.

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.

3. CASH AND CASH EQUIVALENTS

	2005	2004
Cash and balances with central banks	**51**	38
Deposits with other banks and financial institutions	**19,859**	14,356
Interbank & other money market placements	**8,185**	5,769
Cash and cash equivalents in the balance sheet	**28,095**	20,163
Less : Time deposits with original maturities of more than three months	**-**	-
Cash and cash equivalents in the cash flow statement	**28,095**	20,163

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

	2005				2004			
	Amount		**Effective interest rate**		Amount		Effective interest rate	
	New Turkish Lira	**Foreign Currency**	**New Turkish Lira**	**Foreign Currency**	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Balances with central banks	**7**	**44**	**-**	**-**	3	35	-	-
Deposits with other banks and financial institutions	**18,613**	**1,246**	**15.02%**	**0.95%**	11,902	2,454	19.51%	-
Interbank & other money market placements	**8,185**	-	**13.95%**	**-**	5,769	-	18.00%	-
Total	**26,805**	**1,290**			17,674	2,489		

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

4. RESERVE DEPOSITS AT THE CENTRAL BANK

	2005	2004
- Turkish lira	**106**	263
- Foreign currency	**11,309**	9,322
	11,415	9,585

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day to day operations.

As of December 31, 2005 and 2004, reserve deposit rates applicable for Turkish lira and foreign currency liability accounts with the Central Bank are 6% and 11%, respectively.

As of December 31, 2005, the interest rates applied for Turkish lira and USD reserve deposits by the Central Bank are 10.25 % and 2.03% (2004 - 12,5 % and 1,04%), respectively.

5. TRADING SECURITIES

Trading Securities:

	2005		2004	
	Amount	**Effective Interest rate**	Amount	Effective Interest rate
Trading securities at fair value				
Debt instruments-YTL	**-**			-
Turkish government bonds	**1,723**	**16.39%**	-	
Turkish treasury bills	**9**	**16.70%**	-	
	1,732		-	
Others				
Mutual funds	**75**	**-**	-	-
	75		-	
Total trading securities	**1,807**		-	

There are no trading securities pledged under repurchase agreements as of December 31, 2005 and 2004.

As of December 31, 2005, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As of December 31, 2005 all trading debt securities have variable interest rates.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

6. INVESTMENT SECURITIES

Available for Sale Securities

	2005		2004	
	Amount	**Effective Interest Rate**	Amount	Effective Interest Rate
Available for sale securities at fair value				
Debt instruments-YTL				
Turkish government bonds	**19,567**	**17.8%**	8,487	26.00%
Total available for sale securities at fair value	**19,567**		8,487	
Available for sale securities at cost				
Equity instruments - unlisted	**532**	**-**	-	-
Total available for sale securities	**20,099**		8,487	

As of December 31, 2005 and 2004, available-for-sale securities comprise Turkish Government floating rate notes (FRN) with semi-annual and quarterly coupon payments (2004 - quarterly coupon payments) having a maturity range of January 2006 - August 2010 and January 2005 - September 2006, respectively.

The Bank has no repurchase agreements as of December 31, 2005. Securities provided as collateral under repurchase agreements as of December 31, 2004 are presented under loaned securities. Such repurchase agreements (related liability was YTL 297) matured within 1 month.

As of December 31, 2005, government securities with carrying value of YTL 19,103 are kept in the Central Bank and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for stock exchange and money market operations. As of December 31, 2004, government securities with carrying value of YTL 8,487 are kept in the Central Bank and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for stock exchange and money market operations and for derivative transactions.

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

Gains and losses from investment securities comprise:

	2005	2004
Derecognition of available-for-sale securities	**1,916**	1,364
	1,916	1,364

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

6. INVESTMENT SECURITIES (continued)

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

	2005	2004
	Available For Sale	Available For Sale
At January 1	**8,487**	5,133
Exchange differences and monetary gain (loss) on monetary assets	**(77)**	(71)
Additions	**14,346**	5,948
Transfer to loaned securities	**-**	(305)
Disposals (sale and redemption)	**(2,657)**	(2,218)
At December 31	**20,099**	8,487

7. LOANS AND ADVANCES

	2005						
	Amount				**Effective interest rate**		
	New Turkish Lira	**Foreign Currency**	**Foreign Currency Indexed**	**Total**	**New Turkish Lira**	**Foreign Currency**	**Foreign Currency Indexed**
Corporate loans	**27,567**	**30,650**	**27,971**	**86,188**	**20.74%**	**USD- 9.00%** **EUR-8.87%**	**USD- 9.10%** **EUR-8.74%**
Consumer loans	**3,155**	**-**	**6,400**	**9,555**	**19.00%**	**-**	**USD- 9.29%** **EUR-6.52%**
Total loans	**30,722**	**30,650**	**34,371**	**95,743**			
Loans in arrears (*)	-	-	-	**2,657**	-	-	-
Less: Reserve for losses on loans and advances	-	-	-	**(3,957)**	-	-	-
	30,722	**30,650**	**34,371**	**94,443**			

	2004						
	Amount				Effective interest rate		
	New Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	New Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	24,915	33,471	8,480	66,866	29.78%	USD-9.58% EUR-8.56%	USD-9.47% EUR-8.90%
Consumer loans	391	-	1,620	2,011	24.33%	-	USD-9.93%
Total loans	25,306	33,471	10,100	68,877			
Loans in arrears	-	-	-	2,613	-	-	-
Less: Reserve for losses on loans and advances (*)	-	-	-	(3,444)	-	-	-
	25,306	33,471	10,100	68,046			

(*) YTL 2,326 of loans in arrears were transferred from the previous shareholders through acquisition of the Bank from SDIF auction.

Loans with variable rates are YTL 59,851 (2004 - YTL 42,503) and fixed rates are YTL 35,892 (2004 - YTL 25,543).

As of December 31, 2005, reserve for possible loan losses and minimum lease payments receivables at an amount of YTL 1,300 provided in the accompanying financial statements includes a reserve which is considered on a portfolio basis based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group. (2004 – YTL 831).

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

7. LOANS AND ADVANCES (continued)

Movements in the reserve for possible loan losses:

	2005	2004
Reserve at beginning of year	**3,444**	3,711
Provision for loan impairment	**1,103**	193
Recoveries	**(440)**	-
Provision net of recoveries	**663**	193
Loans written off during the year	**-**	-
Monetary gain	**(150)**	(460)
Reserve at end of year	**3,957**	3,444

As of December 31, 2005, loans and advances on which interest is not being accrued, or where interest is suspended amounted to YTL 2,657 (2004 - YTL 2,613). As of December 31, 2005 and 2004 there is no uncollected interest accrued on impaired loans.

8. MINIMUM LEASE PAYMENTS RECEIVABLES

	2005	2004
No later than 1 year	**23,120**	22,046
Later than 1 year and no later than 5 years	**32,799**	20,609
Later than 5 years	**142**	-
Minimum lease payments receivable, gross	**56,061**	42,655
Less: Unearned interest income	**(7,002)**	(4,408)
Net investment in finance leases	**49,059**	38,247
Less: Reserve for impairment	**-**	-
Minimum lease payments receivables, net	**49,059**	38,247

Net investment in finance leases are analyzed as follows:

	2005	2004
No later than 1 year	**19,890**	19,280
Later than 1 year and no later than 5 years	**29,033**	18,967
Later than 5 years	**136**	-
	49,059	38,247

As of December 31, 2005 YTL 20,507 of net investment in finance leases is denominated in US$, YTL 25,818 of net investment in finance leases is denominated in EUR (2004 - YTL 21,897 and YTL 16,344 denominated in US$ and EUR, respectively) and YTL 2,734 of net investment in finance leases is denominated in TL (2004 - YTL 6). The effective interest rate for minimum lease receivables denominated in US$ is 8.51% (2004 - 8.37%), in EUR 8.19% (2004 - 9.20%) and in YTL 20.31% (2004 - nil). Finance lease receivables in the amount of YTL 20,353 (2004 - YTL 4,153) have floating interest rate, fixed for 6 months period and remaining YTL 28,706 (2004 - YTL 34,094) have fixed interest rates.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

9. PROPERTY AND EQUIPMENT

	Land and buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
At January 1, 2005, net of accumulated depreciation and impairment	**618**	**795**	**280**	**505**	**2,198**
Additions	-	398	573	-	971
Disposals	-	(5)	-	(307)	(312)
Depreciation charge for the year	(13)	(221)	(105)	(61)	(400)
At December 31, 2005, net of accumulated depreciation and impairment	**605**	**967**	**748**	**137**	**2,457**
At January 1,2005					
Cost	645	2,260	559	718	4,182
Accumulated depreciation	(27)	(1,465)	(279)	(213)	(1,984)
Net carrying amount	**618**	**795**	**280**	**505**	**2,198**
At December 31, 2005					
Cost	645	2,636	1,132	252	4,665
Accumulated depreciation	(40)	(1,669)	(384)	(115)	(2,208)
Net carrying amount	**605**	**967**	**748**	**137**	**2,457**

	Land and buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
At January 1, 2004, net of accumulated depreciation and impairment	2,251	624	118	466	3,459
Additions	-	483	216	206	905
Disposals	(1,620)	(2)	-	(33)	(1,655)
Depreciation charge for the year	(13)	(310)	(54)	(134)	(511)
At December 31, 2004, net of accumulated depreciation and impairment	618	795	280	505	2,198
At January 1, 2004					
Cost	2,274	1,792	343	548	4,957
Accumulated depreciation	(23)	(1,168)	(225)	(82)	(1,498)
Net carrying amount	2,251	624	118	466	3,459
At December 31, 2004					
Cost	645	2,260	559	718	4,182
Accumulated depreciation	(27)	(1,465)	(279)	(213)	(1,984)
Net carrying amount	618	795	280	505	2,198

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

10. INTANGIBLE ASSETS

December 31, 2005	Goodwill	Software Licenses and Other	Development Costs	Total
At January 1, 2005 net of accumulated amortization and impairment	**234**	**2,131**	**-**	**2,365**
Additions	-	374	-	374
Disposals	-	(410)	-	(410)
Amortization charge for the year	-	(406)	-	(406)
At December 31, 2005 net of accumulated amortization	**234**	**1,689**	**-**	**1,923**
At January 1, 2005				
Cost (gross carrying amount) as previously stated	275	2,362	-	2,637
Elimination of accumulated amortization	(41)	-	-	(41)
	234	**2,362**		**2,596**
Accumulated amortization and impairment as previously stated	(41)	(231)	-	(272)
Elimination of accumulated amortization	41	-	-	41
Net carrying amount	**234**	**2,131**	**-**	**2,365**
At December 31, 2005			-	
Cost (gross carrying amount)	234	2,351	-	2,585
Accumulated amortization and impairment	-	(662)	-	(662)
Net carrying amount	**234**	**1,689**	**-**	**1,923**

As from January 1, 2005, the date of adoption of IFRS 3, goodwill was no longer amortized but is now subject to annual impairment testing. The Group reviewed the goodwill on acquisition of C Menkul for impairment through an estimation of the value in use of the cash generating unit to which the goodwill is allocated

Software and licenses are being amortized over their economic useful lives of 5 years.

December 31, 2004	Goodwill	Patents and Licenses	Development Costs	Total
At January 1,2004 net of accumulated amortization and impairment	262	122	366	750
Additions-	-	1,754	-	1,754
Transfers		366	(366)	-
Amortization charge for the year	(28)	(111)	-	(139)
At December 31, 2004 net of accumulated amortization	234	2,131	-	2,365
At January 1, 2004				
Cost (gross carrying amount)	275	242	366	883
Accumulated amortization and impairment	(13)	(120)	-	(133)
Net carrying amount	262	122	366	750
At December 31, 2004				
Cost (gross carrying amount)	275	2,362	-	2,637
Accumulated amortization and impairment	(41)	(231)	-	(272)
Net carrying amount	234	2,131	-	2,365

As of December 31, 2004, development costs comprising mainly the programmer's wage expenses related with the new banking software project that was started in July 2003 has been transferred to "software licenses and others" since the Bank has started to utilize the software.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

11. OTHER ASSETS

	2005	2004
Prepaid expenses	**1,189**	45
Prepaid taxes	**570**	1,566
-income taxes	**318**	1,180
-other taxes	**252**	386
Others	**476**	828
	2,235	2,439

As of December 31, 2005 and 2004 prepaid taxes of YTL 1,969 and YTL 261 has been offset against current taxes payable, respectively.

12. DEPOSITS

OTHER MONEY MARKET DEPOSITS

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Obligations under repurchase agreements:								
-Due to customers	-	-	-	-	297	-	17%	-
	-	-			297	-		
Other money market deposits	**5,509**	-	**13.5%**	-	4,193	-	18%	-
Total	**5,509**	-			4,490	-		

Other money market deposits of YTL 5,509 (2004 - YTL 4,490) have fixed interest rates.

13. FUNDS BORROWED

	2005				2004			
	Amount		Effective interest rate		Amount		Effective interest rate	
	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency	New Turkish Lira	Foreign Currency
Short term								
Fixed interest	**503**	**58,151**	**18%**	**EUR-3.96% USD-6.61%**	198	22,651	15%	EUR-5.03% USD-3.74%
Floating interest	-	-	-	-	-	10,599	-	EUR-5.66%
Medium/long term								
Fixed interest	-	-	-	-	-	-	-	-
Floating interest	-	**16,668**	-	**EUR-3.36% USD-6.20%**	-	4,271	-	USD-6.73%
Total	**503**	**74,819**			198	37,521		

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

13. FUNDS BORROWED (continued)

Repayments of medium/long term borrowing are as follows:

	2005	2004
	Floating rate	Floating rate
2005	**-**	811
2006	**7,812**	758
2007	**5,909**	842
2008	**1,481**	898
2009	**545**	-
2010	**-**	-
Thereafter	**921**	962
	16,668	4,271

Floating rate borrowings bear interest at rates fixed in advance for periods of 3 to 6 months.

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

14. OTHER LIABILITIES AND PROVISIONS

	2005	2004
Other liabilities		
Current accounts of credit customers	**37,975**	25,496
Payables due to suppliers of equipment acquired for leasing	**6,491**	4,498
Taxes and funds payable	**1,220**	907
Others	**4,220**	597
	49,906	31,498
Provisions		
Employee termination benefits	**161**	152
	161	152
Total	**50,067**	31,650

As of December 31, 2005 YTL 30,127 (2004 - YTL 20,344) of 37,975 (2004 - YTL 25,496) of current accounts of credit customers bears interest. The effective interest rate for current accounts of credit customers denominated in US$ is between 3.0% and 7.2% (2004 - 2.3% and 8.0%), in EUR between 2.5% and 4.0% (2004 – 2.3% and 4.0%) and in YTL 11.5% (2004 - 16% and 19%). Current accounts of credit customers have fixed interest rates.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

14. OTHER LIABILITIES AND PROVISIONS (continued)

The movement in provision for employee termination benefits is as follows:

	2005	2004
At January 1, 2005	**152**	139
Arising during the year	**16**	29
Utilized / paid	**-**	-
Monetary gain	**(7)**	(16)
At December 31, 2005	**161**	152

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. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 1.727 and YTL 1.575 at December 31, 2005 and 2004, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2005 and 2004, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The principal actuarial assumptions used at the balance sheet dates are as follows:

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

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the income statement in the period they occur.

15. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey

In Turkey, the corporation tax rate for the fiscal year ended December 31, 2005 is 30% (2004 - 33%).

Corporate tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month.

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

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

15. INCOME TAXES (continued)

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

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

Effective from April 24, 2003, investment allowances 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 YTL 10 (2004 – YTL 6) and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at the will of companies. All investment allowances can be carried forward indefinitely with indexed amounts.

10% withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend 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.

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 other temporary differences pertaining to other investments in shares issued by Turkish companies.

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

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

	2005	2004
Income tax liability	**2,007**	314
Prepaid income tax (Note 11)	**(1,969)**	(261)
Income taxes payable	**38**	53

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

15. INCOME TAXES (continued)

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

	2005	2004
Consolidated income statement		
Current income tax		
Current income tax charge	**1,952**	314
Deferred income tax		
Relating to origination and reversal of temporary differences	**(68)**	(921)
The effect of change in tax rate	**-**	(63)
Income tax expense/(credit) reported in consolidated income statement	**1,884**	(670)
Consolidated statement of changes in equity		
Current income tax		
Unrealized gain (loss) on available-for-sale financial assets	**(55)**	-
Income tax charge reported in consolidated statement of changes in equity	**(55)**	-

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

	2005	2004
Profit before income tax after monetary loss	**13,863**	11,140
At Turkish statutory income tax rate of 30% (2004 – 33 %)	**4,159**	3,675
Expenditures not allowable for income tax purposes	**345**	327
Effect on opening deferred income tax of change in effective tax rate	**-**	(63)
Utilization of investment allowance (eligible for 100% deduction)	**(3,720)**	(4,212)
Others, net	**1,100**	(397)
Income tax	**1,884**	(670)

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

15. INCOME TAXES (continued)

Deferred Income Tax

Deferred income tax at December 31 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2005	2004	**2005**	2004
Deferred income tax liabilities				
Valuation and depreciation differences of premises and equipment and restatement effect	**(275)**	(187)	**(96)**	(83)
Valuation differences of derivatives	**(27)**	(119)	**87**	53
Gross deferred income tax liabilities	**(302)**	(306)	**(9)**	(30)
Deferred income tax assets				
Liability for defined benefit plans	**48**	46	**4**	9
Reserve for loan losses	**390**	250	**151**	56
Accounting for financial leases	**521**	285	**248**	638
Tax benefit of investment incentives	**-**	297	**(283)**	297
Others	**3**	48	**(43)**	14
Gross deferred income tax assets	**962**	**926**	**77**	1,014
Net deferred income tax asset	**660**	620	**-**	-
Deferred income tax income / (expense)			**68**	984

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

	2005	2004
Deferred tax asset, net at January 1	**620**	(415)
Deferred income tax recognized in income statement	**68**	984
Deferred income tax recognized in equity	**-**	-
Monetary (loss) gain	**(28)**	51
Deferred tax asset (liability), net at December 31	**660**	620

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

16. DERIVATIVES

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

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

	2005		
	Fair value assets	**Fair value liabilities**	**Notional amount in New Turkish Lira equivalent**
Derivatives held for trading			
Forward purchase contract	**42**	**-**	**8,553**
Forward sale contract	**-**	**2**	**8,511**
Currency swap purchase	**47**	**-**	**11,300**
Currency swap sale	**-**	**-**	**11,062**
Total derivatives held for trading	**89**	**2**	**39,426**

	2004		
	Fair value assets	Fair value liabilities	Notional amount in New Turkish Lira equivalent
Derivatives held for trading			
Forward purchase contract	99	-	19,860
Forward sale contract	-	6	19,761
Currency swap purchase	305	-	49,639
Currency swap sale	-	2	48,895
Total derivatives held for trading	404	8	138,155

The Group undertakes approximately all of its transactions in derivative financial instruments with banks and other financial institutions.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

17. SHARE CAPITAL

	2005	2004
Number of common shares, YTL 0.1 (in full YTL), par value (Authorized and issued)	**475,000,000**	475,000,000

As of December 31, 2005 and 2004, the Bank's subscribed and issued share capital in historical terms is YTL 47,500.

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

	2005		2004	
	Amount	**%**	Amount	%
C Faktoring A.Ş.	**47,499**	**99.99**	46,700	98.32
Others	**1**	**-**	800	1.68
	47,500	**100.00**	47,500	100.00
Restatement effect	**23,311**		23,311	
	70,811		70,811	

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

As allowed by BRSA, the Bank has net off its accumulated deficit through deduction from its legal reserves, retained earnings and adjustment to share capital in 2004 at an amount of YTL 9,663.

18. LEGAL AND OTHER RESERVES AND RETAINED EARNINGS

Movement in legal and other reserves are as follows:

	2005			2004		
	Legal Reserves	**Retained Earnings**	**Total**	Legal Reserves	Retained Earnings	Total
At January 1,	**46**	**11,555**	**11,601**	-	(9,872)	(9,872)
Accumulated losses netted off	**-**	**-**	**-**	-	9,663	9,663
Transfer from retained earnings	**830**	**(830)**	**-**	46	(46)	-
Dividends paid	**-**	**(3,048)**	**(3,048)**	-	-	-
Net profit for the year	**-**	**11,979**	**11,979**	-	11,810	11,810
At December 31,	**876**	**19,656**	**20,532**	46	11,555	11,601

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.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

19. DIVIDENDS PAID AND PROPOSED

Dividends declared and paid during the year:

	2005	2004
Common shares		
0.0064 (full YTL) per share in 2005	**3,048**	-

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

In their annual general meeting held on April 25, 2005 the shareholders resolved to distribute dividends in respect of 2004 of YTL 0.0064 /share, amounting to a total of YTL 3,048 which was not recognized as a liability as at December 31,2004. The Group did not declare or pay dividends out of the profits for 2005 as of the date of preparation of these financial statements.

20. 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 C Faktoring A.Ş. which owns 99.9% (2004 – 98.32%) of ordinary shares. The ultimate owner of the Group is Damla Cıngıllıoğlu with a share holding of 89.87%. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, shareholders, and companies controlled by Damla Cıngıllıoğlu 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. These include loans, customer accounts, funds borrowed, non-cash transactions, derivative transactions The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the year are as follows:

	Shareholders		Directors and key management personnel		Others	
	2005	2004	**2005**	2004	**2005**	2004
Loans						
Loans outstanding at January 1	**-**	1,264	**-**	-	**2,218**	-
Loans issued during the year	**89,377**	95,092	**-**	-	**2,077**	2,218
Loan repayments during the year	**(89,377)**	(96,356)	**-**	-	**(4,273)**	-
Loans outstanding at December 31	**-**	-	**-**	-	**22**	2,218
Interest income earned	**248**	531	**-**	-	**231**	290

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

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

20. RELATED PARTY DISCLOSURES (continued)

	Shareholders		Directors and key management personnel		Others	
	2005	2004	**2005**	2004	**2005**	2004
Funds borrowed						
Funds borrowed outstanding at January 1	**-**	**-**	**-**	-	**32,404**	31,175
Funds borrowed issued during the year	**-**	**-**	**-**	-	**169,878**	130,473
Funds borrowed repayments during the year	**-**	**-**	**-**	-	**(156,327)**	(129,244)
Funds borrowed outstanding at December 31	**-**	**-**	**-**	-	**45,955 (*)**	32,404 (*)
Interest expense given	**-**	**-**	**-**	-	**2,029**	1,037

(*) Funds borrowed outstanding as of December 31, 2005 includes borrowing at an amount of YTL 41,656 (2004 - YTL 31,712) from Demir-Halk Bank (Nedherland) NV and YTL 4,299 (2004 - YTL 129) from D Commerce Bank AD.

Other balances and transactions with related parties:

Related party		Placements with banks	Minimum lease payments receivable	Other liabilities	Non-cash loans	Notional amount of derivative transactions	Foreign exchange trading gain(loss)	Other interest income	Interest expense	Other operating income	Other operating expense
Shareholders	**2005**	**-**	**-**	**32**	**51**	**12,935**	**3,294**	**248**	**-**	**2**	**-**
	2004	-	-	130	49	22,374	-	-	-	1,375	115
Others	**2005**	**1**	**20**	**12,214**	**408**	**-**	**(659)**	**971**	**282**	**94**	**200**
	2004	6,724	26	930	2,221	42,209	-	-	208	-	-
Directors and key management personnel	**2005**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2004	-	-	-	-	-	-	-	-	-	-

YTL 115 of other expense in 2004 represents losses incurred as a result of a sale of property to a related party in 2004.

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees totaling approximately YTL 2,432 (2004 - YTL 2,177) comprising salaries and other short-term benefits.

21. FOREIGN EXCHANGE GAIN (LOSS)

	2005	2004
Foreign exchange gains less losses relating to derivatives	**(1,933)**	(11,227)
Other foreign exchange gains less losses	**4,459**	12,827
Total	**2,526**	1,600

Other foreign exchange gain (loss) includes gains and losses from translated foreign currency assets and liabilities and foreign currency arbitrage transactions.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

22. NET TRADING INCOME

	2005	2004
Equities	**302**	-
Fixed income	**27**	136
Total	**329**	136

23. FEE AND COMMISSION INCOME AND EXPENSE

	2005	2004
Fee and commission income		
Loans	**569**	907
Letters of guarantee	**4,092**	2,896
Letters of credit	**1,174**	734
Other fees	**245**	502
Total	**6,080**	5,039
Fees and commission expense		
Corresponding bank fees	**381**	316
Total	**381**	316

24. SALARIES AND EMPLOYEE BENEFITS

	2005	2004
Staff costs		
Wages and salaries	**4,911**	3,398
Bonuses	**1,491**	1,097
Other fringe benefits	**519**	420
Provision for employee termination benefits	**16**	29
Cost of defined contribution plan (employers' share of social security premiums)	**530**	423
Total	**7,467**	5,367

The number of employees for the years is:

	2005	2004
The Bank	**77**	50
Subsidiaries	**50**	39
Total	**127**	89

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

25. OTHER INCOME

	2005	2004
Software sales and rental income	**381**	75
Technology support income	**669**	-
Other	**432**	276
Total	**1,482**	351

26. OTHER EXPENSE

	2005	2004
Loss on sale of property	**28**	115
Consultancy expenses	**327**	194
Others	**160**	107
Total	**515**	416

27. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2005	2004
Letters of Guarantee	**376,735**	167,175
Letters of Credit	**45,347**	29,070
Other Guarantees	**795**	5,004
Total Non Cash Loans	**422,877**	201,249
Letter of guarantee obtained by consolidated subsidiaries from other banks	**2,071**	523
	424,948	201,772

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises and vehicles. These leases have an average life of between 1 and 5 years and with renewal option for branch premises and no renewal option for vehicles included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non cancelable operating leases

Litigation

There were a number of legal proceedings outstanding against the Group as of December 31, 2005 totaling YTL 391. This mainly includes matters relating to claimed interest losses. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

27. COMMITMENTS AND CONTINGENCIES (continued)

Fiduciary Activities

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

The Group also manages 3 open-ended investment funds (2004 - 2 open-ended investment funds) which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells 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. Management fee and commission income received from investment funds amounted to YTL 34 (2004 – YTL 15).

As of December 31, 2005, the Group had investment custody accounts amounting to YTL 22,628 (2004 – YTL 15,519)

28. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, currency, liquidity, interest rate and operational risk. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate subcommittees.

The primary risks within the Bank's activities are interest rate and exchange risk. YTL interest rates can be volatile, and a substantial part of the Bank's balance sheet is denominated in currencies other than YTL. The Bank manages its exposure to market risk through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and securities trading division.

The Bank's general strategy is described as not to take any speculative actions on currency, interest rate and maturity positions that might create any credit, liquidity or market risk to the Bank.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at Board level or at appropriate levels of management depending on the size of the proposed commitment and in accordance with the banking regulations in Turkey. The Group places emphasis on obtaining sufficient collateral from borrowers including, wherever possible, cash collaterals, mortgages or security over other assets.

The day–to-day management of credit risk is developed to individual business units, which perform regular appraisals of counter party credit quantitative information.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

28. FINANCIAL RISK MANAGEMENT (continued)

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

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

The share of the Group's receivables from its top 20 cash credit customers in its total cash loan portfolio is 63.44% (2004 – 60.05%).

The share of the Group's receivables from its top 20 non-cash customers in its total non-cash loan portfolio is 59.45% (2004 – 54.29%).

Segment information for cash loans, minimum lease payment receivable and non-cash loans is as follows:

	2005			
	Cash	**Min. lease payment receivable**	**Non-cash**	**Total**
Construction	8,063	6,731	126,594	143,459
Tourism and entertainment	24,186	6,954	87,305	118,445
Financial sector	5,052	-	53,253 (*)	58,305
Energy	8,327	499	41,847	50,673
Transportation	9,407	5,481	10,288	25,176
Automotive	33	3,326	19,188	22,547
Textile	2,114	5,688	14,571	22,373
Machinery	494	2,481	16,224	19,199
Food	10,742	76	4,525	15,343
Metal	7,388	2,722	3,133	13,243
Computer	-	-	5,937	5,937
Plastic	783	-	1,041	1,824
Others	9,298	13,617	38,693	61,608
Corporate	**85,887**	**47,575**	**422,599**	**556,061**
Consumer & staff loans	9,555	1,111	278	10,944
Loans in arrears	2,657	-	-	2,657
Interest accruals. net of cash blockage accruals	301	373	-	674
Provision for possible loan losses	(3,957)	-	-	(3,957)
Total	**94,443**	**49,059**	**422,877**	**566,379**

(*) YTL 28,251 of this non-cash exposure has been counter guaranteed by the Export- Import Bank of Korea

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

28. FINANCIAL RISK MANAGEMENT (continued)

	2004			
	Cash	Min, lease payment receivable	Non-cash	Total
Construction	4,360	1,515	61,227	67,625
Textile	7,665	12,646	20,664	40,975
Energy	654	-	31,542	32,196
Food	23,310	1,269	3,379	27,958
Tourism and entertainment	6,881	11,094	8,984	26,959
Transportation	4,310	7,684	12,756	24,750
Machinery	-	-	19,986	19,986
Financial sector	1,965	-	13,924	15,889
Automotive	5,554	1,785	6,234	13,573
Computer	-	-	13,397	13,397
Metal	2,955	74	-	3,029
Plastic	2,484	-	386	2,870
Others	6,516	2,023	7,568	16,107
Corporate	66,654	38,090	200,047	304,791
Consumer & staff loans	2,011	-	1,202	3,213
Loans in arrears	2,613	-	-	2,613
Interest accruals, net of cash blockage accruals	212	157	-	369
Provision for possible loan losses	(3,444)	-	-	(3,444)
Total	68,046	38,247	201,249	307,542

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk management and treasury departments monitor daily liquidity gaps in all currencies. The Bank is not allowed to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the upper management of the Bank.

In order to minimize the asset-liability maturity mismatch, the Bank purchased options for cash loan utilizations amounting to a total of 20 million EURO and with maturities of one year from a foreign affiliated bank. These options are exercisable within nine months after the contract dates and are not settled net in cash.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

28. FINANCIAL RISK MANAGEMENT (continued)

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.

	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Unallocated	Total
As at December 31, 2005								
Assets								
Cash and balances with central banks	51	-	-	-	-	-	-	51
Deposits with other banks and financial institutions	1,200	18,659	-	-	-	-	-	19,859
Other money market placements	-	8,185	-	-	-	-	-	8,185
Reserve deposits at central banks	-	11,415	-	-	-	-	-	11,415
Trading securities	75	8	-	2	11	1,711	-	1,807
Derivative financial instruments	-	22	-	24	43	-	-	89
Receivables from customers due to brokerage activities	-	10,123	-	-	-	-	-	10,123
Loans and advances	-	15,829	29,593	3,396	9,020	36,605	-	94,443
Minimum lease payments receivable	-	2,048	3,397	5,440	9,005	29,169	-	49,059
Investment securities	-	2,069	2,027	2,094	4,170	9,739	-	20,099
Investment property	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	2,457	2,457
Intangible assets	-	-	-	-	-	-	1,923	1,923
Deferred tax asset	-	-	-	-	-	660	-	660
Other assets	-	476	1,189	318	-	252	-	2,235
Total assets	**1,326**	**68,834**	**36,206**	**11,274**	**22,249**	**78,136**	**4,380**	**222,405**
Liabilities								
Other money market deposits	-	5,509	-	-	-	-	-	5,509
Derivative financial instruments and other trading liabilities	-	2	-	-	-	-	-	2
Funds borrowed	-	23,775	30,259	7,713	4,706	8,869	-	75,322
Provisions	-	-	-	-	-	-	161	161
Other liabilities	8,639	26,610	7,670	512	6,475	-	-	49,906
Income taxes payable	-	-	-	38	-	-	-	38
Total liabilities	**8,639**	**55,896**	**37,929**	**8,263**	**11,181**	**8,869**	**161**	**130,938**
Net liquidity gap	**(7,313)**	**12,938**	**(1,723)**	**3,011**	**11,068**	**69,267**	**4,219**	**91,467**
As at December 31, 2004								
Total assets	2,689	40,760	28,974	11,319	29,972	42,422	297	156,433
Total liabilities	11,304	34,217	4,712	10,202	8,769	3,754	962	73,920
Net liquidity gap	(8,615)	6,543	24,262	1,117	21,203	38,668	(665)	82,513

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to Value at Risk (VAR) is taken into consideration by the standard method.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralize the loans and manage liquidity.

.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

28. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

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

The Group manages foreign currency risk by regular weekly Asset and Liability Committee meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

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

	New Turkish Lira	US Dollars	Euro	Others	Total
As At December 31, 2005					
Assets					
Cash and balances with central banks	7	44	-	-	51
Deposits with other banks and financial institutions	18,613	666	505	75	19,859
Other money market placements	8,185	-	-	-	8,185
Reserve deposits at central banks	106	11,309	-	-	11,415
Trading securities	1,807	-	-	-	1,807
Derivative financial instruments	89	-	-	-	89
Receivables from customers due to brokerage activities	10,123	-	-	-	10,123
Loans and advances	29,422	48,697	16,324	-	94,443
Minimum lease payments receivable	2,734	20,507	25,818	-	49,059
Investment securities	20,099	-	-	-	20,099
Property and equipment	2,457	-	-	-	2,457
Intangible assets	1,923	-	-	-	1,923
Deferred tax asset	660	-	-	-	660
Other assets	1,928	272	29	6	2,235
Total assets	**98,153**	**81,495**	**42,676**	**81**	**222,405**
Liabilities					
Other money market deposits	5,509	-	-	-	5,509
Derivative financial instruments and other trading liabilities	2	-	-	-	2
Funds borrowed	503	61,953	12,866	-	75,322
Other liabilities	12,103	17,075	20,725	3	49,906
Provisions	161	-	-	-	161
Income taxes payable	38	-	-	-	38
Total liabilities	**18,316**	**79,028**	**33,591**	**3**	**130,938**
Net balance sheet position	**79,837**	**2,467**	**9,085**	**78**	**91,467**
Off-balance sheet position	**11,300**	**(1,478)**	**(9,542)**	**-**	**280**
Net notional amount of derivatives	11,300	(1,478)	(9,542)	-	280
Net Position	91,137	989	(457)	78	
At December 31, 2004					
Total assets	62,365	60,370	33,445	253	156,433
Total liabilities	7,692	34,642	31,586	-	73,920
Net balance sheet position	54,673	25,728	1,859	253	82,513
Off-balance sheet position	28,628	(25,814)	(1,971)	-	843
Net Position	83,301	(86)	(112)	253	

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

28. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

The Group funds its YTL assets through its shareholders' equity (as of December 31, 2005, total shareholders equity comprises 41 % of the total assets) and is not exposed to interest rate risk in YTL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period. The Group manages interest rate risk by the Asset and Liability Committee and Risk Management Committee, comprising members of senior management of the Bank, and through utilizing interest rate cap agreement and setting limits on the positions, which can be taken by the Bank's credit and treasury divisions.

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, 2005								
Assets								
Cash and balances with central banks	-	-	-	-	-	-	51	51
Deposits with other banks and financial institutions	19,158	-	-	-	-	-	701	19,859
Other money market placements	8,185	-	-	-	-	-	-	8,185
Reserve deposits at central banks	11,415	-	-	-	-	-	-	11,415
Trading securities	8	1,711	2	11	-	-	75	1,807
Derivative financial instruments	-	-	-	-	-	-	89	89
Receivables from customers due to brokerage activities	10,003	-	-	-	-	-	120	10,123
Loans and advances	48,561	18,377	23,163	320	4,022	-	-	94,443
Minimum lease payments receivable	2,048	3,397	5,440	9,005	29,033	136	-	49,059
Investment securities	2,449	17,118	-	-	-	-	532	20,099
Property and equipment	-	-	-	-	-	-	2,457	2,457
Intangible assets	-	-	-	-	-	-	1,923	1,923
Deferred tax asset	-	-	-	-	-	-	660	660
Other assets	-	-	-	-	-	-	2,235	2,235
Total assets	**101,827**	**40,603**	**28,605**	**9,336**	**33,055**	**136**	**8,843**	**222,405**
Liabilities								
Other money market deposits	5,509	-	-	-	-	-	-	5,509
Derivative financial instruments and other trading liabilities	-	-	-	-	-	-	2	2
Funds borrowed	31,648	28,736	9,035	531	5,372	-	-	75,322
Other liabilities	17,907	5,371	512	6,475	13		19,628	49,906
Provisions	-	-	-	-	-	-	161	161
Income taxes payable	-	-	-	-	-	-	38	38
Total liabilities	**55,064**	**34,107**	**9,547**	**7,006**	**5,385**	**-**	**19,829**	**130,938**
Balance sheet interest sensitivity gap	**46,763**	**6,496**	**19,058**	**2,330**	**27,670**	**136**	**(10,986)**	**91,467**

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

28. FINANCIAL RISK MANAGEMENT (continued)

	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	tal
As at December 31, 2004								
Assets								
Cash and balances with central banks	-	-	-	-	-	-	38	38
Deposits with other banks and financial institutions	13,974	-	-	-	-	-	382	14,356
Other money market placements	5,769	-	-	-	-	-	-	5,769
Reserve deposits at central banks	9,585	-	-	-	-	-	-	9,585
Trading securities	-	-	-	-	-	-	-	
Derivative financial instruments	-	-	-	-	-	-	404	404
Receivables from customers due to brokerage activities	2,837	-	-	-	-	-	737	3,574
Loans and advances	55,924	3,397	2,378	3,036	3,311	-	-	68,046
Minimum lease payments receivable	1,546	3,311	5,028	9,470	18,595	297	-	38,247
Investment securities and loan securities	4,377	4,415	-	-	-	-	-	8,792
Investment in associates	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	2,198	2,198
Intangible assets	-	-	-	-	-	-	2,365	2,365
Deferred tax asset	-	-	-	-	-	-	620	620
Other assets	-	-	-	-	-	-	2,439	2,439
Total assets	94,012	11,123	7,406	12,506	21,906	297	9,183	156,433
Liabilities								
Other money market deposits	4,490	-	-	-	-	-	-	4,490
Derivative financial instruments and other trading liabilities	-	-	-	-	-	-	8	8
Funds borrowed	16,474	4,541	15,878	493	333	-	-	37,719
Other liabilities	20,493	1,285	-	350	152	-	9,218	31,498
Provisions	-	-	-	-	-	-	152	152
Income taxes payable	-	-	-	-	-	-	53	53
Total liabilities	41,457	5,826	15,878	843	485		9,431	73,920
Balance sheet interest sensitivity gap	52,555	5,297	(8,472)	11,663	21,421	297	(248)	82,513

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2005, the Group's capital adequacy ratio on an unconsolidated basis is 46%.

(Currency – In thousands of New Turkish Lira in equivalent purchasing power at December 31, 2005)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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

	Carrying amount		Fair value	
	2005	2004	**2005**	2004
Financial assets				
Loans and advances	**94,443**	68,046	**94,464**	68,127
Minimum lease payments receivable	**49,059**	38,247	**49,921**	38,904
	143,502	106,293	**144,385**	107,031
Financial liabilities				
Current accounts of credit customers (*)	**37,975**	25,496	**37,975**	25,506
	37,975	25,496	**37,975**	25,506

(*) Included in other liabilities.

Loans and Advances

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

Minimum Lease Payments Receivable

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

Current Accounts of Credit Customers

The estimated fair value of fixed interest bearing current accounts of credit customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at cost, including cash and balances with central banks, deposits with other banks and financial institutions, other money market placements, receivables from customers due to brokerage activities, reserve deposits at central banks, other money market deposits and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.