ANADOLUBANK

WE ARE GROWING ON STRONG FOUNDATIONS...

Annual Report 2005

Contents

We are growing on strong foundations...

ANADOLUBANK HAS ACHIEVED A LEADING POSITION IN THE BANKING INDUSTRY THANKS TO THE STRENGTH OF ITS SHAREHOLDERS, WELL-CHOSEN EXPERIENCED MANAGEMENT TEAM AND DEDICATED EMPLOYEES.

Financial Highlights

(YTL thousands)

	2005	2004
For the Year		
Net interest income	85,956	95,661
Non-interest income	61,050	48,036
Total income	147,006	143,697
Non-interest expense	83,172	72,400
Provision for loan losses	4,270	4,535
Taxation charge	15,838	1,813
Monetary loss due to inflation	5,658	14,271
Net income	38,068	50,678
At Year-End		
Assets	2,344,562	2,104,412
Loans	1,170,442	882,709
Securities	621,227	775,012
Total earning assets	2,273,497	1,837,068
Customer deposits	1,436,277	1,332,596
Short-term borrowings	392,326	194,294
Total shareholders' equity	208,251	170,180
Free capital	182,265	148,426

Financial Ratios

(%)

	2005	2004
Return on average equity (ROE)	20.12	34.46
Return on average assets (ROA)	1.71	2.44
Net interest margin (NIM)	3.86	4.90
Efficiency ratio	56.58	51.16
Capital adequacy ratio (BIS)	13.37	14.54
Total equity to average assets	9.36	8.23

Anadolubank's Ratings

Anadolubank was re-rated by FitchRatings in August 2005 and following ratings were assigned:

Foreign Currency	
Long-Term	B+
Short-Term	B
Outlook	Stable
Local Currency	
Long-Term	B+
Short-Term	B
Outlook	Stable
National	
Long-Term	BBB+
Outlook	Stable
Individual	D
Support	4

Anadolubank was rated by Moody's in December 2005 and following ratings were assigned:

Foreign Currency Deposit Rating	B1 / (Not-Prime) (NP)
Outlook	Positive
Financial Strength	D-
Outlook	Stable

YEREBATAN PALACE

YEREBATAN PALACE, OR THE BASILICA CISTERN, ONE OF THE MOST MAGNIFICENT HISTORICAL STRUCTURES IN İSTANBUL, IS APPROXIMATELY 250 METERS TO THE SOUTHWEST OF HAGIA SOPHIA. THIS TREMENDOUSLY LARGE CISTERN, BUILT UPON ORDERS OF THE BYZANTINE EMPEROR JUSTINIAN (527-565 A.D.) IS KNOWN AS YEREBATAN (UNDERGROUND) PALACE, OWING TO SEEMINGLY ENDLESS MARBLE PILLARS THAT RISE OUT OF THE WATER.

Through an agreement signed on August 4, 2005, in Istanbul, Anadolubank obtained a syndicated loan facility of US$ 100 million from international money markets. Initially mandated for a total of US$ 75 million, the facility was in great demand by participating banks; Anadolubank concluded the deal at US$ 100 million. The proceeds raised under this syndicated facility were used for export financing.

About Anadolubank

Anadolubank, owned by the HABAŞ Group, is a commercial bank with 58 branches covering all major regions in Turkey. Acquired from the Privatization Administration in 1997, the Bank is comparatively young in the industry - the source of its dynamism. Anadolubank has completed its eighth year with its new shareholders and has proved that it was structured to overcome all kinds of hardship even under extraordinary economic conditions. Anadolubank has reached a leading position in the sector, thanks to the strength of its shareholders, well-chosen experienced management team and most diligent employees. The Bank provides small to medium-size companies with short-term working capital and trade finance facilities.

HABAŞ Group

HABAŞ, one of the leading industrial groups in Turkey, operates in industrial and medical gases production, LPG and natural gas distribution, electricity generation, iron and steel manufacturing and industrial facilities construction. A leading group company, HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş., has become the 11th largest company among Turkey's 500 major industrial companies and the ninth largest company with regard to export volume in 2004 (2005 ranking has not yet been announced).

HABAŞ was established in 1956 by late Mr. Hamdi Başaran to produce and distribute industrial and medical gases, namely; oxygen, nitrogen, argon, narcosis gas, acetylene, carbon dioxide, helium, welding gas and special gases. HABAŞ grew with the advanced technology investments it made since its establishment paralleling Turkey's industrial development. Today, it is the leading company in industrial and medical gases with its principle of "Service, Quality and Trust", advanced production techniques, vast storage and transportation facilities, country-wide network of premises, comprehensive dealer network, technical assistance and maintenance teams, customer-oriented dynamic organizational structure and uninterrupted service understanding.

HABAŞ, serving the LPG sector, provides end-users with gas in containers, bulk or as auto gas at its filling and storing premises and with LPG tanker ships, sea terminals, extensive transportation fleet and network of dealers.

Following the liberalization of the natural gas sector, HABAŞ acquired the necessary licenses and launched its Liquefied Natural Gas (LNG) service to clients in places where the natural gas pipeline could not reach, which was a first in Turkey. It has provided manufacturers with the opportunity to use natural gas, instead of expensive and filthy fuels throughout the country. HABAŞ, introducing this inexpensive, easily utilizable and environment-friendly fuel to its customers, is the leader in the LNG sector. It has a far-reaching transportation fleet, massive investment capabilities, competent technical support and maintenance teams, a customer-oriented dynamic organizational structure and an uninterrupted service understanding, which have all helped HABAŞ to become the market leader in this business line.

ANADOLUBANK, OWNED BY THE HABAŞ GROUP, IS A COMMERCIAL BANK WITH 58 BRANCHES COVERING ALL MAJOR REGIONS IN TURKEY.

HABAŞ, in addition to providing its customers located in places where the pipeline cannot reach with Liquefied Natural Gas (LNG), which was a first in Turkey, also created and launched the first supply chain of Concentrated Natural Gas (CNG) to meet the needs of those customers with lower consumption levels. HABAŞ, putting this cheap, easily utilizable and environment-friendly fuel to the use of small and medium-size industrial companies, is the leading company in the CNG sector.

HABAŞ has also invested largely in electricity production. The capacities of electricity generation plants that were built to meet the needs of the Group companies have increased through new investments and reached 300 MWh. HABAŞ, following the liberalization of the electricity sector, acquired the necessary licenses and secured itself a place among the leading companies that sell electricity to consumers.

HABAŞ started iron and steel production in 1987 and is currently the market leader with 2.6 million tons of liquid steel production capacity. The Company exports 75-80% of its production (bloom, bar and wire rod) to various countries in five continents of the world. Total exports in 2005 reached US$ 678 million while scrap imports were US$ 528 million. The iron and steel production facilities equipped with state-of-the-art technology are located in the industrial zone in western Turkey - İzmir, Aliağa. The port premises owned by the Group where import and export activities are undertaken, are the largest premises of their kind in Turkey and have an extremely high loading and offloading capacity.

HABAŞ also offers services in industrial facility construction, rendering turn-key industrial plans including engineering, installation and manufacturing, to businesses in industrial processes, air separation, steel production, rolling, electricity generation and gas filling and storing. With extensive production facilities, the HABAŞ Group produces hardening furnaces, re-heating furnaces, pressurized tanks, heat exchangers, pressurized gas tubes, LPG tanks, cryogenic tanks, storing tanks and vaporizers, sphere and cylinder LPG stands, transportation tanks, spiral welded pipe within its own manufacturing premises.

The total sales turnover of the Group exceeded US$ 1,250 million in 2005. Following the credit assessments by FitchRatings, the Local Currency Rating of HABAŞ was assigned an A+, the Long-Term Foreign and Local Currency Rating with a B+ (limited with sovereign rating) and the general outlook was affirmed as stable.

The Board of Directors

Mehmet Rüştü Başaran: Chairman and Managing Director, **Pulat Akçin:** Vice Chairman of the Board and General Manager, **Engin Türker:** Member, **Fikriye Filiz Haseski:** Member, **Erol Altıntuğ:** Member, **Yusuf Gezgör:** Member, **İbrahim Kazancı:** Statutory Auditor, **Murat Koçoğlu:** Statutory Auditor

Letter from the Chairman

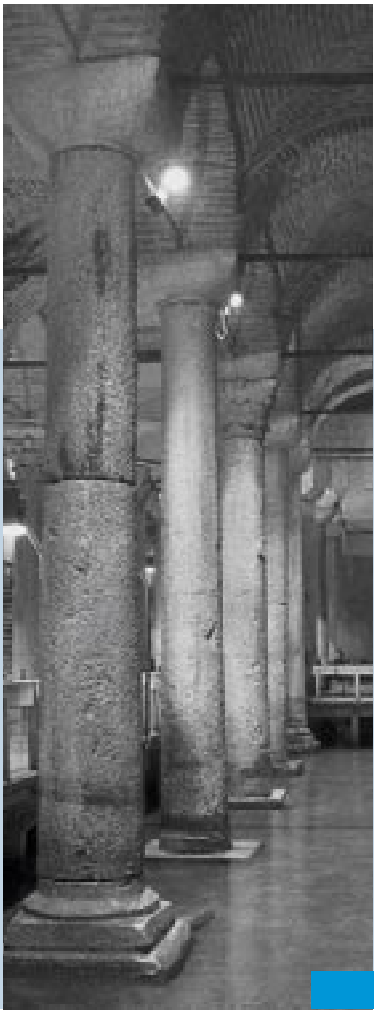
My age having well passed fifty now, day by day I am growing more skeptical about myself as I am more often caught up reminiscing my earlier days in sixties and seventies. And all that because of changes in banking practices. The bankers seem to be more engulfed in their small world now, trying to manage their interest and other income from commercial and retail transactions rather than larger financial deals, just as in those days where that monstrosity called the "inflation" had not yet camped in Turkey for twenty odd years to come.

In 2005, Turkey continued to enjoy a net flow of short-term financial capital in addition to a direct capital investment of US$ 8.6 billion which was more than sufficient to cover its record high current account deficit of US$ 22.8 billion. Turkish lira continued its relentless appreciation and it still does. With imports of US$ 116 billion covered at the rate of 63% by total exports of US$ 73 billion, Turkey's foreign trade volume reached US$ 189 billion and Turkey, according to OECD statistics, emerged as the 13th largest economy among OECD members with a GNP figure of US$ 380 billion in 2005. Although the banks in Turkey seem to firmly believe in a sustainable stability period ahead and design their strategies based on this assumption, the bigger financial game is now played at a larger stage worldwide where Turkish assets have been in continuous demand. Anadolubank shares other banks' perceptions of economic stability to a certain extent in a "discreet optimism" as expressed in the words of our treasurer in the first ALCO meeting of 2006.

As stated in our last annual report, we added ten more branches to our network to make it a total of sixty branches now. We are considering opening ten more branches in 2006. The number of personnel reached 1,226, in-house training further strengthened to mould the newcomers in the corporate culture and of course millions more spent for rent, refurbishment and advertising. Despite these investments, the net income, created via a balance sheet totaling US$ 1,746 million at the end of 2005, reached YTL 2,344,562,000 that corresponded to a ROE of 20.12% and ROA of 1.71%. Non-performing loans (traditionally fully provisioned) stood at 1.36% as a meaningful indicator of the quality of our job and profits.

Now, do the figures have a human quality in them? To me, yes. Because, rather than monetary indicators, I take them as a measurement of our success and how our efforts were rewarded. Our successes only became possible by the tireless efforts of our staff members, by contributions of our clientele and our correspondent banks to whom I extend my most sincere thanks.

Mehmet R. Başaran
Chairman



YEREBATAN PALACE

THE BASILICA CISTERN IS THE LARGEST CISTERN; IT WAS BUILT BY BYZANTINE EMPERORS TO SOLVE THE WATER SHORTAGE PROBLEM IN İSTANBUL. IT CONSISTS OF 336 PILLARS, SOME OF WHICH ARE ADORNED WITH CARVINGS; IT COVERS AN AREA OF 14,070 METER SQUARES, WITH A WATER CAPACITY OF 80,000 CUBIC METERS. THE BASILICA CISTERN HAS UNDERGONE VARIOUS REFURBISHMENTS FROM THE DAY IT WAS BUILT; TWO RESTORATIONS WERE MADE IN THE 18TH AND 19TH CENTURIES DURING THE OTTOMAN REIGN. IT WAS TURNED INTO A MUSEUM IN THE REPUBLICAN PERIOD AND OPENED TO TOURISTS.

Anadolubank was the first bank to decrease the housing loan interest rate below 1%, before the mortgage law was enacted. In December 2005, Anadolubank reduced the ten-year housing loan interest rate to 0.99%. The Bank, offering the most advantageous interest rates in the banking industry in line with its retail banking targets, has fortified its competitive edge in the housing loan market with this initiative.

Management's Assessment of Operations

Anadolubank's Strategies

In line with improving economic environment and stability in Turkey, banks, generally, had been questioning their existing strategies and designing new ones to respond the changes already in the last two years. Consumer banking clearly emerged in 2005 as the solution and almost all banks, starting especially from the larger ones, redefined their standing in the market in retail banking.

Anadolubank continues its path in its already defined targets - commercial banking with an increased involvement in retail loans.

Now, it goes without saying that a bank's strategies are shaped by supply and demand at a larger scale as limited by the requirements of general principles of finance that stress widely on risk return relationship and risk behavior. Even in simple speech it is impossible not to feel the high level of uncertainty conveyed in the terminology that, in practice, is dealt with by mathematical tools but is not mathematical and rather social in its essence unfortunately.

We try to mean here that Anadolubank's strategy of commercial banking stems from the necessity to cope with the interest rate risk as this strategy enables the Bank to afford the resilience it needs in order to manage the maturity mismatch between the assets and liabilities. The current environment of competition in Turkey, however, dictates the banks to manipulate the gap between the assets and liabilities in a way where almost all banks would, nowadays, have longer-term assets versus shorter-term liabilities. This strategy enables the banks to ensure profits for the medium run and is naturally based on flat or downward sloping yield curve considerations.

Because resisting the mainstream in the market may be too costly for any company unless it has a genial solution not yet invented by others, Anadolubank increased its involvement in retail banking under a strict control (currently 10% of the balance sheet total) and would always prefer lesser profits to higher risks as already proved by the very regular growth and profitability trends it exhibited in the last four years.

For those who read this report as a first contact to Anadolubank, we should repeat what we said in our previous reports i.e. Anadolubank is a commercial bank as interpreted by ourselves via four basic principles: (a) a secure loan portfolio (b) adequate liquidity (c) diversified funding sources and (d) sustained profitability.

The pages ahead will tell the reader how and to what extent these principles were put into effect.

Balance Sheet Analysis

Loans

Lending, especially to medium and small-size companies for their working capital needs, constitutes the backbone of Anadolubank's strategies. This core product is further complemented by retail (mostly housing and vehicle) loans at a percentage not to surpass 10% of the total loan portfolio. Apart from the quality of the credit portfolio as measured by non-performing loan trends, Anadolubank's lending policy is shaped under two additional considerations: (a) avoid interest rate risk and (b) reach maximum diversity.

As a consequence of a long history in an inflationary economy where bank deposits were very short-term, Anadolubank seeks to build assets to match such liabilities by tenor, which is the major reason why relatively short-term working capital financing is favored. The necessity of diversity is the direct consequence of the nature of the banking profession. Because, as a consequence of a long history of inflationary economy, bank deposits are very short-term in Turkey. The Bank seeks to build up assets to match

ANADOLUBANK CONSIDERS THE OUTSTANDING BALANCES WITH THE CENTRAL BANK AND OTHER BANKS AS ITS CORE LIQUIDITY.

such liabilities by tenor which is the major reason why relatively short-term working capital financing is favored. The other consideration i.e. the need for diversity stems directly from the very nature of banking profession and Anadolubank is not willing to be exposed to a certain industry for more than 10% of its total loan portfolio. Loans to non-bank financial institutions and domestic trade are exceptions to this rule as these two sectors have had an outstandingly successful year in 2005.

Loans by industry
(%)

Non-bank financial institutions	15.8
Domestic trade	13.0
Metals and mining	9.4
Textiles	8.6
Consumer loans	6.6
Foodstuff	6.6
Chemicals	6.2
Iron & steel	6.1
Construction	5.7
Agriculture	4.3
Services	4.1
Export	3.4
Automotive	1.3
Finance	1.2
Electronics	1.0
Other	6.7

One of the Bank's key objectives is to increase the ratio of loans to total assets to 50% and the year 2005 was no exception for this target. Anadolubank strived to reach this objective in 2005 when total loans in total assets rose from 41.8% to 49.9%.

Loan balances

(YTL thousands)	Year ended December 31		Percent to total	
	2005	2004	2005	2004
Corporate loans	1,071,294	821,719	91.5	93.1
YTL loans	599,143	423,732	51.2	48.0
FX loans	472,151	397,987	40.3	45.1
Retail loans	77,977	44,821	6.7	5.1
YTL loans	35,772	35,907	3.1	4.1
FX loans	42,205	8,914	3.6	1.0
Credit card receivables	21,171	16,169	1.8	1.8
Total	**1,170,442**	**882,709**	**100.0**	**100.0**

Non-performing loans

The control mechanisms established for the monitoring of lending activities have always been very important for Anadolubank, given the economic volatility of the environment it operates in. Four different units, under the leadership of an Executive Committee Member, review assessment, allocation and monitoring activities for credits at the Head Office. The result of such practices has been traditionally a low NPL ratio that showed a steady trend well under 2% in the last three years. The ratio of NPLs in 2005 was 1.36%. Further details are supplied in the following tables:

Non-performing loans

(YTL thousands)

	Year ended December 31	
	2005	2004
Balance at the beginning of the year	14,357	11,765
Additions	5,474	5,571
Reductions	3,944	2,979
Payments	1,204	1,036
Written off	2,368	
Inflation adjustment	372	1,943
Balance at the end of the year	**15,887**	**14,357**

Related party transactions

Since there have been no easy answers to banking problems, past bank failures in Turkey were irrationally attributed to large exposure to related parties, particularly the shareholders. Therefore, the Bank is obliged to specifically report on relationships with related parties such as subsidiaries and shareholders. As a general rule, Anadolubank is not the sole banker for its shareholders and it occasionally enters into transactions with them when it is deemed profitable by the management. The result of such relationships in 2005 was as follows:

Related party transactions

(YTL thousands)

	Average balances	
	2005	2004
Loans	13,555	15,273
Off-balance sheet exposure	4,590	4,516
Deposits	32,496	84,870

Liquidity

Liquidity is generally used to fund assets and to take advantage of investment opportunities that may arise in the markets. In Turkey's volatile economic climate, this item takes on further significance when used as a safe harbor in times of cyclic uncertainties, indeed often difficult to manage. It is a thorny issue for management, trying to decide between making a profit and using discretion. Anadolubank considers the outstanding balances with the Central Bank and other banks as its core liquidity. Added to that are the unused credit limits from other banks, repo agreements and very short-term loans to, and investments with, financial institutions. The short-term character of the credit portfolio aids liquidity in general. Its broad base relies on customer deposits, a well-established and diversified funding source.

Liquid assets

(YTL thousands)

	Year ended December 31		Percent to total assets	
	2005	2004	2005 (%)	2004 (%)
Cash and due from banks	24,917	14,496	1.1	0.7
Deposits with the Central Bank	16,104	219,796	0.7	10.4
Interbank placements	280,210	-	12.0	0.0
Placements with banks	94,541	90,309	4.0	4.3
Legal reserves	107,077	89,038	4.6	4.2
Securities for trading	206,298	310,981	8.8	14.8
Total liquid assets	**729,147**	**724,620**	**31.1**	**34.4**

THE SHAREHOLDERS' EQUITY HAS INCREASED BY 22.4%, STEMMING FROM PROFITS; AT THE END OF THE YEAR, THE CAPITAL ADEQUACY RATIO WAS 13.37%.

Securities

As stated in previous reports as well as this present one that Anadolubank endeavors to decrease the share of securities in the composition of its assets - this goal has been achieved. Securities constituted 39.4% of total assets in 2003, decreasing further to 36.9% in 2004 and 26.5% in 2005. The activity of the Bank in this field is limited to Turkish Treasury bills and government bonds. Portfolio trends, in time, have changed in favor of trading securities in line with increases in the credit portfolio. The message that Anadolubank is trying to convey is that securities are not considered to be an investment area strategically but rather for storing liquidity and to take advantage of profit-making opportunities that may emerge in the markets. Exposure to government bonds is frequently funded through repurchase agreements for very short periods; therefore such exposure may now vary from one reporting period to the next. The consequence is that the Bank relies more on interest income from credits and non-interest income from banking services. Apart from a relatively low investment portfolio that provides the Bank with a regular stream of interest income, Anadolubank's core assets are increasingly made up of credits and liquid assets. In the future, credits in the total balance sheet will assume further importance and higher shares than reported at previous year-ends.

The following table shows a breakdown of securities at the end of 2005.

Breakdown of securities

(YTL thousands)	Year ended December 31		Percent to total assets	
	2005	2004	2005 (%)	2004 (%)
Held-for-trading	206,298	310,981	8.8	14.8
TL government bonds	199,855	303,218	8.5	14.4
Equity securities	110	1,836	-	0.1
FX domestic bonds	-	206	-	-
Eurobonds	6,333	5,721	0.3	0.3
Held-to-maturity	414,929	464,031	17.7	22.1
TL government bonds	143,046	206,832	6.1	9.8
FX domestic bonds	145,002	106,439	6.2	5.1
Eurobonds	126,881	150,760	5.4	7.2
Total	**621,227**	**775,012**	**26.5**	**36.9**

Deposits

Consequent to Anadolubank's efforts to establish a reliable and diversified funding base, retail banking services intensified and especially deposits, the major retail product, have grown by 17.7% this year. This increase came mostly from an increase in Turkish lira deposits, compared to FX deposits, and paralleled market trends. The Bank's aim is to keep the ratio of deposits to total liabilities at 70%. It was realized at 69.8% by the end of 2005. Anadolubank plans to open ten more branches to strengthen its market presence and better manage its costs by collecting small deposits from households.

The Bank's efforts are outlined in the following table:

Composition of deposits

(YTL thousands)

	Year ended December 31		Percent to total assets	
	2005	2004	2005 (%)	2004 (%)
Turkish Lira Deposits	909,581	541,457	38.8	25.7
Non-interest bearing demand	70,450	76,632	3.0	3.6
Time	839,131	464,825	35.8	22.1
FX Deposits	727,613	848,983	31.0	40.3
Non-interest bearing demand	133,776	185,685	5.7	8.8
Time	593,837	663,298	25.3	31.5
Total	**1,637,194**	**1,390,440**	**69.8**	**66.1**

Shareholders' equity

The shareholders' equity has increased by 22.4%, stemming from profits; at the end of the year, the capital adequacy ratio was 13.37%. Another important development in terms of equity was the increase of the free capital from 87.2% of total equity to 87.5%, as of the end of 2005. As a rule, the management wants the capital adequacy ratio to be higher than 12% and shall strive to sustain this ratio at a minimum of this level as it has done in the past.

Capital adequacy

(YTL thousands)

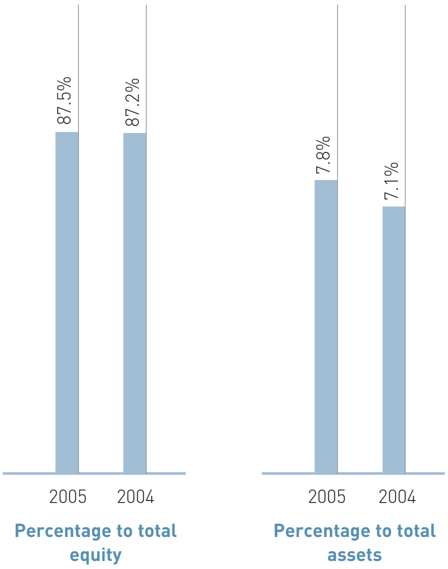
	Year ended December 31	
	2005	2004
Capital base	202,247	161,228
Risk weighted assets	1,405,587	1,030,621
VaR	106,650	77,913
Capital adequacy ratio	13.37	14.54

Shareholders' equity growth

(YTL thousands)

2005	2004	Change	Percentage Change
208,251	170,180	38,071	22.4%

Free capital ratios

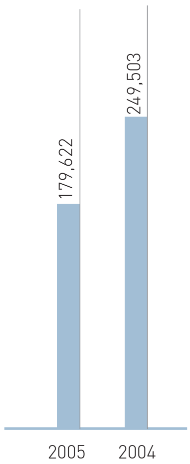


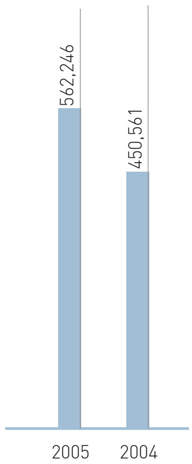
THE RATIO OF OPERATIONAL EFFICIENCY STOOD AT 56.6% AT THE END OF THE YEAR. THE RATIO OF SHAREHOLDERS' EQUITY TO AVERAGE ASSETS WAS 9.36%, HIGHER THAN THE 8.23% RATIO LAST YEAR.

Commitments and contingencies

This category consists of letters of credit that banks issue on behalf of their clients for the purpose of facilitating their commercial activities, extensively used in business agreements and letters of guarantee issued for various tenders, as well as other guarantees and acceptances. These instruments have gained extra importance, since banks are trying to increase their non-interest income to counterbalance the drop in interest income as a result of falling interest rates. The following chart shows the volume of these instruments issued by Anadolubank. The income obtained from such instruments is shown in the income statement section.

(YTL thousands)





Income Statement Analysis

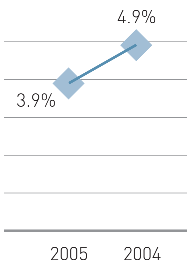
Interest Income

Much was said about interest rates in Turkey during 2005 as it was in 2004; among all the rhetoric, banks this time had to accommodate themselves to declining interest rates followed naturally by a steady contraction of interest margins. Remedies were different ranging from increasing non-interest income to further controlling costs and trying to change lending preferences toward retail credits and smaller size businesses. Total interest income of Anadolubank has decreased over the year by 7.8%. The decrease in interest income from loans, which is the most important item of interest income, has been 1%. Similarly, the decrease in total interest expenses was 6.5%. The decrease in interest income and expenses has found its repercussions in a 10.1% decrease in net interest income.

Interest Income
(YTL thousands)

	2005	2004	Percentage Change
Interest on loans	135,891	137,319	(1.0)%
Interest on securities	101,748	125,194	(18.7)%
Other interest income	15,744	12,213	28.9%
Total interest income	**253,383**	**274,726**	**(7.8)%**
Interest on customer deposits	118,554	128,074	(7.4)%
Interest on borrowing from banks	48,662	50,770	(4.2)%
Other interest expense	211	221	(4.5)%
Total interest expense	**167,427**	**179,065**	**(6.5)%**
Net Interest Income	**85,956**	**95,661**	**(10.1)%**

Net Interest Income
NIM (Net Interest Margin)



Non-Interest Income

Anadolubank's efforts to manage non-interest income were concentrated in three main areas during 2005: (a) strict control of costs, (b) generation of commissions under off-balance sheet items such as letters of guarantee and letters of credit, (c) enhancing existing non-risk-bearing products and new product development. It should be emphasized here that Anadolubank has introduced a new product, Paritem, to Turkey. Paritem permits customers to make spot FX deals on a real time online basis via a sophisticated Internet-based trading platform.

Non-interest income

(YTL thousands)

	2005	2004	Percentage Change
Net fees and commissions	28,177	24,587	14.6%
Trading income	15,013	16,886	(11.1)%
FX gain	13,414	3,229	315.4%
Other non-interest income	4,446	3,334	33.4%
Total non-interest income	**61,050**	**48,036**	**27.1%**
Personnel expense	43,748	38,940	12.3%
Other non-interest expense	39,424	33,460	17.8%
Total non-interest expense	**83,172**	**72,400**	**14.9%**
Net Non-Interest Income	**(22,122)**	**(24,364)**	**(9.2)%**

Net Income

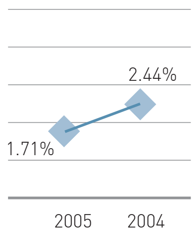
The Bank's profit before taxation and monetary position loss decreased by 10.8% over the year to YTL 59,564,000. The net profit decreased by 24.9% to YTL 38,068,000 in 2005.

Return on assets (ROA) was 1.71% and return on shareholders' equity (ROE) was 20.12%. The ratio of operational efficiency stood at 56.6% at the end of the year. The ratio of shareholders' equity to average assets was 9.36%, higher than the 8.23% ratio last year.

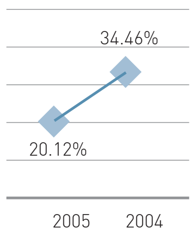
Net Income

(YTL thousands)

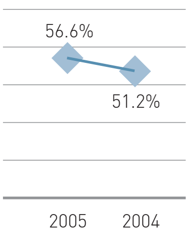
	2005	2004	Percentage Change
Interest income, net	85,956	95,661	(10.1)%
Non-interest income, net	(22,122)	(24,364)	(9.2)%
Gross income	**63,834**	**71,297**	**(10.5)%**
Provision for loan losses	(4,270)	(4,535)	(5.8)%
Income before taxation and monetary position loss	**59,564**	**66,762**	**(10.8)%**
Tax charge	(15,838)	(1,813)	773.6%
Loss on net monetary position	(5,658)	(14,271)	(60.4)%
Net Income	**38,068**	**50,678**	**(24.9)%**



ROA (Return on Assets)



ROE (Return on Equity)



Operational Efficiency

SULTANAHMET MOSQUE

SEDEFKAR MEHMET AĞA WAS THE ARCHITECT OF THE SULTANAHMET MOSQUE BUILT BETWEEN 1609-1616 IN THE SQUARE NAMED AFTER SULTAN AHMET HIMSELF. THIS IS THE ONLY MOSQUE IN TURKEY WITH SIX MINARETS. THE MOSQUE SECTION THAT IS ILLUMINATED WITH DAYLIGHT POURING IN THROUGH 260 WINDOWS IS 64 BY 72 METERS. THE SULTANAHMET MOSQUE, ALSO KNOWN AS THE "BLUE MOSQUE" BY EUROPEANS, SINCE IT IS ADORNED WITH EXTREMELY BEAUTIFUL BLUE, GREEN AND WHITE CERAMIC TILES, CONSTITUTES A COMPLEX OF BUILDINGS, TOGETHER WITH THE SURROUNDING STRUCTURES.

Paritem, launched as a first in Turkish financial markets in October 2004, organized a competition with cooperation from the monthly business magazine Capital. Through a virtual portfolio competition entitled "I Win With My Paritem", organized between January 17 and March 18, the first three contestants, who generated the highest portfolio income by using the virtually granted US$ 100,000, won an award of US$ 10,000.

Risk Management

Internal Audit

The Board of Internal Auditors and Internal Control Center carry out internal auditing. The Internal Audit Department is responsible for the seamless running of the Bank's operations.

The Board of Internal Auditors consists of a Chairman and 12 authorized Assistant Auditors. The Internal Control Center consists of a Chairman, Director, Assistant Director and two assistants. In 2005, these two Departments carried out a total of 31,328 hours of on-site audits at the branches and in Head Office departments.

Risk Management

The Risk Management Department, established in 2001, directly reports to the Board of Directors.

The Market Risk Committee, Credit Risk Committee and Operational Risk Committee, which constitute the basis of the Risk Management Group, report directly to the Bank-wide Risk Committee. In return, this committee reports to the High Level Risk Committee, chaired by the Board Member responsible for Internal Audit and Risk Management of the Bank. The Risk Management Department operates in line with the committees' decisions. In addition to these efforts, through training programs organized throughout the Bank it aims to perpetuate the adoption of a common risk culture across the entire organization.

Market Risk Management

Market risk is generated when price differences resulting from fluctuations in money and capital markets may affect the on- and off-balance sheet positions of the Bank, in an environment where local and foreign markets are integrating and market forces are gaining strength daily.

The capital of the Bank subject to market risk is calculated through the standard method as stipulated by the Banking Regulation and Supervision Agency. Under this risk category, all transactions carried out by the Bank in financial markets are monitored on a daily basis and their compliance with the transaction limits determined by the Board of Directors is closely observed. The value at risk is measured through simulation, stress test and scenario analysis methods, in addition to the standard method.

Value at Risk as of December 31, 2005 (VaR)

TL Bonds and Bills	26%
FX Bonds and Bills	69%
FX Book	5%

Credit Risk Management

Within the scope of credit risk management, the creditworthiness of individuals and companies with which a credit relationship has been established is monitored within the framework of Anadolubank Rating Module, the types and sources of exposure are determined and reported to the senior management. Anadolubank's rating system assesses borrower companies for their financial and operational results as well as for the way they conduct business (ethical practices).

Global practices in the field of credit risk management are closely monitored and measurement methods are aligned with international criteria. With regard to Basel II Accord on capital adequacy, which rests on market, credit and operational risk calculations, the credit portfolio is grouped on the basis of the aforementioned principles and weighted based on the risk involved.

Additionally, industry analyses are conducted to assess and avoid risk concentrations in the portfolio based on industries while sovereign risk is monitored closely and reported to the Board of Directors.

Operational Risk Management

The work relating to operational risk management is carried out in coordination with the Risk Management Department, Board of Internal Auditors and Internal Control Center.

Policies, procedures, workflows and processes are reviewed and evaluated within the scope of a risk-focused approach. The Board of Internal Auditors and the Internal Control Center ensure that all banking transactions are legal and conform with regulations as they monitor misconduct or employee errors. These audit and control bodies also monitor branch performances and offer advice on how to improve efficiency.

The arrangements required by Information Security Management are accomplished and implemented within the framework of BS 7799 principles.

IN LINE WITH THE EFFORT TO CREATE A MUTUAL RISK CULTURE AND AWARENESS, RISK LIMITS HAVE BEEN GENERATED FOR EACH RISK GROUP AND COMPLIANCE WITH THESE LIMITS IS MONITORED THROUGH PERIODIC INSPECTIONS.

Risk Committees

High Level Risk Committee

The High Level Risk Committee of Anadolubank was established in accordance with the provisions of the "Regulation for Internal Audit and Risk Management Systems of Banks" that was promulgated in the Official Gazette No. 24312 and dated February 8, 2001. The decisions relating to the determination of duties and responsibilities of the Bank-wide Risk Committee and individual risk committees that report to this committee, as well as the appointment or dismissal of members are taken and implemented by the High Level Risk Committee.

Members of the High Level Risk Committee
Chairman: Engin Türker
Member: Yusuf Gezgör
Member: Pulat Akçin
Member: Zafer Aybartürk

High Level Risk Committee;

- Prepares risk management strategies and policies that the Bank adopts, submits them to the approval of the Board and monitors implementations,
- Determines the shareholders' equity level corresponding to risk undertaken by the Bank and ensures that this level is sustained,
- Determines the maximum risk level that the Bank may be exposed to in figures and ensures that this amount is not exceeded,
- If the limit is exceeded, informs the Board promptly and takes the necessary measures, and
- Represents the Risk Management Group at the Board of Directors level.

The Committee reaches decisions through a majority of votes. The intervals for Committee meetings are determined by the Board Member responsible for Internal Audit and Risk Management Systems.

Bank-wide Risk Committee

The Market Risk, Credit Risk and Operational Risk Committees report directly to the Bank-wide Risk Committee, reporting to the High Level Risk Committee.

Members of the Bank-wide Risk Committee
Chairman: Engin Türker
Member: Yusuf Gezgör
Member: Çiğdem Erke
Member: Elif Karadayı
Member: A. Şahika Özcan

The Bank-wide Risk Committee;

- Guides the activities of the Market Risk, Credit Risk and Operational Risk Committees,
- Evaluates the risk exposure of the Bank, in line with reports from the sub-committees and submits them to the attention of the High Level Risk Committee,
- Determines the method for calculation of risk limits and the measures to be implemented when the limits are exceeded,
- Checks compliance of the Bank's organization to risk policies determined by the Board, and
- Evaluates the profit and loss generating capabilities of basic operational units and their risk-return balances and presents the results to the attention of the High Level Risk Committee.

The High Level Risk Committee determines the intervals for committee meetings.

Members of the Market Risk Committee
Chairman: Çiğdem Erke
Member: Elif Karadayı
Member: İrfan Arca
Member: Nazan Güner

Members of the Credit Risk Committee
Chairman: Elif Karadayı
Member: Uğur Koç
Member: Eylem Aslan
Member: Ürün İyim
Member: Aysel Menzilci

Members of the Operational Risk Committee
Chairman: A. Şahika Özcan
Member: Bilge Öztürk
Member: Murat Toğan
Member: İzzet Başkaya
Member: Nihat Turhan

Report of the Member of the Board Responsible for Internal Audit and Risk Management

The Bank has emphasized internal audit and risk management systems ever since its incorporation. These systems have been organized in accordance with the "Regulation on Internal Audit and Risk Management Systems of Banks" dated February 8, 2001, as stipulated by the Banking Regulation and Supervision Agency. To fortify this structure, Basel II principles adopted by European countries, along with the current legislation are also monitored and harmonization works are on going.

In 2005, the Board of Internal Auditors audited the Bank's branches, Head Office units and subsidiaries either through general or spot audits, inspections and inquiries. It also carried out feasibility studies regarding branch openings and surveys to measure and increase client satisfaction. The Internal Control Center monitored transactions at the Bank's branches regularly in 2005 through the banking system and audit programs and on-site inspections were carried out through branch visits. The Risk Management Department continued its work in line with the Bank's risk policies and banking transaction risk was evaluated and reported regularly to the Board of Directors.

In line with the effort to create a mutual risk culture and awareness, risk limits have been generated for each risk group and compliance with these limits is monitored through periodic inspections. Through regular assessments carried out on a bank-wide basis with approval systems and information security work, the risk-taking, controlling and approving structures are kept independent of each other.

The Bank's aim is to ensure that personnel are aware of the risks that they encounter at each transaction and that they fulfill their duties using the required controls. Therefore, Anadolubank personnel are kept fully informed and well trained on internal audit and risk management systems.

Work in 2006 will continue under aforementioned principles. The Bank plans to achieve full compliance to Basel II standards.

Engin Türker
Member of the Board Responsible for Internal Audit and Risk Management

ANCIENT CITY OF EPHESUS

THE ANCIENT CITY OF EPHESUS, LOCATED WITHIN THE BORDERS OF THE SELÇUK DISTRICT OF İZMİR, WAS FIRST ESTABLISHED IN APPROXIMATELY 6000 B.C. TODAY'S TOURISTS VISIT THE EPHESUS THAT WAS ESTABLISHED IN 300 B.C. BY LYSIMAKHOS, ONE OF ALEXANDER THE GREAT'S GENERALS. THE CITY OF EPHESUS, WHICH HAD ITS MOST GLORIOUS TIMES IN THE HELLENISTIC AGE AND DURING THE REIGN OF ROME, WAS ONCE INHABITED BY 200,000 PEOPLE, AS THE CAPITAL; IT HAD THE LARGEST HARBOR IN THE ASIAN STATE. THE TEMPLE OF THE ARTEMIS CULT, TRIBUTE TO THE ANCIENT MOTHER GODDESS TRADITION (CYBIL) OF ANATOLIA, IS LOCATED IN EPHESUS. THIS TEMPLE HAS BEEN ACKNOWLEDGED AS ONE OF THE SEVEN WONDERS OF THE WORLD.

Anadolubank restructured its Retail Banking Department to provide more efficient management and improvement of its retail banking operations during February. In this respect, the Retail Marketing and Deposits Unit and Retail Credit Allocation and Risk Monitoring Unit were grouped under the Treasury Department which was renamed the Treasury and Retail Banking Department.

Organization

General

Anadolubank is organized at the Head Office level in Istanbul and has 60 branches spread throughout Turkey. In 2005, ten new branches were opened, four in Istanbul and the remaining six in different provinces in Anatolia. The Bank has seven collection offices, four of them in Istanbul, two in Ankara and one in Kayseri.

Four of the Anadolubank branches that are spread throughout Turkey exclusively serve large-scale corporate customers, thirteen of them serve only retail customers and the remaining branches render all varieties of banking services. Our commercial branch network operates in all regions of Turkey where 90% of the economic activities of the country are carried out. Furthermore, we plan to open 20 new branches by 2008. The potential generated by our branch network provides Anadolubank with the opportunity to realize sound and real growth.

The management believes that Anadolubank has a relatively greater advantage when it comes to banking with traditional tools. The major portion of the Bank's income is generated as service commission and fee income. Therefore, we decided to open new branches but not more than ten per year. We believe that the number of branches we currently have is sufficient to cover all industrially and commercially active centers and can adequately supply optimal funding sources for our assets.

In our branches, the Operations Unit operates in collaboration with one or multiple units among Retail Marketing, Corporate Marketing and Small Business Banking, based on the expertise of the branch. Managers who report to the branch manager head these units. This segmentation allows further specialization for the needs of different business groups and facilitates the speed and quality of banking services to them. The same structure is mirrored in the Head Office as well. At this level, there are marketing and support units reporting to the Assistant General Managers, who in turn report to the General Manager. The exceptions are the Credits, Internal Audit and Risk Management Departments, which report directly to the Board. Cooperation between the branches and Head Office are based on workflow aided by temporary and permanent committees constituted through the participation of different branches and departments.

Through concept changes, emphasizing corporate identity elements were stressed in 2005 and new initiatives for workflow and document management have been launched in an effort to increase operational efficiency of the Bank. These endeavors to increase the level of visibility, introduce new and competitive products to the marketplace and increase the level of service quality by way of standardization shall continue in 2006.

Departments at the Head Office other than the Risk Management, Internal Control Center and Board of Internal Auditors that report directly to Board of Directors have been summarized below:

- Corporate and Commercial Banking
- Credits
- Treasury and Retail Banking
- International Banking
- Investment Banking
- Credit Cards and Electronic Banking
- IT
- Operations
- Financial Affairs
- Human Resources
- Legal Consultancy

Corporate Banking

The Corporate and Commercial Banking Department is mainly responsible for streamlining and monitoring the Bank's customer-related assets such as commercial loans and off-balance sheet commitments. The Department puts budget targets into effect in close cooperation with the branches and senior management. Officers from the Corporate and Commercial Banking Department keep pace with developments in the marketplace and share their views with senior management and different committees such as the ALCO and the Loan Committee.

OUR MISSION IN THE CORPORATE AND COMMERCIAL BANKING SEGMENT, WHICH IS OUR CORE FIELD OF ACTIVITY, IS TO DETERMINE CUSTOMER REQUIREMENTS CORRECTLY AND ACHIEVE HIGH QUALITY IN BANKING SOLUTIONS THAT MEET THESE REQUIREMENTS, AS A CUSTOMER-FOCUSED BANK.

The marketing channels and the credit assessment process have been differentiated based on customer segmentation. Corporate banking activities consist of;

- Corporate Banking Department targeting multinational companies and large-scale manufacturing companies with an annual sales turnover over US$ 25 million,
- Commercial Banking Department targeting companies with an annual sales turnover between US$ 2 million and US$ 25 million, and
- Small Business Banking Department targeting companies with an annual sales turnover below US$ 2 million.

Segmentation increases the quality and speed of the service and helps give a better evaluation of customer requirements.

Our mission in the corporate and commercial banking segment, which is our core field of activity, is to determine customer requirements correctly and achieve high quality in banking solutions that meet these requirements, as a customer-focused bank. Therefore, we invest largely in our human capital. Our marketing team consistently undergoes training programs on developing and implementing client-oriented strategies and products. The main field where we greatly differ from our competitors is our ability to create a long-term commercial cooperation that enables us to meet our clients' needs correctly.

Credits

The Credit Department, in addition to its duty to assess credit applications and assign limits, acts as an adviser to other departments of the Bank as well as to some clients who seek advice on credit assessment and debt management. This enables the Department to have a solution-oriented approach toward clients and facilitates correct evaluation of needs.

The Credit Department consists of three units that assess and monitor credits and commitments. The low level of non-performing loans is a measure of this Department's success. Again in 2005, there were no significant amounts of non-performing loans. Although it is a support unit, the Credit Department officers pay regular visits to the branches as well as to customers when necessary and share information with other banks and financial institutions.

Upon launching of the small business module in 2004, the Bank started to include small companies in its customer portfolio in 2005 where mostly medium-size companies have been included. As before, there will be no concentration on any business lines and only those creditworthy companies, irrespective of their industry and segment, will be allocated credit limits. We plan to increase the share of small and medium-size customers in the total lending portfolio with regard to both number of customers and amount of exposure in the years to come.

From now on all companies that generate economic added-value and a potential to create long-term cooperation will be in the target mass of Anadolubank. When we consider that our fundamental objective is to create long-term mutually beneficial relationships with our customers, we can see that all companies that operate with the expectation of being in the right market, with the right strategy and right product, right financial structure and high-quality service lie within Anadolubank's target clientele.

We do not differentiate between industries or business lines when it comes to granting credits. We aim to develop and maintain a credit portfolio that consists of companies with strong financial positions irrespective of the business lines they operate in, which are creditworthy and are not easily affected by economic crises. Our policy is to closely monitor industries, act with prudence in sectors that may be adversely affected by economic developments and when required, downsize the share of that sector in the portfolio. Our allocation policies are aimed at increasing the share of small and medium-size companies in our portfolio in parallel to the disinflation process, so that our profit margin and total risk are diversified. In our collateral policy, credit decisions mainly ask for a tangible guarantee from small and medium-size companies, but generally, the company's creditworthiness, antecedents, experience of shareholders and top management, leverage, market position, corporate structure and the term of the loan demanded are considered when structuring the collaterals.

Head Office Credit Committee

The Head Office Credit Committee consists of the General Manager, the Board Member Responsible for Credits, Assistant General Manager of Corporate Marketing and the Commercial and Corporate Credits Allocation Manager. In 2005, the credit applications with an overall limit of YTL 301,000 - YTL 500,000 have been discussed and resolved by this committee. As of February 6, 2006, credit applications with an overall limit between YTL 501,000 - YTL 750,000 are discussed in the Head Office Credit Committee.

Chairman of the Head Office Credit Committee:
Yusuf Gezgör
Members of the Head Office Credit Committee:
Mehmet Rüştü Başaran, Chairman and Managing Director
Pulat Akçin, Vice Chairman of the Board and Managing Director
Engin Türker, Board Member
Fikriye Filiz Haseski, Board Member
Yusuf Gezgör, Board Member

The Committee meets regularly every Monday.

Treasury and Retail Banking

Anadolubank's Treasury and Retail Banking Division is organized in four departments: Retail Marketing and Deposits Department, Retail Loan Allocation and Risk Monitoring Department, Treasury Management and Advertisement and Public Relations Department.

Retail Marketing and Deposits Department is responsible for creating and implementing the marketing strategies for retail banking products and services in line with the general objectives and strategies of the Bank. In this respect, marketing and sales management of time deposits, mutual funds, consumer loans, insurance and Internet Banking products, as well as development of new retail products and services are realized through this channel.

This Department is responsible for the management of the Bank's major funding source; customer deposits at optimal cost, size and diversity. Anadolubank provides a wide variety of banking products and services to a distinguished group consisting of individual customers with assets of US$ 250,000 or more, having been classified higher than A and A+ in socioeconomic ratings and shareholders and executives of the corporate customer of the Bank, instead of large masses of consumers. Capitalizing on cross-selling opportunities is a vital source of client acquisition in Anadolubank's retail banking strategy. Retail loan clients can be members of any professional group within the Bank's target clientele.

In 2005, bancassurance marketing efforts were emphasized as an agent of four large insurance companies; namely, Axa Oyak, Aviva, Başak Emeklilik and Başak Sigorta.

Although the retail product and service line of our Bank is complete, it is the human factor that puts Anadolubank ahead of its competitors. To maintain this advantageous position, we place great emphasis on quality of service through regular training programs that the Bank's personnel undergo.

At the end of 2005, 13 of the 60 Anadolubank branches were designated as retail branches. In retail banking, the branches generally render services through ATMs and Internet Banking. Anadolubank's Internet Branch operations started in January 2004 and the number of users reached 10,390, with a 51% increase as of the end of 2005. The number of active users of the Internet Branch corresponds to 79% of all individual clients and 93% of all corporate clients. It is expected that the Internet Branch shall gain more importance as a distribution channel in the years to come.

IN SESSION ROOMS LOCATED IN 27 BRANCHES THAT ACT AS THE AGENTS OF ANADOLU YATIRIM A.Ş., THE SECURITIES TRADING TRANSACTIONS OF CLIENTS ARE CARRIED OUT THROUGH EXPERT INVESTMENT CONSULTANTS.

Anadolubank offers three types of mutual funds, each catering to different investor risk-taking appetites. Aiming to provide the highest return in each category, Anadolubank follows an asset management strategy that is focused on efficiency and transparency. Sales of Treasury bills, Eurobonds and government bonds, repo transactions and automatic payment orders are also included in the retail product range.

In session rooms located in 27 branches that act as the agents of Anadolu Yatırım A.Ş., the securities trading transactions of clients are carried out through expert investment consultants. Furthermore, with the product called Paritem, which was launched in 2004, Anadolubank remains the first and only bank to provide parity arbitrage 24x7 over the Internet.

Retail Loan Allocation and Risk Monitoring Department is responsible for limit allocations and follow-up of overdraft accounts, car, housing and consumer loans, as well as credit cards. Fight against inflation continued in 2005 and with the downward trend of interest rates parallel to the government's disinflationary policies, an increase, especially with regard to housing loans has been observed. In correlation with this development, the share of the housing loans has increased by 55%, vehicle loans by 35% and consumer loans by 10% among overall retail loans. It is expected that the share of the housing loans in total retail loans will increase if this trend continues into 2006 and the mortgage law is enacted. The generally preferred term for housing loans, which is the most important item in the retail loan book, is five years and the generally preferred term for vehicle loans is two years.

The Treasury Management Department analyzes all possible banking risk and market opportunities, supervises the asset/liability management and manages the Bank's liquidity through a team of highly qualified treasury experts. The Treasury Department is made up of three units: Turkish Lira and Fixed Income Securities Unit, Foreign Currency and Derivatives Unit and Treasury Marketing Unit.

The Treasury Management Department is one of the foremost members of the Bank's Asset-Liability Committee. In addition to managing the Bank's liquidity, the Department also oversees the effects of interest and FX rate volatility in domestic and international markets on the Bank's balance sheet.

The Treasury Management Department is responsible for the daily monitoring of the Bank's exposure during its routine operations while providing the necessary liquidity to the branches. To accomplish its tasks, the Department trades TL and FX, Treasury bills, and other domestic and foreign securities on a spot and term basis; additionally actively trades in Turkish and other countries' Eurobonds.

Sharing its success in treasury management with its customers, Anadolubank offers corporate and large-scale customers a variety of tailor-made investment products that may include a combination of deposits, mutual funds, Treasury bills, government bonds, Eurobonds, repo, reverse repo, stocks and gold contracts.

The Treasury Management Department follows domestic and international markets closely for the best possible portfolio mixes while considering the risks and opportunities prevailing in the markets. The Department benchmarks its products against those of other domestic and international banks and improves its products accordingly while also taking into account risk for the Bank and its customers.

Reports containing facts and comments on domestic and international economies are periodically prepared and distributed to branches and clients through the Bank's distribution channels. Anadolubank tries to feel the pulse of the markets through the seminars it regularly organizes where market experts inform its clients of developments and possible risks in the markets.

In the mutual funds markets, throughout the year, Anadolubank maintained its commendable position with three highly successful funds. Addressing investors with different risk profiles, B-Type Liquid, B-Type Variable and A-Type Variable funds continuously increased their market share and offered relatively high returns in their respective categories.

Pursuing prudent trading practices, Anadolubank's Treasury Management Department takes on only calculated risk and manages a diversified portfolio. Product diversification has enabled growth on both sides of the balance sheet. An increased usage of derivative products has paved the way for higher efficiency in current trading portfolios.

Paritem

This product helps the clients buy and sell foreign exchange over the Internet.
In 2004, Anadolubank introduced to its clients a new web-based product named Paritem, a pioneer in its field. With the help of this tool, investors can trade over the globally most frequently transacted 23 currency pairs and carry out gold and silver trade for 24 hours and five days a week, from everywhere via uninterrupted Internet access. To benefit from this service, Anadolubank clients have to deposit a minimum of US$ 4,000 in a foreign currency deposit account. The clients may start FX arbitrage transactions as soon as they receive a personal password, enabling access to the Bank's website located at www.anadolubank.com.tr. Investors subscribing to Paritem are able to make transactions up to 25 times of the balance in their guarantee accounts.

As currency rates change minute by minute, Paritem enables Turkish investors not only to execute TL-FX trades but also FX-FX trades in world's leading currencies. Although not an alternative investment tool to equity trading, Paritem gained wide popularity in a very short time helping Anadolubank attain new customers.

Paritem is improved in line with the increasing number of clients and client demands parallel to the transaction volume. It is planned that in 2006 new order types shall be added to the site, in addition to the current ones and US$/YTL trading shall be included in the system. Paritem continues to be a first in the Turkish banking sector.

Credit Cards and Electronic Banking

Credit Cards and Electronic Banking Department was separated from the Retail Banking Department and has been restructured as a new business line in 2005.

Anadolubank, following the strategy to become a top-notch commercial bank, plans to diversify the product line that serves retail clients primarily and to render more sophisticated services. To this end, Anadolubank started the POS-Member Merchants System with state-of-the-art technological tools for its clients in 2005; it offers shopping with installments at 485 member sales outlets. At the end of 2005, the Bank reached 1,800 member merchants in total, including GSM POS and Virtual POS applications.

Again in 2005, Anadolubank introduced a virtual card for safe shopping over the Internet and started sending credit card statements in US dollars, so that the cardholders can track their overseas expenses in US dollars. The features of the business card have been enhanced and issued for use by corporate clients. Consequent to joint work with a shopping mall, a Shopping Mall Gift Card application, a first in Turkey, has been launched, in addition to new Credit Card and POS products.

At year-end 2005, the total number of credit cards was 95,000, scoring a 37% growth over the previous year. The total credit card turnover has increased by 26% to reach YTL 204 million. The efforts to promote credit cards have found their reflections in profitability and a 95% increase has been reached over the year.

At the end of 2004, the total number of debit cards was 59,551 - a 25% increase compared to the previous year-end figures. Anadolubank debit cards (Maestro and Electron) can be used in ATMs at 60 Anadolubank branches, in four Anadolubank ATMs located in places other than branches and in ATMs belonging to Ortak Nokta (Shared Point) banks. Ortak Nokta is an initiative by 16 banks in Turkey to share ATMs. As a member of the Ortak Nokta Group, it is possible to reach Anadolubank from all parts of Turkey and from the Turkish Republic of Northern Cyprus.

GALATA TOWER

THE GALATA TOWER, BUILT IN 1384 A.D. ON THE HIGHEST HILL INSIDE THE RAMPARTS OF THE GENOESE COLONY ON THE EUROPEAN SIDE OF İSTANBUL, WAS FIRST REPAIRED BY THE OTTOMAN JANISSARIES AND LATER DURING THE REIGN OF SULTAN SELİM (1566-1574) BY THE TURKISH ASTRONOMER TAKİUDDİN AND WAS USED AS AN OBSERVATORY. THE GALATA TOWER HAS BEEN RENOVATED MANY TIMES, THE MOST EXTENSIVE OF WHICH WAS REALIZED BY MAHMUT THE SECOND IN 1832 AFTER THE GREAT GALATA FIRE. THE GALATA TOWER WAS USED AS FIRE CONTROL STATION UNTIL 1964; IT WAS THEN OPENED TO TOURISTS IN 1967.

In November, Anadolubank launched its FOK Account by which the clients may earn interest on their savings and at the same time pay their utility bills automatically. The name FOK is derived from the initials of the Turkish words for Fund-Automatic Payment-Overdraft Account. FOK enables depositors to automatically pay their electricity, water, natural gas and telephone bills.

Due to a mandatory transition to EMV-standard cards at the end of 2006, the required technical specifications for both credit card application approval and card issuance have been completed; as of November 2005, Anadolubank made the conversion to POS machines that accept chip cards. As of April 2006, all cards shall be converted to chip cards.

The Credit Cards and Electronic Banking Unit consists of three departments:

The Credit Cards and Member Merchant Marketing Department is responsible for the management of sales of credit cards and POS products in the branches and derivatives thereof, determining related marketing strategies, organizing campaigns to increase client satisfaction and card use and developing and diversifying the products in question. Furthermore, a credit card sales team of 50 employees working in this Department markets the cards through direct client visits.

Credit Cards Allocation and Monitoring Department is responsible for allocating credit cards and POS request that come from the Head Office sales team and branches by evaluating these applications with regard to risk and efficiency, and monitoring these products in coordination with the branches and in line with the risk management policies of Anadolubank.

The Electronic Banking Department is responsible for the management of the telemarketing team that sells credit cards to potential and existing clients under the management of the Client Services Unit, which is one of the alternative channels of the Bank and the sales performance of this team, in the Bank's operation of credit cards, POS, ATM and debit card products. The services are of high quality and rendered without interruption, always cognizant of the importance of operational activities and client satisfaction.

International Banking

The International Banking Department assumes a major role in Anadolubank's trade finance activities, managing the Bank's relationship with 600 correspondents abroad, as of the end of 2005.

The correspondent bank network covers all major economic regions of the globe; mainly located in the USA and Europe. Correspondent banks are usually the region's largest banking institutions with worldwide branches. This network enables Anadolubank also to reach any part of the world where business opportunities exist.

The foreign trade volume of Anadolubank, which had been US$ 2.2 billion in 2004, reached US$ 2.7 billion in 2005. The International Banking Department aims for higher figures, with more concentrated effort. The Department works together with branches and other departments and offers technical assistance through customer visits. All Anadolubank branches are authorized to handle international transactions; all of these transactions are centralized at the Head Office for increased efficiency and specialization.

In August 2005, the Bank was assessed by FitchRatings and assigned a Local and Foreign Currency Rating of "B+". The Long-Term and Short-Term National Rating has been assigned a "BBB+" rating with a "stable" outlook.

In July 2005, Anadolubank was assessed by Moody's Investors Service and assigned a first-time long-term foreign currency rating of "B2/Note-Prime" and a financial strength rating of "D-". In December 2005, the same agency raised the rating of Anadolubank from "B2" to "B1", after the increase of the long-term foreign currency rating ceiling for Turkish banks.

Among the highlights of 2005, the US$ 100 million one-year term syndicated loan facility for export financing raised from the international market was of primary significance, appealing to a participant list comprising names with profound expertise in syndications. The facility has been concluded with the participation of 34 well-respected international banks and received a demand over the initially mandated limit. Re-payment of the first loan obtained in 2004 worth US$ 50 million was realized in December 2005.

The Department prides itself on the close relationships it has developed with foreign correspondents abroad. In an effort to establish mutually beneficial relationships with correspondent banks, the International Banking

THE INTERNATIONAL BANKING DEPARTMENT PRIDES ITSELF ON THE CLOSE RELATIONSHIPS IT HAS DEVELOPED WITH FOREIGN CORRESPONDENTS ABROAD.

Department pursues a solution-oriented approach at all times while displaying a detailed point-of-view and offering alternative routes to decisions.

The Bank also has access to the facilities of major Export Credit Agencies such as the US Exim, Coface, Hermes, SACE and ERG, as well as CCC, by which the medium and long-term financing requirements of clients for their cross-border trade can be met.

Investment Banking

The vision, technological infrastructure, extensive distribution network and group-wide synergy of the Investment Banking Department help Anadolubank's corporate and individual clients derive the maximum benefit from capital markets.

With the steps toward EU accession and the sustainable growth trend, the capital markets of Turkey, which is among the leading emerging economies, have become the center of interest for local and foreign investors. The Istanbul Stock Exchange has been an active marketplace for foreign institutional investors and fund managers which earned higher yields compared to other emerging market stock exchanges.

With prudent steps, Anadolubank's Investment Banking Department has earned itself a solid place in the Istanbul Stock Exchange that rapidly grows and gains depth with the ever-increasing numbers of foreign and local investors. The Department has reinforced its name in a business where "reliability" is the key. It follows competitive practices while strictly adhering to written and ethical rules of conduct adopted by the Bank.

In 2005, the transaction volume achieved on the Istanbul Stock Exchange increased by 54% over the year and totaled YTL 6.4 billion; this figure has increased the total market share from 1.01% to 1.21%.

The Investment Banking Department renders the following services to depositor clients and companies planning to fund their growth through capital markets:

- Stock trading in primary and secondary markets,
- Research reports,
- Corporate finance services,
- Derivatives trading.

In stock trading - the main scope of activity for the Investment Banking Department - 60 branches of Anadolubank and session rooms located in 27 of these branches serve the investors with a client-oriented approach.

Boutique brokerage services are rendered to small and medium-size companies and large-scale VIP clients, based on correct and timely research data supported by investment consultants.

The Research team prepares periodical macroeconomic, company and industry specific reports for clients and employees of Anadolubank, provides a reliable source for short-medium-long term investment decisions encompassing all possible risks and makes portfolio mix proposals based on sophisticated theoretical grounds and experience.

The team wields its know-how and experience in accordance with the needs of its clients and engages in "customized" work, guided by the client-focused approach of the Bank.

The Corporate Finance team advises companies that seek to fund their investments through capital markets, by way of consulting and offering their shares to the public.

Information Technology

Anadolubank has placed great emphasis on its IT infrastructure, ever since its incorporation. Today, the Bank has one of the most advanced IT departments throughout the banking industry keeping touch with and implementing the latest innovations in the IT environment.

The IT Department provides fast, cost-efficient and flexible solutions to all units within the Bank, on the following lines, using its own resources:

- application and software,
- system and operation,
- communication and infrastructure,
- process automation, and
- user support center.

The IT Department also plays an important role in the Bank's ability to reach its targets by creating high-quality applications and solutions, with a customer-oriented service understanding.

With expert staff and accumulated know-how, the IT Department has developed an extensive service list to date consisting of the following;

- An architecture and infrastructure that enable real-time and uninterrupted system resources, with sustainable continuity,
- Installment and management of POS networks, telephone exchanges and ATM equipment and related infrastructure services,
- Helpdesk and technical support services for the use of all business lines,
- Application software design, development and implementation, and
- Document management.

The Bank has a Disaster Recovery Center in Izmir, equipped to handle all banking transactions without interruption in case a disaster occurs that might disrupt operations at the Head Office in Istanbul.

Operations

The Operations Department consists of four main functional units within its organization; Organization and Business Development, Branch Operations, Head Office Operations and Compliance.

Handling of operations play a major role in the uninterrupted, above-standard and high quality service-rendering by Anadolubank to its clients. Anadolubank has opted in centralizing its operations in an effort to minimize operational risks, help branches focus on the client and the sale process, run its central cashier and handle check settlement and exchange transactions through the units operating under the Operations Department.

Anadolubank has achieved its goals regarding operations in recent years and has focused on efficiency in 2005. It has developed streamlined work flows, swift and easily monitored process. Plans are constantly upgraded through the suggestions and tasks undertaken to improve work and streamline the progress that has enhanced the scope of improvement work.

The differences from routine workflows arising from transactions are instantaneously monitored in the Operations Department, which enables the Bank to take necessary measures before a problem occurs. The Compliance Unit ensures that legislation is followed to the letter on credit and foreign exchange issues.

Organization and Business Improvement Unit reviews all work flows and internal processes and supports decision-making by carrying out feasibility studies for future projects in the pipeline.

With its expert staff the Organization and Business Improvement Department is responsible for the following:

- Fulfillment of all processes for the support units of the Bank's non-banking activities in particular (from credit allocation processes to purchasing, centralized operations and compliance) in a fast, efficient and easily-monitored manner,
- Establishing all platforms required to easily share information constituting the corporate identity of the Bank and fulfilling all work required to improve activities on these platforms.

IN 2005, INFRASTRUCTURE WORK RELATED TO CHANGES IN THE ORGANIZATIONAL STRUCTURE OF THE BANK WAS UNDERTAKEN.

In this respect, 27 different business processes and database applications have been transferred to a shared platform called PORTALIM in only five months and all processes that were once implemented manually can now be monitored on-line. The target for 2006 is to rapidly launch other processes, primarily the consumer loan and credit card application and limit allocation processes.

Determining standards for the Bank's operations compliant to corporate standards and enabling coordination among other units of the Bank to help them abide by these standards, as well as monitoring and coordinating the opening, transfer and closing transactions of branches are accomplished by the Organization and Business Improvement Department. In 2005, infrastructure work related to changes in the organizational structure of the Bank was undertaken.

Financial Affairs

The Financial Affairs Department is where the control and reporting of all financial data is carried out. The Budget and Financial Control Unit and the Financial Operations Unit work under the Financial Affairs Department.

The Budget and Financial Control Unit plays an extremely important key role in the decision-making processes through the Management Information System (MIS) and assists the senior management in setting strategy. All reports, primarily the reports prepared for the Board of Directors and the Asset-Liability Committee drawn up within the Bank are collected under this Unit. The balance sheet and income statement are compiled daily and departments and branches are supplied with much needed data to help guide them with policy implementation. In the recent years, the effect of non-interest income and expenses on the profitability of the Bank has increased as well as the number of reports required to manage these. Detailed daily reports on non-interest income and expenses are prepared on a per branch basis. The Unit is responsible for comparative budget reporting of branch performance, along with preparing the budget for the Bank in entirety and the branches separately.

The Department prepares the profitability reports of the Bank, where the contribution of the clients and branches are monitored, thus helping the Marketing Department's decision-making process.

The reports submitted to official bodies such as the BRSA, the Central Bank, Bankers Association, State Institute of Statistics etc., are prepared by the Budget and Financial Control Unit. These reports are prepared on a daily, monthly, quarterly and annual basis and provide information to regulators and official bodies on the financial status of the Bank and other related areas.

Financial Operations Unit is responsible for the operation and reporting of basic treasury transactions, general accounting of the Bank, tax and insurance transactions.

All major back-office operations for treasury transactions are executed by this Unit in conformity with applicable legislation and generally accepted rules worldwide. At the same time, reports pertaining to such transactions are sent to executive management levels on a daily basis, facilitating the management's strategic decisions.

All book-keeping entries related to general accounting are realized within the Financial Operations Unit. These transactions are executed in accordance with current legislation and cover wide ranging activities from payments to personnel and third parties to monitoring of affiliates, from calculation of taxes to tax planning.

Providing insurance coverage to the Bank's assets recorded in accounting books and the execution, monitoring and reconciliation of insurance transactions undertaken by the branch offices on behalf of customers in the capacity of an insurance agent are the responsibility of this Unit.

Human Resources and Training

The Human Resources Department gathers under its roof the Training, Communication and Administrative Affairs and Security Units in addition to the Human Resources Unit. Since human resources are the most valuable assets of the Bank, the recruitments involve very carefully designed interview and selection processes. Generally, the senior executives personally participate in this process.

As of the end of 2005, Anadolubank had total 1,226 employees, 433 of whom work at the headquarters and 793 at the branches.

Participation in training programs is actively promoted in the belief that training is the only way to foster both personal and corporate development and enhancement. Training programs, participants and length of training are determined by a well-planned yearly survey of training requirements. Training programs cover a number of diverse subjects that enhance technical capacity and personal competence of the staff. In 2005, 92,176 hours of training were given to a total number of 4,813 participants. A total of 395 training programs were conducted, of which 263 were organized in-house and 132 were led by professional training institutions. The average training per employee was just over 80 hours.

Anadolubank is striving to create a team of bankers with current, up-to-the-minute knowledge about the profession and who are multi-dimensional in their careers. Anadolubank always strives to fill vacant positions from within the ranks, preparing its personnel to be ready for the promotion when the time comes.

Personnel Statistics

Number of Staff	2005	2004	2003
Head Office	433	408	312
Branches	793	717	671
Total	1,226	1,125	983
Number of Staff per Branch	21	23	20
Male	48%	48%	48%
Female	52%	52%	52%
Educational Background of the Staff			
Post-Graduate Degree	36	34	27
University Degree	815	727	609
High School Education	361	349	332
Primary Education	14	15	15

Training Statistics

	Number of Training Programs		Number of Participants		Training Hours (hours)	
	2005	2004	2005	2004	2005	2004
In-House Training	263	145	4,613	3.590	88,028	78,926
External Training	132	143	200	307	4,148	4,511
Total	395	288	4,813	3,897	92,176	83,437

Senior **Management**

1) Pulat AKÇİN, Vice Chairman of the Board and General Manager

2) B. Gökhan GÜNAY, Assistant General Manager - Treasury and Retail Banking

3) Merih YURTKURAN, Assistant General Manager - International Banking

4) Cem ATİK, Coordinator - IT

5) Yusuf GEZGÖR, Board Member

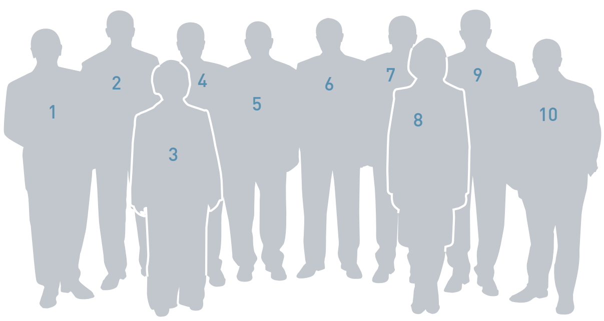
6) İsmet DEMİR, Assistant General Manager - Human Resources

7) Hakan ATİTÜRK, Assistant General Manager - Corporate Banking

8) Çiğdem ÖZKARDEŞ, Assistant General Manager - Credit Cards and Electronic Banking

9) Zafer AYBARTÜRK, Assistant General Manager - Financial Affairs

10) Cengiz DOĞRU, Assistant General Manager - Operations



Anadolubank Anonim Şirketi
and Its Subsidiaries

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

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Independent Auditors' Report

To the Board of Directors of
Anadolubank Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Anadolubank Anonim Şirketi ("the Bank") and its subsidiaries (collectively "the Group") as of 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Group as of and for the year ended 31 December 2004, were audited by another auditor whose report dated 15 February 2005, expressed a qualified opinion stating that the Bank had not complied with the rule of the International Accounting Standard No. 39 "Financial Instruments: Recognition and Measurement" by selling more than an insignificant amount of held-to-maturity investments before maturity.

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 accordance with IAS 39, the Bank should not classify any financial assets as held-to-maturity for a period of two fiscal years after the violation of the tainting rule of IAS 39 as described above. The Bank has continued to classify the financial assets as held-to-maturity during the two year prohibition period. Accordingly, the entire held-to-maturity portfolio of the Group reflected in the accompanying consolidated financial statements should be reclassified as available-for-sale. Therefore, the carrying amount of the Group's available-for-sale portfolio is understated by YTL 451,228 thousand (31 December 2004: YTL 495,857 thousand), total unrealized gains net of tax effect, a component of equity is understated by YTL 25,411 thousand (31 December 2004: YTL 22,278 thousand), deferred tax liability is understated by YTL 6,985 thousand (31 December 2004: YTL 9,548 thousand), and deferred tax asset is overstated by YTL 3,903 thousand and held-to-maturity investments are overstated by YTL 414,929 thousand (31 December 2004: YTL 464,031 thousand) as of 31 December 2005.

In our opinion, except for the effect on the consolidated financial statements of the matter referred to in the preceding paragraph, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Istanbul, Turkey
15 February 2006

KPMG Akis Serbest Muhasebeci
Mali Müşavirlik A.Ş.

Anadolubank A.Ş. and Its Subsidiaries
Consolidated Balance Sheet as at 31 December 2005
(Currency - Thousands of New Turkish Lira [YTL] as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

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

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

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

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

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

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

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

Overview of the Bank

Anadolubank A.Ş. ("the Bank"), commenced operations pursuant to the permit of Turkish Undersecretariat of Treasury dated August 25, 1997 and numbered 39692 and started its operations on September 25, 1997 in Turkey under the Turkish Banking and Commercial Codes. The Bank provides corporate, commercial and retail banking services through a network of 58 domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 80260 Bomonti-Şişli / İstanbul-TURKEY. The parent and the ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.

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

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

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

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

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

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

Significant accounting policies

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

a) Statement of compliance

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

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect except for International Accounting Standard (IAS) No. 39 "Financial Instruments: Recognition and Measurement" which is explained in detail in note 4.

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

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

b) Basis of preparation

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

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

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

c) Basis of consolidation

i) Methodology

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

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

The major principles of consolidation are as follows:

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

ii) Subsidiaries

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

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

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

d) Accounting in hyperinflationary economies

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the financial statements, requires that consolidated financial statements prepared in the currency of a highly inflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

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

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

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

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

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

e) Foreign currency

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

ii) Consolidated financial statements of foreign operations

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

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

f) Property and equipment

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

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

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

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

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

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

g) Intangible assets

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

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

h) Financial instruments

Classification

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

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

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

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

Recognition

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

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

Measurement

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

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

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

Fair value measurement principles

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

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

Gains and losses on subsequent measurement

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

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

i) Derecognition of financial instruments

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

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

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

j) Repurchase transactions

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

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

k) Impairment

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

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

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

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

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

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

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

l) Income and expense recognition

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

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

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

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

m) Items held in trust

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

n) Reserve for employee severance indemnity

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

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

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

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

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

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

o) Income taxes

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

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

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

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

p) Offsetting

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

q) Provisions

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

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

r) Subsequent events

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

Index for the notes to the consolidated financial statements

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

1. CASH AND CASH EQUIVALENTS

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

The time deposits with original maturities of more than three months in the table above are held in blocked accounts at several financial institutions for the Credit Default Swap (CDS) agreements made with such financial institutions as at 31 December 2004.

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

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

2. RESERVE DEPOSITS AT THE CENTRAL BANK

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

According to the regulations of the Central Bank, banks are obliged to reserve a certain portion of their liability accounts as specified in the related decree. Such reserves are deposited with the Central Bank.

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

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

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

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss

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

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

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

4. INVESTMENT SECURITIES

Held-to-maturity securities

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

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

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

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

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

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

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

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

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

5. LOANS AND RECEIVABLES

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

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

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

Movements in the reserve for possible loan losses:

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

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

6. PROPERTY AND EQUIPMENT

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

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

7. OTHER ASSETS

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

Assets held for resale obtained from loan customers are stated at restated cost less any impairment in value identified by the valuation reports made by independent appraisal firms.

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

8. DEPOSITS

Deposits from other banks

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

Customers' deposits

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

Other money market deposits

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

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

9. FUNDS BORROWED

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

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

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

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

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

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

10. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions

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

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

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

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

11. INCOME TAXES

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

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

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

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

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

Major components of income tax expense:

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

The taxes payable and prepaid taxes are detailed below:

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

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December were as follows:

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

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

Deferred tax

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

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

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

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

12. DERIVATIVES

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

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

The fair value of derivative financial instruments is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

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

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

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

13. SHARE CAPITAL

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

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

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

	2005		2004	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.	44,796	67.88	44,796	67.88
Mehmet Rüştü Başaran	19,081	28.91	19,081	28.91
Güllü Başaran	661	1.00	661	1.00
Other shareholders	1,462	2.21	1,462	2.21
Historical amount	66,000	100.00	66,000	100.00
Restatement effect	34,976		34,976	
Total	100,976		100,976	

14. LEGAL RESERVES AND ACCUMULATED PROFITS

Legal Reserves

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

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

15. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 67.9% (31 December 2004 - 67.9%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial information, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

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

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

Related party		Cash loans	Non-cash loans	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Shareholders	31 December 2005	-	26,276	31,281	20,754	34	372	426	1,334
	31 December 2004	925	1,768	44,668	7,988	297	7,753	51	107
Others	31 December 2005	-	27	189	-	2,897	60	2,508	104
	31 December 2004	12,275	46	35,773	-	419	134	-	-
Directors' interests	31 December 2005	221	-	695	-	8	5	-	-
	31 December 2004	93	-	796	-	7	4	-	-

Directors' Remuneration

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

16. SALARIES AND EMPLOYEE BENEFITS

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

The average number of employees during the year is:

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

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

17. OTHER EXPENSES

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

18. COMMITMENTS AND CONTINGENCIES

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

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

Other commitments include the purchase commitments of Turkish government Eurobonds amounting to YTL 75,782 as of 31 December 2004 arising from the CDS agreements made with various financial institutions.

Litigations

a) The Bank

i) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of USD 3,250,000 (initially USD 14,750,000, USD 11,500,000 of which was dropped) plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management does not consider that there will be any probable loss.

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

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

b) The Subsidiaries

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

Commitments Under Operating Leases

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

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

Other

The Group manages three open-ended investment funds which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. For the year ended 31 December 2005, the Bank has obtained YTL 4,532 (2004: YTL 3,744) management fee from such investment funds.

19. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board who is assigned as Risk Supervisor heads the Risk Management Group. The Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Group reviews the latest figures and projections for the Bank's profit and loss accounts and balance sheet, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by limiting the duration of exposure.

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

Anadolubank Risk Rating Module is based on both qualitative and quantitative criteria and used in credit decisions as well as pricing. The performance of the ratings are monitored by the Risk Management Group who intensively works on establishing Basel II compliant systems.

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

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

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

Liquidity Risk

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

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

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

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

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

Market Risk

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

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

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

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

Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2005, on the basis of the Group's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

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

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

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Interest Rate Risk

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

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

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems or from external events. This definition captures operational risk events such as IT problems, shortcomings in the organizational structure, lapses in internal controls, human error, fraud, and external threats such as major earthquake, major fire, flood or terror.

The Risk Management Group investigates and approves policies, procedures, workflows and business processes. The main principle in the Bank is that management at all levels are responsible for directing and managing their own operational risks.

Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank. The Internal Control and the Internal Audit Departments are fully engaged in monitoring the responsibilities within the Bank, a detailed testing and verification of the Bank's control over all operational systems; and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility.

The Information Security Management systems, policies and procedures have been established in line with BS7799 principles. The project regarding information security management has been completed and started to be implemented in 2004.

Another project regarding operational risk management was the Business Contingency Planning, most of which has been completed in 2004.

The Bank is planning to complete the whole work-flow processes in 2006, within Basel II compliance projects.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of 31 December 2005, the Bank's statutory capital adequacy ratio on a consolidated basis is higher than the minimum required by BRSA.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

21. SUBSEQUENT EVENTS

Funds borrowed

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

Tax

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

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

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

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