Annual Report 2004

ARAP TÜRK BANKASI
المصرف العربي التركي
ARAB TURKISH BANK

Contents

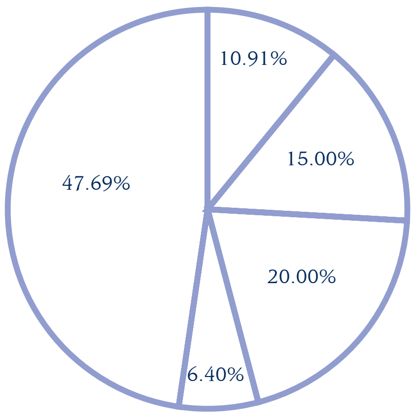
Consolidated Financial Highlights

(TL billions)

	2004	2003
Total Assets	375,427	377,697
Marketable Securities	183,929	201,279
Loans, Net	70,316	44,791
Balances With Banks	53,939	66,082
Total Deposits	47,506	43,309
Total Loans Borrowed	221,769	231,592
Shareholders' Equity	97,734	92,866
Net Income / Loss	6,770	3,553

Shareholders

47.69% → Libyan Arab Foreign Bank
6.40% → Kuwait Investment Co.
20.00% → T. İş Bankası A.Ş.
15.00% → T.C. Ziraat Bankası A.Ş.
10.91% → Tekfenbank A.Ş.

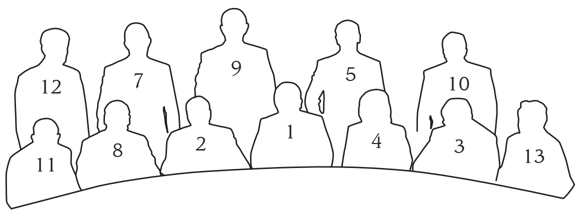


(TL in billions)

	2004	2003
Libyan Arab Foreign Bank	13,831	9,538
Kuwait Investment Co.	1,856	1,280
T. İş Bankası A.Ş.	5,800	4,000
T.C. Ziraat Bankası A.Ş.	4,350	3,000
Tekfenbank A.Ş.	3,163	2,182
Emek İnşaat ve İşletme A.Ş.	-	-
Total	29,000	20,000

Board of Directors

1) A. Aykut Demiray
Chairman
2) Al-Amin Ashour Shallouf
Deputy Chairman
3) Mohamed Najib Hmida El-Jamal
Member and General Manager
4) Dr. Aisha Salem Elhaji
Member
5) Hakan Barut
Member
6) Selim K. Selim Ihmouda
Member (until April 30, 2004)
7) Mehmet N. Erten
Member
8) Sharef Said Ali Shalabi
Member
9) Atilla Çetiner
Member
10) Khaled M. N. M. Alhershani
Member
11) Mohammed Benhalima
Member
12) Mustafa Rajab M. Lagilli
Member
(appointed on August 17, 2004)
13) Bige Saltık
Secretary to the Board



Management Committee

- A. Aykut Demiray
- Al-Amin Ashour Shallouf
- Mohamed Najib Hmida El-Jamal
- Khaled M. N. M. Alhershani
- Atilla Çetiner
- Bige Saltık, *Secretary to the Committee*

Statutory Auditors

- Yüksel Nedim Yalçın *(until March 1, 2004)*
- Mehmet Sevindik
- Efe Gündeş

General Manager - Mohamed Najib Hmida El-Jamal

Management

- **Mohamed Najib Hmida El-Jamal**
  General Manager
- Nuri Güzveli
  Assistant General Manager
- M. Oğuz Teoman
  Assistant General *Manager*
- Khalifa Mohamed Zrig
  Assistant General Manager

Managers

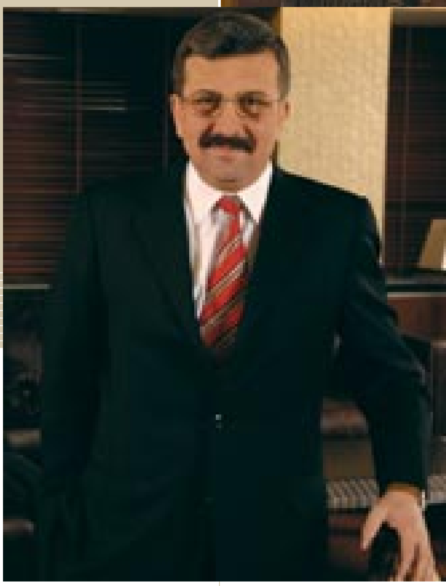
- Bige Saltık
  Credits Division
- Bahtiyar Kamberoğlu
  Treasury & Capital Markets Department (Front Office)
- Giuma Masaud S. Kordi
  Information Technologies Department
- M. Muzaffer Haşim
  General Administration Department
- Soner Aydınol
  Organisation & Method Department
- K. Birhan Acarer
  Legal Consultancy Department
- Selim Kızılırmak
  Inspection Council
- Z. Sebla Köktuğ
  Human Resources Department
- Adel S. Abu Shwierb
  International Department
- Faruk İsmik
  Investigation & Financial Analysis Department
- Amin A. Farag Botlag
  Treasury & Capital Markets Department (Back Office)
- Salih Hatipoğlu
  Risk Management Department
- Enver Sökmen
  Internal Control Centre
- Hande Alaydın Sürenkök
  Banking Services & Legislation Department
- Salim Soydan
  Translation & Research Services Department
- Mohamed A. Al Rahebi
  Istanbul Central Branch - Operations Manager

Branch Managers

- M. Sayra Kurtkan, *Istanbul Central Branch*
- Yusuf Zaimoğlu, *Ankara Branch*
- Şeref Kasar, *Kozyatağı Branch*

Chairman's Statement

2004 marked another successful year where ATB demonstrated its strength and ability in enhancing performance and increasing its shareholders' equity to YTL 76 million, its capital adequacy ratio to 59.75% and its rating to a level of "B" assigned by Fitch Ratings.



Dear Shareholders,

On behalf of our Board of Directors, we are glad to present to you the Annual Report of ATB for the year 2004 incorporating its activities, results and notes to its financial statements as well as a brief summary about the recent economic situation in Turkey.

Turkey succeeded to fulfil the macroeconomic targets set forth for the year 2004. The economy, based on stability and positive expectations, constituted a solid performance on strengthening the Turkish Lira. In addition, the decrease in inflation opened the gate for the introduction of the new Turkish Lira and a reduction in the interest rates. The banking sector remained strong and liquid in both foreign currencies and the Turkish Lira.

Joining the European Union is crucial for the country's development on both economic and political fronts and the EU decided to start accession talks with Turkey in October next year.

2004 marked another successful year where ATB demonstrated its strength and ability in enhancing performance and increasing its shareholders' equity to YTL 76 million, its capital adequacy ratio to 59.75% and its rating to a level of "B" assigned by Fitch Ratings.

This year, major improvements were achieved in information technology applications and the Bank realised its basic objectives of delivering high quality service to customers and handle other banking activities at international standards.

The Board of Directors would like to take this opportunity to extend its appreciation to customers and correspondents both in Turkey and abroad, for their support, cooperation and high level of confidence in ATB.

We also extend our thanks to the General Management and the staff of ATB for their achievements in another successful financial year.

Yours sincerely,

A. Aykut Demiray
Chairman

Review of Operations in 2004

During 2004, Arab Turkish Bank pursued prudent expansion strategies and lending policies to avoid possible credit and market risks and to achieve stable growth.

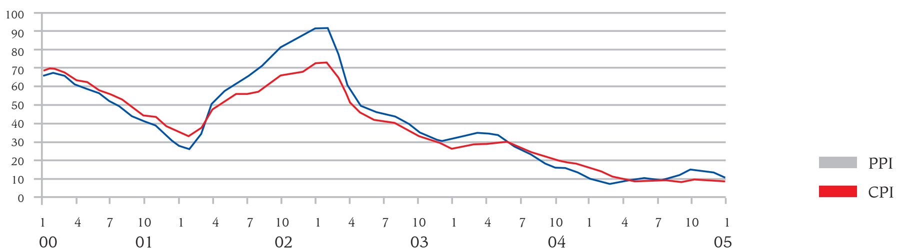
Turkish Economic Outlook

Turkey's current strong economic growth that began in 2002, continued through 2004 as evidenced by the positive results of its economic programme. Industrial output grew rapidly and inflation fell to its lowest level in decades. Turkey and the IMF announced a new US$ 10 billion standby deal to replace the existing agreement that ends in February 2005. The new arrangement will run over a period of three years and will positively affect the cost of financing and sustainability of debt by enhancing confidence in domestic and international markets. It will help Turkey create the conditions for sustained growth and increased employment, reducing inflation to more European levels as it enhances the economy's resilience.

The introduction of the new Turkish lira (YTL) on January 1, 2005, wiping six zeros off the existing currency, is expected to have only a limited impact on prices.

At the EU Summit on December 17, 2004, it was agreed to start accession talks with Turkey on October 3, 2005. Receiving a date for the beginning of negotiations will help adaptation to the criteria of the EU in the medium term and maintaining the reforms while establishing long term stability in the economy. The decision of the EU Council to begin accession talks with Turkey and the announcement of a new standby agreement with the IMF were positive steps toward boosting Turkey's credit rating.

Annual Inflation Rates (%)



* 1994 = 100 based indices for 2004 and before; 2003 = 100 based indices for 2005 and after.

National income figures indicate that economic growth slowed significantly in the third quarter of 2004. GDP growth that was 13.4% in the first half of the year, declined to 4.5% during the July-September period. Similarly, GNP growth of 14.4% in the first half decreased to 4.7% in the third quarter. It is anticipated that the year-end growth rate will be between 8 and 9%.

In the last month of 2004, inflation was 0.13% in the WPI and 0.45% in the CPI. The annual CPI achieved at 9.32%, below the government's 12% year-end target; the WPI slightly overshot the indicative target of 12% to reach 13.84 %.

According to data released by the State Institute of Statistics, the industrial capacity utilisation ratio was 84% in December 2004. This was a slight rise over the previous month and well up from the 79.4% capacity usage ratio of December 2003.

Turkey's 2004 exports rose by 32.8% and reached US$ 62.8 billion; imports increased by 40.1% and totalled US$ 97.2 billion. The foreign trade deficit was US$ 34.4 billion, an increase of 55.7% over the previous year.

The current account balance registered a deficit of US$ 15.6 billion in 2004 which was US$ 8.0 billion in 2003.

The domestic debt stock, which was YTL 194.4 billion at the end of 2003 rose to YTL 224.5 billion at the end of 2004. The foreign debt stock, which was US$ 146 billion at the end of 2003, stood at US$ 148 billion in the second quarter before increasing further to US$ 153 billion at the end of the third quarter of 2004.

As the Turkish economy is currently experiencing renewed growth, the banking sector also continued to grow during the first nine months of 2004. In addition to an increased number of branches and employees, total assets, credit volume and deposits rose due to the recovery in the Turkish economy and subsequent positive expectations. Total banking sector assets amounted to US$ 196.495 million at the end of the third quarter of 2004, an increase of 21% as compared to the figures from September 2003. As of September 30, 2004 the deposit volume totalled US$ 126.552 million while the total loan portfolio reached US$ 64.871 million. Shareholders' equity totalling US$ 26.667 million made up 13.57% of the banking sector's total liabilities.

In 2004, privatisation through block sales, a combination of the public offering and block sales, the international offering and asset sales were nearly US$ 2 billion, the second highest level since year 2000. After a successful year in which price stability was achieved, decreasing the net public debt stock to GNP ratio and sustaining the strong growth performance continue to be the main objectives in 2005. The privatisation of Tüpraş, Türk Telekom and Tekel are included within next year's privatisation programme.

Performance Review

During 2004, Arab Turkish Bank pursued prudent expansion strategies and lending policies to avoid possible credit and market risks and to achieve stable growth.

Detailed information on the Bank's activities and performance has been provided in the statement of accounts, prepared and audited in accordance with the regulations stipulated by the Banking Regulation and Supervision Agency (BRSA).

The treasury of ATB continued to reap the benefits of long, widespread relationships within the Middle East, Arab and North African countries and their financial institutions.

Treasury and Capital Markets

The Turkish economy closed the year with better economic indicators than in 2003. However, it was a tough year for financial institutions due to increasing competition and decreasing spreads. Domestic political developments, relations with the EU and the IMF plus developments in the international markets, specifically the increase in oil prices and the FED's interest rate policy, were the main factors affecting the course of interest rates in 2004.

In March, markets were focused mostly on the United Nations' plan for Cyprus plus the seventh review of the IMF-led programme. Positive expectations for a solution to the Cyprus issue, the completion of the seventh review of the economic programme and the Central Bank's 2% rate cut brought the interest rates to the 21.5% level at the beginning of April. However, this positive sentiment was unfortunately short-lived as the referendum resulted in the Turkish side of Cyprus saying "yes" and the Greek side saying "no." In the meantime, several adverse developments took place, such as the higher-than expected deficit in the current account and a dispute between the government and the Chief of Staff about the higher education bill. These factors, combined with worsening sentiment in international markets due to increased expectations about rapid rate hikes by the FED, initiated a rise in the interest rates.

During the summer months, markets were focused on developments for a new economic programme with the IMF after 2004. Also of interest was the European Commission's report, delivered on October 6 dealing with Turkey's progress in meeting the Copenhagen political criteria.

Markets were quite volatile during this period, especially in September, due to discussions about the articles on adultery that the government wanted to include in the penal code. These discussions caused concerns in the markets as they were perceived as factors that could influence the EU Commission's report. In the end, the government did not include these articles in the penal code and the EU Commission's report recommended the start of negotiations with Turkey without delay, bringing about a rally in interest rates, which declined to 22% in October.

Our transaction volumes in 2004 were less than those of 2003 due to narrowing spreads. But significant rate decreases throughout the year provided us with good income on our pre-invested portfolio of Treasury bills and government bonds. Concurrently, arbitrage opportunities became very infrequent. This situation was valid for Turkish Lira markets as well as for Foreign Exchange markets.

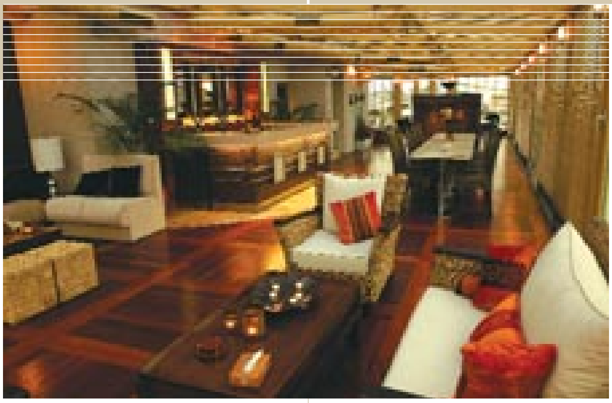
In November, ahead of the EU Council Summit, interest rates rose to the 23-24% level. However, with the EU Council's positive decision on Turkey's future membership on December 17, rates ended the year at historically low levels - slightly above 20%.

The treasury of ATB continued to reap the benefits of long, widespread relationships within the Middle East, Arab and North African countries and their financial institutions.

As a result of the Turkish Lira denominated changes in ATB's balance sheet, we were a net borrower from the Turkish Lira market. During 2004, we paid US$ 0.7 million in net interest income, as compared to 2003 when we earned an interest income of US$ 4.12 million as a net lender in the market. Similarly, in the Foreign Exchange Money market, we paid US$ 2.77 million in interest during 2004 compared to US$ 1.47 million in 2003 where we were net borrowers at all times.

The following table shows transaction volumes for 2004 and 2003:

2004		2003	
Deposits Placed	Deposits Taken	Deposits Placed	Deposits Taken
TL 182,700,000,000,000	TL 998,785,000,000,000	TL 676,177,837,500,000	TL 294,231,860,000,000
US$ 341,800,000	US$ 901,500,000	US$ 248,373,542	US$ 699,966,349
CHF -	CHF -	CHF 110,059,640	CHF 1,050,000
EUR 368,200,200	EUR 290,107,328	EUR 594,384,226	EUR 349,256,388



The annual average interest rate of our government bond portfolio was around 31.36% p.a. Due to continuing prudent and risk–aversive policies, the Treasury Department invested funds in short-term conservative products.

The Treasury Department held a Eurobond portfolio worth US $42.3 million equivalent with an average yield of 8.72% during 2004. The Department also invested in foreign currency–denominated domestic government securities during the entire year, totalling US$ 72.5 million at an average yield of 4.58%. Total interest collected from this portfolio reached US$ 4.3 million.

Credits

In 2004, Arab Turkish Bank continued to use modern marketing methods and tools to expand its customer and business portfolio activities.

To compare the figures, restatement adjustments have been made to compensate for changes in the general purchasing power of the Turkish Lira as of December 31, 2004.

In parallel with Arab Turkish Bank's prudent lending policies, the Corporate and Retail Credits Marketing Division carried out its activities with selected clients during 2004.

Throughout the prevailing economic crisis, which saw the transfer of a number of banks to the SDIF, Arab Turkish Bank successfully operated, utilising its strict marketing strategies that diversify risk among different business sectors.

By working with clients on package deals, the Bank has created a customer portfolio that is both liquid and secure and based on strong collateral and short-term maturity.

The credit instruments of Arab Turkish Bank are spot, rotating, FX-Indexed, FX and Eximbank credits and non-cash credits.

For 2005, Arab Turkish Bank will continue to adhere to conservative lending policies and remain liquid by not taking long-term risk except with regard to top tier companies.

	2004		2003	
	TL billions	US$ millions	TL billions	US$ millions
Cash credits	70,076	52.2	44,556	33.2
Non-cash credits	135,303	100.8	93,778	69.9
Total credit portfolio	205,379	153.0	138,334	103.1
Total cash credits/ Total assets in percentage	21.2%		13.2%	
FX cash credits	24,200	18.0	15,366	11.4
TL cash credits	45,876	34.2	29,190	21.8
FX non-cash credits	129,081	96.2	86,422	64.4
TL non-cash credits	6,222	4.6	7,356	5.5
Total FX credits	153,281	114.2	101,788	75.8
Total TL credits	52,098	38.8	36,546	27.3

Due to the positive trend in Turkish economy, ATB places more importance on the marketing strategy and follow-up activities in an effort to expand the credit portfolio with reputable, reliable and creditworthy companies.

Arab Turkish Bank employs a conservative credit policy. Generally, the Bank prefers to allocate credits to reputable and prime companies of Turkey. Additionally, Arab Turkish Bank has strong relationships and extensive experience with countries in North Africa and the Middle East.

The Credits Division has three departments:

a) Corporate and Retail Marketing Department:

This Department deals with the structuring of the Bank's marketing strategy and the development and application of policies in practice to achieve higher business volumes, leading to higher market share and higher profits. Marketing strategy planning is developed and implemented for both commercial (corporations and other legal persons) clients and for individual (consumer) customers.

b) Credit Allocation and Utilisation Control Department:

The risk assessment process analyses and evaluates credit applications of customers by taking into consideration all potential risk factors related to the applicant. The credit proposal, together with assessments, is then submitted it to the CEC for further discussion.

The limit allocation process assigns credit limits to credit customers after careful evaluation. The limit levels are discussed and determined by the CEC but submitted for further approval to the Board of Directors.

c) Branch Support and Credit Follow-Up Department:

The Department provides consultation services and expert advice on subjects requiring technical knowledge in a variety of areas such as legal issues, credit techniques, market information and extraordinary banking transactions.

The marketing process begins at the branches where the first contact with a potential customer is made.

The first contact with the customer occurs in two ways:

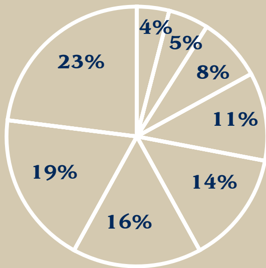
- The potential customer may approach the Bank with specific requests, or
- The Marketing Department of the Branch can locate credible potential customers within the marketing strategies of the Bank.

When the Credit Committee of the Branch determines that a company is credible, they will follow through with the appropriate credit proposal.

Due to the positive trend in Turkish economy, ATB places more importance on the marketing strategy and follow-up activities in an effort to expand the credit portfolio with reputable, reliable and creditworthy companies.

ATB acts as a conservative solution-provider while allocating credit lines to its customers. The Bank is careful to work with reputable, reliable and creditworthy customers in A-group companies. ATB utilises a corporate credit scoring model developed by an in-house committee.

The Breakdown of ATB's Cash and Non-Cash Credit Exposure (excluding export L/C) by Industries as of 31.12.2004



4% → Automotive
5% → Others
8% → Trade
11% → Food
14% → Petroleum
16% → Construction
19% → Banks (counter-guarantees)
23% → Finance

The customers are classified into five groups;

Very Good Company
Good Company
Average Company
Weak Company
Very Weak Company

The majority of ATB customers are good or very good companies.

ATB does not allocate reserves for potential non-performing loans using the outcome of its credit scoring system. However, reserves are allocated for 100% of the non-performing loans at the end of each financial year.

Due to economic difficulties experienced in Turkey since 1998, ATB continued to follow a very conservative credit policy during 2004 as well. During this period, ATB worked with only existing credit customers with a strong financial structure, carefully choosing highly creditworthy customers with a good reputation in the market. ATB also continued to work with existing export company clients.

In 2005, ATB aims to increase the volume of its credit exposure with sound and reliable customers.

Cheque and bill collections in addition to repo transactions are carried out for the Bank's commercial customers.

Non-Performing Loans

(TL millions)

	2004	2003
Loans under Legal Follow-up	10,781	13,101
Provisions set aside	10,775	12,805
Net Loans	6	296

The limits and risks of Eximbank credits as of 31.12.2004

(TL millions, FX thousands)

	Limit	Risk
Eximbank pre-shipment TL export credits	TL 3,000	TL 215
Eximbank pre-shipment FX export credits	US$ 5,000	EUR 740
Eximbank letter of guarantee	US$ 8,000	EUR 4,368

With a global network consisting of 338 correspondent banks, ATB has established contacts with 67 countries. This network constantly grows stronger through the development of close relationships that lead to high quality service.

International Banking

In 2004, the International Banking Department of ATB maintained and enhanced strong relationships with both local and foreign correspondent banks, as well as with international financial institutions.

Relying on these strongly-built relationships, the main objective of all banking activities focused on creating a favourable and secure business environment for its customers as well as expanding the volume of business. Moreover, the Bank put special emphasis on implementation of strict money laundering measures by choosing its business partners carefully and following their activities closely.

ATB has played a major role in the expansion of Turkish exports serving as a bridge between Turkey, North Africa and the Middle East. Export-based activities consist of documentary credits, guarantees, export financing and discounting as well as other traditional international banking transactions.

With a global network consisting of 338 correspondent banks, ATB has established contacts with 67 countries. This network constantly grows stronger through the development of close relationships that lead to high quality service. In 2004, substantial visits to correspondents were carried out reciprocally to negotiate the enlargement of banking facilities.

In the coming years, ATB will sustain its aims by prioritising the strengthening of its correspondent bank network and by retaining strong ties and close relationships with them.

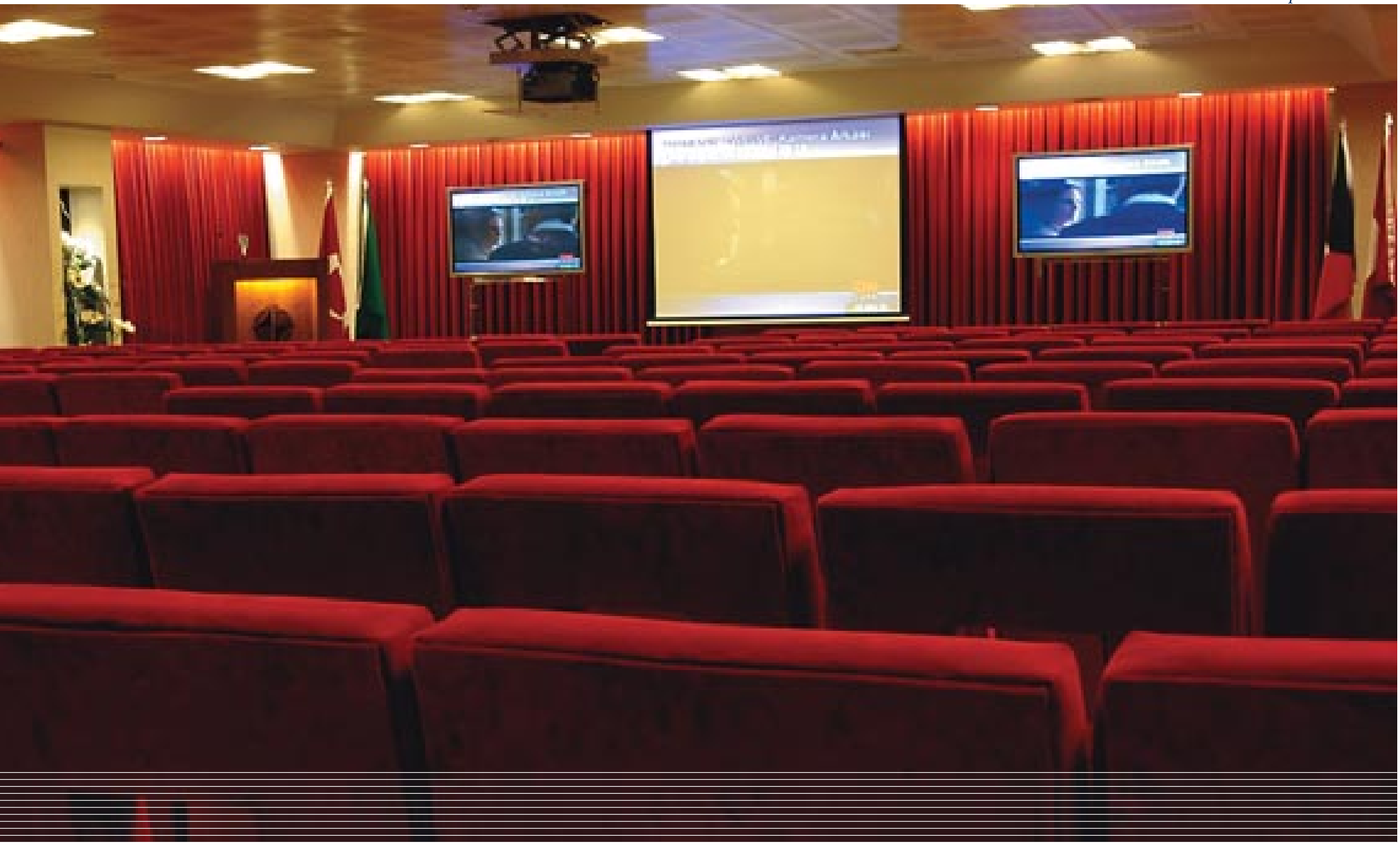
It is the responsibility of this Division to maintain contact with leading local banks and foreign banks to activate bilateral operations and reciprocal business lines. This in turn will lead to increased transaction volumes, as well as suitable terms and conditions for ATB.

Human Resources

ATB has a policy that underlines the importance of the quality of staff, their professionalism and sense of responsibility at all organisational levels. The management has long believed that investing in human resources always generates profit. Thus, its long-standing commitment to human resource investments has led to the development of sophisticated training programmes aimed at technical aspects of banking as well as career enhancement.

This management strategy encourages the staff to improve their personal skills and professional knowledge by attending seminars and workshops conducted by well-reputed academic and professional institutions as well as correspondent banks. Training programmes in 2004 enjoyed a participation rate of 77% of the total staff, at all levels of the organisation, demonstrating the importance the Bank places on training activities.

Throughout the year, the recruitment and placement of skilled bankers and experts was ongoing. Maximum productivity and performance was achieved by placing new staff members in strategic, profit-oriented departments. This process was complemented by internal transfers to new positions via the re-assignment of key personnel among the present staff.



As a result of effective recruitment and training activities, ATB has built a dynamic, experienced and well-educated team of banking professionals. As of the end of December 2004, the Bank had 186 employees, more than half were university graduates with an average of 11 years experience in the banking sector and an average age of 37.

Information Technologies

The IT Department completed the following projects in 2004:

1- New Turkish Lira Conversion

The change in the monetary unit of Turkey by re-denomination of the Turkish Lira by removing six digits, will open up a new era in Turkish financial market in 2005. ATB formed a project team in the middle of 2004 to manage the conversion process successfully. At the end of 2004, the Bank was ready for a seamless transition to the New Turkish Lira (YTL) with the assistance received from the software vendor company.

2- Enterprise Content Management

During 2004, LiveLink Enterprise Content Management application software was completed; ATB started to use LiveLink on Production Environment.

LiveLink creates a flexible environment for users to locate the information they need to conduct their jobs and enables them to organis e information in a way that best suits their requirements.

IT Strategy in 2005

ATB plans to replace its legacy-banking system with the new International Banking System. These changes will pose one of the biggest challenges for the IT Department in 2005. The new system will allow the Bank to establish a new technological environment that will support the establishment of a flexible system, good performance and greater responsiveness. The new Banking Solution will provide:

- an integrated, customer-based and universal banking information system,
- a highly flexible system that will allow the Bank to manage a wider range of products and minimise the risk and processing time for services,
- the automation and simplification for the business processes to reduce the operating cost,
- minimum dependency on the legacy platform,
- implementation of the Risk Management infrastructure,
- the Bank with the facility to address new requirements of Basel II.

The quality of risk management at ATB has been confirmed by Fitch Ratings in their report dated October 2004. This report underlined the impact of a carefully designed strategy to protect financial strength.

Internal Control and Risk Management Systems

Recent developments in banking have made risk management more important than ever. Paralleling developments throughout the banking industry, new regulations on risk management have also come into effect in Turkey. To comply with the Regulation on Banks' Internal Control and Risk Management Systems, two independent control bodies, the Risk Management Department and Internal Control Centre, were established in November 2000 and October 2001, respectively. The management structure and the working principles of these departments have been determined. Additionally, in an effort to manage internal control processes effectively, the duties and responsibilities, policies and procedures and job descriptions of all bodies in the Bank have been described in detail.

The Risk Management Department is responsible for analysing, identifying, measuring, monitoring, reporting and controlling risk. It is further responsible for establishing and applying risk management policies, guidelines and rules in conformity with the principles set forth by the top management and approved by the Board of Directors.

Controlling bodies have intensified their activities to comply with current legislation, regulations and pre-defined departmental policies. The Internal Control Centre continually monitors and supervises the activities of the Bank while the Inspection Council examines, investigates and inspects all aspects of work and functions of both the Bank and its subsidiary companies.

The High Level Risk Committee was established under the chairmanship of a Board Member responsible for the Internal Control and Risk Management System. This Committee was created to prepare and monitor the implementation of risk management strategies and policies of the Bank on a consolidated and unconsolidated basis.

Since the Regulation on Measurement and Assessment of Capital Adequacy of Banks came into effect, the Bank has considered market risk in the calculation of the Capital Adequacy Ratio (CAR). Authorisation and execution of trading limits and standards related to risk have been established. Working along these lines, the Bank has adopted the Standard Method to foresee market risks and calculate the amount of capital required to cover possible losses that may result under this risk category. The Risk Management Department also uses other sophisticated risk analysis methods to effectively manage market, credit and operational risks of the Bank.

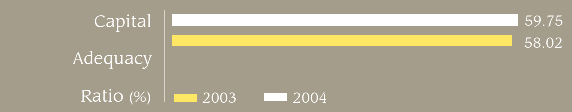
The quality of risk management at ATB has been confirmed by Fitch Ratings in their report dated October 2004. This report underlined the impact of a carefully designed strategy to protect financial strength.

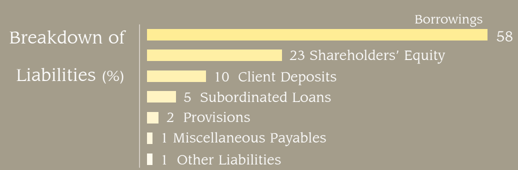
Anti-Money Laundering (AML), Know Your Customer (KYC) and Customer Due Diligence (CDD) Policy & Procedure have been prepared and information has been provided to all staff to avoid the risk of any money laundering. Also, an annual training programme regarding AML was carried out in 2004.

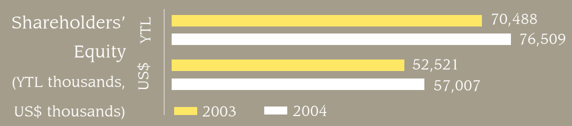
ATB's primary objective is to achieve the qualitative standards of the Basel Committee, by applying policy and procedures and by developing risk management and internal control culture within the Bank. In 2004, ATB continued to prepare studies to ready itself for the Basel II rules, which will go into effect by the end of 2006.

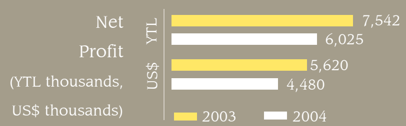
The ultimate goal of Internal Control and Risk Management Systems is to safeguard the Bank's assets by striking the right balance between risk and return, in compliance with ATB's goals and strategies.

While year 2003 ended with a profit of YTL 7,542,000, in 2004, ATB succeeded in creating an inflation adjusted net profit of YTL 6,025,000, equivalent to US$ 4,489,000.









Financial Highlights
(According to the BRSA regulations)

The Capital Adequacy Ratio, which is the most important indicator of a bank's financial strength, showed improvement in 2004. The ratio, which was 58.02% as of December 31, 2003, already well above the legal requirement of 8%, rose to 59.75% as of the end of 2004.

The Marketable Securities item which includes Trading Securities and Investment Securities Held to Maturity had the largest share with 53% of the assets at the end of 2004. At the end of 2003, this figure was 57%. Marketable Securities decreased by 9%, from YTL 191,731,000 to YTL 174,149,000. The loan portfolio, with a share of 21% in 2004, was another significant investment item in the total assets. Loans increased by 56%, from YTL 44,853,000 to YTL 70,082,000.

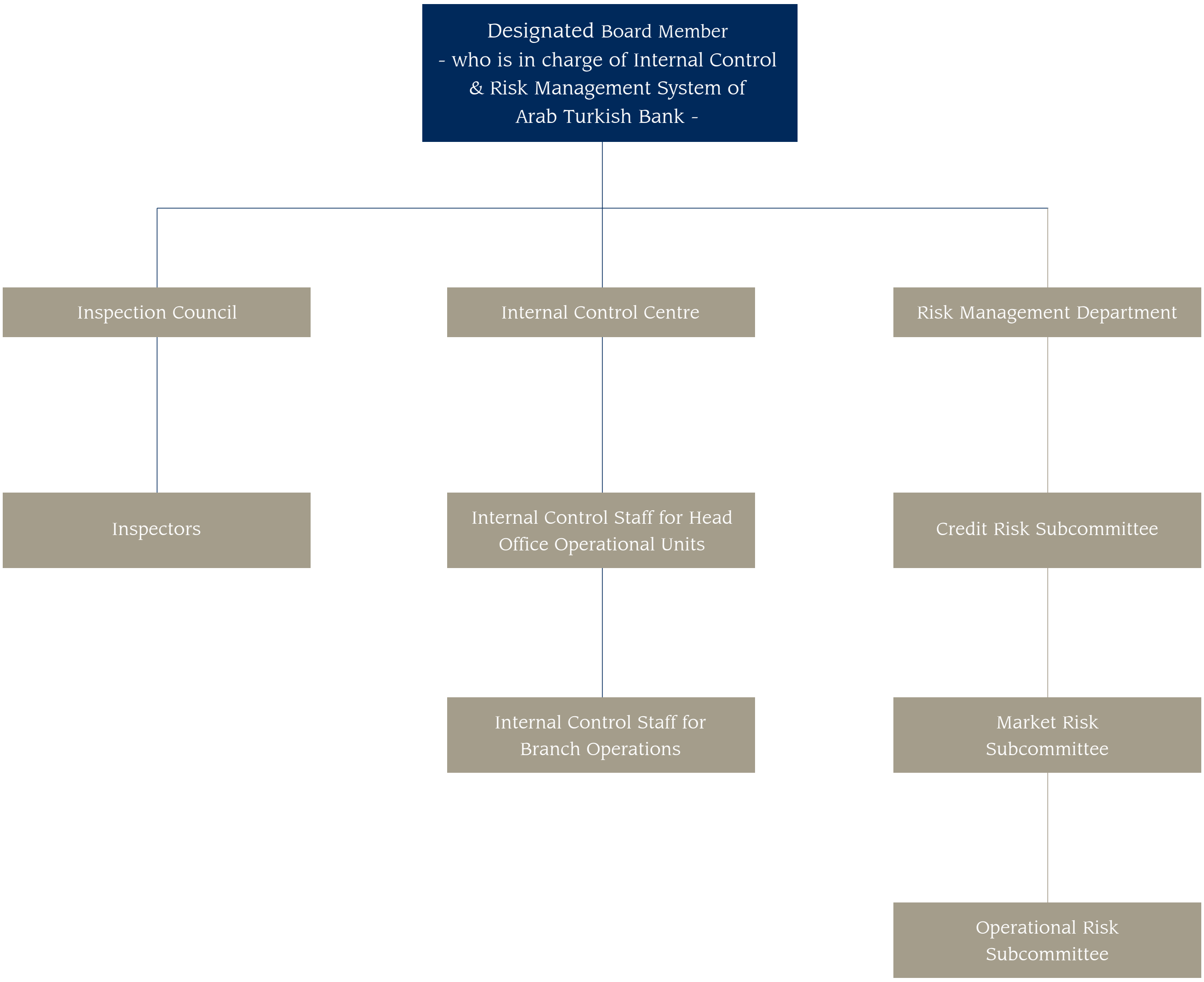
Among all funding sources, the Borrowing from Banks item played the most important role with a 58% share in 2004, compared to a 59% share in 2003. In 2004, this item decreased by 4% to YTL 192,646,000; in 2003, the total was YTL 200,865,000. The next important source was the Shareholders' Equity with a 23% share, followed by Client Deposits constituting 10% of total liabilities at the end of 2004; the Shareholders' Equity and Client Deposits shares at the end of 2003 stood at 21% and 10 %, respectively. The share of the subordinated loan totalling US$ 12 million was 5% of total liabilities as of the end of 2004.

The Shareholders' Equity increased by 8.54% to reach YTL 76,509,000 at the end of 2004, up from its level of YTL 70,488,000 as of December 31, 2003. In US dollar terms Shareholders' Equity increased by 8.6% to reach US$ 57 million by the end of 2004; at the end of 2003 this figure stood at US$ 52.5 million.

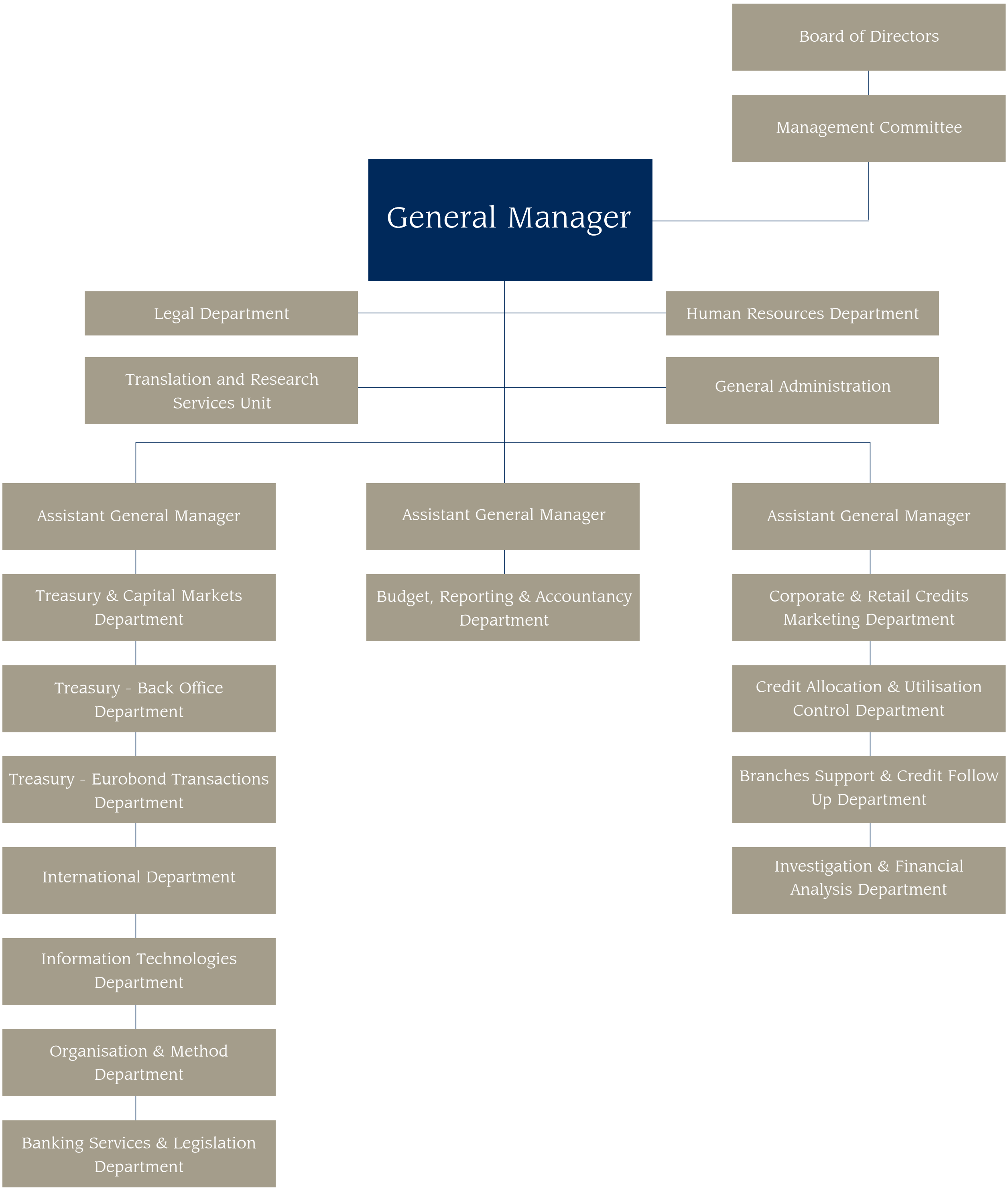
While year 2003 ended with a profit of YTL 7,542,000, in 2004, ATB succeeded in creating an inflation adjusted net profit of YTL 6,025,000, equivalent to US$ 4,489,000.

** In analysis, the restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, as of December 31, 2004, in accordance with the International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29). In other words, the December 31, 2003, figures of Arab Turkish Bank have been restated and adjusted to the December 31, 2004 figures by taking the conversion factor as 1.138402.*

Organisation of Arab Turkish Bank's Internal Control & Risk Management Function



Arab Turkish Bank
General Management Organisational Chart



The capital adequacy ratio of the Bank is 59.75% at end 2004 (58.02% at end-2003) and its free capital is among the best of the Fitch-rated banks in Turkey.

RATINGS OF ATB ASSIGNED BY FITCH RATINGS

ATB received ratings from Fitch Ratings, a leading international rating agency, in 2004. According to the rating agency, the ratings of the Bank reflect its strong capitalisation, improved asset quality and enhanced risk management procedures.

In Fitch Rating's report, it is stated that:

- The capital adequacy ratio of the Bank is 59.75% at end 2004 (58.02% at end-2003) and its free capital is among the best of the Fitch-rated banks in Turkey.
- The Bank improved its operating profitability in 2003 due to foreign exchange transaction gains, stable expenses and absence of a non-performing loan provision.
- Reserve coverage is sound.

RATINGS OF ATB

Foreign Currency	
Long-term	B
Short-term	B
Outlook	Stable
Local Currency	
Long-term	B
Short-term	B
Outlook	Stable
National	
Long-term	BBB (tur)
Outlook	Stable
İndividual	D
Support	5

A&T LEASING

A&T Leasing is ATB's subsidiary by 99.98%. Employing the principle of "We are here to serve our customers", A&T Leasing aims to expand its business portfolio utilis ing modern marketing tools. Following closely the improving economic conditions, A&T Leasing managed to swiftly increase its market penetration. The management believes that by augmenting its market share, the Company will become significantly more resilient to any economic problems the country may encounter in the years ahead. Concentrating on leasing transactions tailored to the specific requirements of its clients, A&T Leasing achieved noteworthy results in 2004.

Competition in the leasing sector intensified considerably during 2004, as the number of active leasing companies increased. The downward trend in interest rates on time deposits and marketable securities will continue in the short-run and will eventually bring down interest rates in leasing transactions.

In 2004, A&T Leasing took the significant step of extending its business reach by strategically concentrating on medium-scale customers. The synergy arising from the Company's activities and that of its parent bank were maximised. As a result, total business volume increased to US$ 29 million as at December 31, 2004 from last years' level of US$ 26 million.

FINANCIAL HIGHLIGHTS
(Billion TL)

	2004	2003	Growth %
Total Assets	64.903	53.714	21
Cash & Due from Banks	24.327	15.661	55
Outstanding Lease Receivables-Net	34.024	36.926	-8
Short-Term Loans Received	23.134	24.824	-7
Medium-Term Loans Received	19.514	14.478	35
Net Income	6.681	2.146	211
Shareholders Equity	21.446	12.632	70

Arab Turkish Bank

Consolidated Financial Statements as of December 31, 2004
Together With Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Arab Turkish Bank

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

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

The consolidated financial statements of the Group for the year ended December 31, 2003 were audited by other auditors who in their report dated February 26, 2004, expressed an unqualified opinion on these statements.

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

Without qualifying our opinion, we draw attention to the fact that, as further explained in Note 17, the Company restated its 2003 financial statements due to the change in accounting treatment of subordinated loan. As a consequence, the previously reported legal reserves and accumulated deficit and subordinated loan balances as of December 31, 2003 have increased by TL 6,366 billion.

Ernst & Young

February 4, 2005
İstanbul, Turkey

Arab Turkish Bank

CONSOLIDATED BALANCE SHEET
As at December 31, 2004

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

ASSETS

	Notes	2004	2003
Cash and balances with the Central Bank	3	1,235	1,316
Deposits with banks and other financial institutions	3	26,994	40,335
Other money market placements	3	7,315	6,358
Reserve deposits at the Central Bank	4	18,395	18,073
Trading securities	5	38,181	55,213
Available for sale securities	5	1,580	1,580
Held to maturity securities	5	144,168	144,486
Loans, net	6	70,316	44,791
Minimum lease payments receivable, net	7	33,999	37,023
Premises and equipment	8	22,160	25,552
Intangible assets	9	411	255
Deferred tax asset	14	5,729	-
Other assets	10	4,944	2,715
Total assets		**375,427**	**377,697**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

LIABILITIES AND EQUITY

	Notes	2004	2003
Deposits	**11**	**43,989**	**40,660**
Other money market deposits	11	3,517	2,649
Funds borrowed and debt securities	12	221,769	231,592
Deferred tax liability	14	-	1,171
Other liabilities and provisions	13, 15	8,418	8,073
Income taxes payable	14	-	686
Total liabilities		**277,693**	**284,831**
Equity			
Share capital issued	16	261,456	251,836
Subordinated loan	17	25,440	25,440
Revaluation surplus on buildings	8	-	1,902
Legal reserves and accumulated deficit	18	(189,162)	(186,312)
Total equity		**97,734**	**92,866**
Total liabilities and equity		**375,427**	**377,697**

Arab Turkish Bank

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2004

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

	Notes	2004	2003
Interest income			
Interest on originated loans and advances		6,775	3,685
Interest on securities		21,848	18,197
Interest on deposits with banks and other financial institutions		3,859	3,999
Interest on other money market placements		72	7,304
Interest on financial leases		4,530	3,370
Other interest income		3	288
Total interest income		**37,087**	**36,843**
Interest expense			
Interest on deposits		987	947
Interest on other money market deposits		661	71
Interest on funds borrowed and debt securities		5,506	4,764
Other interest expense		161	221
Total interest expense		**7,315**	**6,003**
Net interest income		**29,772**	**30,840**
Provision for impairment on loan and lease receivables, net of recoveries	6, 7	(505)	(113)
Net interest income after provision for possible loan and lease receivables losses		**29,267**	**30,727**
Foreign exchange gain (loss), net		(1,009)	3,577
Net interest income after provision for possible loan and lease receivables losses and foreign exchange gain (loss)		**28,258**	**34,304**
Other operating income		**6,851**	**9,076**
Fees and commissions income		1,604	1,140
Income from banking services		3,603	4,582
Trading income, net		178	270
Other income		1,466	3,084
Other operating expense		**23,436**	**22,938**
Fees and commissions expense		97	182
Salaries and employee benefits	20	14,426	15,158
Depreciation and amortization	8, 9	1,387	1,495
Taxes other than on income		548	549
Other expenses	21	6,978	5,554
Profit from operating activities before income tax and monetary gain (loss)		**11,673**	**20,442**
Income tax credit (expense)	14	4,835	(1,944)
Monetary loss		(9,738)	(14,945)
Net profit		**6,770**	**3,553**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2004

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

	Share Capital	Adjustment to share capital (Note 16)	Subordinated Loan (Note 17)	Revaluation surplus on buildings (Note 8)	Legal reserves and accumulated deficit	Total
At January 1, 2003	**20,000**	**231,836**	**25,440**	**5,311**	**(189,865)**	**92,722**
Change in revaluation surplus	-	-	-	(3,409)	-	(3,409)
Translation gain	-	-	(6,366)	-	-	(6,366)
Net profit for the year	-	-	-	-	3,553	3,553
At December 31, 2003 as previously reported	**20,000**	**231,836**	**19,074**	**1,902**	**(179,946)**	**92,866**
Effect of adjustment Note (17)	-	-	6,366	-	(6,366)	-
At December 31, 2003 as restated	**20,000**	**231,836**	**25,440**	**1,902**	**(186,312)**	**92,866**
Issue of share capital- from reserves (Note 16)	9,000	620	-	-	(9,620)	-
Change in revaluation surplus	-	-	-	(1,902)	-	(1,902)
Net profit for the year	-	-	-	-	6,770	6,770
At December 31, 2004	**29,000**	**232,456**	**25,440**	**-**	**(189,162)**	**97,734**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2004

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

	2004	2003
Cash flows from operating activities		
Interest received	35,697	36,234
Interest paid	(7,188)	(6,389)
Fees and commissions received	1,604	1,140
Income from banking services	3,603	4,582
Trading income	178	271
Recoveries	746	1,884
Fees and commissions paid	(97)	(182)
Cash payments to employees and other parties	(13,725)	(15,158)
Cash received from other operations	1,457	1,200
Cash paid due to other operations	(6,057)	(5,990)
Income taxes paid	(4,087)	(6,846)
Cash flows from operating activities before changes in operating assets and liabilities	**12,131**	**10,746**
Changes in operating assets and liabilities		
Net change in trading securities	15,802	(49,117)
Net change in reserve deposits at the Central Bank	(322)	4,077
Net change in loans and advances	(7,547)	5,201
Net change in minimum lease payments receivable	3,462	(13,256)
Net change in other assets	1,796	3,842
Net change in deposits	3,381	(32,450)
Net change in other money market deposits	868	1,890
Net change in other liabilities	(984)	(23,792)
Net cash provided by / (used in) operating activities	**28,587**	**(92,859)**
Cash flows from investing activities		
Purchases of investment securities	(29,922)	(102,404)
Proceeds from sale and redemption of investment securities	10,999	78,780
Purchases of premises and equipment	(1,211)	(4,793)
Proceeds from the sale of premises and equipment	18	314
Purchase of intangible assets	(297)	-
Monetary effect of investing activities	17,143	32,194
Net cash (used in) / provided by investing activities	**(3,270)**	**4,091**
Cash flows from financing activities		
Proceeds from funds borrowed and debt securities	208,230	231,857
Repayment of funds borrowed and debt securities	(190,724)	(188,361)
Monetary effect of financing activities	(30,475)	(32,556)
Net cash (used in) / provided by financing activities	**(12,969)**	**10,940**
Effect of net foreign exchange difference and monetary gain (loss) on monetary items	**(6,974)**	**(5,002)**
Net increase / (decrease) in cash and cash equivalents	5,374	(82,830)
Cash and cash equivalents at beginning of year	29,635	112,465
Cash and cash equivalents at end of year	**35,009**	**29,635**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004

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

1. CORPORATE INFORMATION

General

Arab Turkish Bank ("The Bank") has been established on July 18, 1976 as a joint stock company in accordance with an agreement signed between the Republic of Turkey and the Libyan Arab Republic. The Bank is administrated in conformity with the Articles of Association published in Official Gazette on July 18, 1976 and also as per the "Agreement for the Establishment of Joint Bank between the Libyan Arab Republic and the Republic of Turkey" dated August 11, 1975. The duration of the Bank is 50 years from the commencement of the Agreement. This period shall be renewable automatically unless agreed otherwise by an Extraordinary General Meeting held at least one year prior to expiration. The Bank has three branches; two in İstanbul and one in Ankara.

In accordance with the Articles of Association, the Board of Directors shall elect a Chairman among its Turkish members and a Deputy Chairman among its Arab members. The General Manager shall always be nominated by the Arab Shareholders and confirmed by the Board.

The Bank has one subsidiary, and has direct and indirect equity participations in 7 companies mainly operating in the financial sector.

The consolidated financial statements of the Bank are authorized for issue by the management on February 4, 2005. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Group

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

The operations of the Group consist of corporate banking and financial leasing services, all provided in Turkey.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect. The consolidated financial statements have been prepared on an historical cost convention except for the measurement at fair value of derivative financial instruments, trading securities and buildings.

The Bank and its subsidiary which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law, accounting standards promulgated by the other relevant laws and regulations as Turkish Commercial Code and Tax Legislation. The financial statements have been prepared from statutory financial statements of the Bank and its subsidiary and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of deferred taxation (IAS 12), lease accounting (IAS 17) and employee termination benefits (IAS 19).

Adjustments and Reclassifications to 2003 Financial Statements

Certain adjustments (Note 17) and reclassifications have been made to 2003 financial statements for comparative presentation purposes. Such reclassifications mainly relate to presentation in cash flow statement and presentation of income accrual of lease receivables.

Functional Currency

Functional currency of the Group is TL. As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), as the new currency unit for the Republic of Turkey effective January 1, 2005. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 (full) through out the period until complete phase-out of TL.

In accordance with the declaration of the Banking Regulation and Supervision Agency dated January 5, 2005, the Bank continued to use the Turkish Lira (TL) as the functional and presentation currency as of December 31, 2004. Effective January 1, 2005 the Bank's functional and presentation currency will be YTL and financial statements including comparative figures for the prior period / year(s) will be presented in thousands of YTL.

The restatement for the changes in the general purchasing power of TL as of December 31, 2004 is based on IAS 29- Financial Reporting in Hyperinflationary Economies. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the monetary unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2004, the three year cumulative rate has been 70% (2003 - 181 %) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and

conversion factors as of the end of the three years ended December 31, 2004 are given below:

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

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

- the consolidated financial statements as of December 31, 2003, including monetary assets and liabilities reported therein, which were previously reported in terms of the monetary unit current at the end of that year is restated in its entirety to the measuring unit current at December 31, 2004.

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

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

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

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

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

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

Basis of Consolidation

The consolidated financial statements of the Group include the Bank and its subsidiary which it controls. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights.

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

The subsidiary included in consolidation and its shareholding percentage at December 31, 2004 and 2003 is as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights %
A & T Finansal Kiralama Anonim Şirketi	Turkey	Leasing	99.98

Foreign Currency Translation

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

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

Dates	EUR / TL (full)	US$ / TL (full)
December 31, 2002	1,703,477	1,634,501
December 31, 2003	1,745,072	1,395,835
December 31, 2004	1,826,800	1,342,100

Premises and Equipment

Equipment is stated at cost less accumulated depreciation and any impairment in value. Buildings are measured at fair value less depreciation.

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

	Years
Buildings	50
Computers and office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	Lease period

Following the initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of balance sheet. Any revaluation deficit directly offsetting a previous surplus in the same asset is directly offset against the surplus in the asset revaluation reserve. Additionally, accumulated depreciation as at revaluation date is eliminated against the carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

Intangible assets

Intangible assets are capitalized at cost. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be 5 years. Amortisation is charged to the income statement.

Intangible assets are tested for impairment annually. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading or as available for sale, the change in value is recognized through profit and loss, and in equity, respectively. The Group maintains three separate securities portfolio, as follows:

Trading Securities

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

Held to Maturity Securities

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

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

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

Available for Sale Securities

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

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

For quoted investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by valuation techniques which include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment (if any).

Repurchase and Resale Transactions

The Group enters into short-term sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement, continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counter party liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements.

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

Offsetting

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

Recognition and Derecognition of Financial Instruments

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

Cash and Cash Equivalents

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

Loans

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

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

Provisions for Possible Loan and Lease Receivable Losses

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectable amounts in the Group's loan and lease receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan; such loans are considered impaired and classified as "loans in arrears". The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

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

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

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

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

Deposits and Funds Borrowed

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

Employee Benefits

(a) Defined Benefit Plans:

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

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

(b) Defined Contribution Plans:

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions

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

Leases

The Group as Lessee

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as Lessor

Finance Lease

The Group classifies leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized immediately as expenses.

Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Recognition of interest on loans in arrears is suspended. Interest income includes coupons earned on fixed income investment securities, and accrued discount and premium on treasury bills and other discounted instruments.

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

Income Tax

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

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

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

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

Derivative Financial Instruments

The Group enters into transactions in derivative instruments primarily forwards in the foreign exchange markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value.

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

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

Fiduciary Assets

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

Use of Estimates

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

3. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	1,003	708
Balances with the Central Bank	84	203
Other	148	405
Cash and balances with the Central Bank	**1,235**	**1,316**
Deposits with banks and other financial institutions	**26,994**	**40,335**
Interbank placements	7,315	6,358
Other money market placements	**7,315**	**6,358**
Total cash and cash equivalents	**35,544**	**48,009**
Less: Time deposits with original maturities of more than three months and blocked cash	535	18,374
Cash and cash equivalents in the cash flow statement	**35,009**	**29,635**

As of December 31, 2004 and 2003, interest range of deposits and placements are as follows:

	2004				2003			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with the Central Bank	75	9	-	1.04	135	68	16.00	0.41
Deposits with banks and other financial institutions	13,728	13,266	22.63	2.98 – 3.08	12,785	27,550	27.61	0.5 - 2.1
Interbank placements	600	6,715	18.00	1.00 – 1.13	6,358	-	26	-
Total	**14,403**	**19,990**			**19,278**	**27,618**		

As of December 31, 2004, deposits at banks amounting to TL 535 (2003 - TL 18,374) is blocked with respect to the embargo applied to Libyan companies by the United States of America. The embargo has been abolished in 2004, however some of the correspondent banks have not yet released the blockage on deposits due to ongoing procedures.

4. RESERVE DEPOSITS AT THE CENTRAL BANK

	2004	2003
Turkish Lira	75	79
Foreign currency	18,320	17,994
	18,395	**18,073**

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

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

As of December 31, 2004 and 2003, reserve deposit rates applicable for Turkish Lira and foreign currency deposits are 6% and 11%, respectively.

As of December 31, 2004, the interest rates applied for Turkish Lira and foreign currency reserve deposits are 12.50% and 1.04% (2003 - 16% and 0.41%), respectively.

5. INVESTMENTS IN SECURITIES

	2004		2003	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Trading securities at fair value:				
Debt instruments				
Turkish treasury bills and government bonds	16,294	24.4 – 29.5	29,327	23.6 - 25.7
Foreign currency denominated government bonds issued by the Turkish Government	21,887	4.5 – 5.2	25,886	3.25
Total trading securities	**38,181**		**55,213**	
Available for sale securities at cost				
Equity instruments- unlisted	1,580	-	1,580	-
Total available for sale securities	**1,580**		**1,580**	
Held to maturity securities at amortized cost:				
Debt instruments				
Turkish treasury bills and government bonds	9,520	25 – 49	9,288	26 – 38
Eurobonds and Foreign currency denominated Turkish government bonds	134,648	5 – 7	135,198	5 – 11
Total held to maturity securities	**144,168**		**144,486**	

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

		Amount	
	Ownership	2004	2003
Arab Financial Services Co.	1.25%	1,448	1,448
İMKB Takas ve Saklama Bankası A.Ş.	0.01%	25	25
Yatırım Finansman A.Ş.	0.10%	63	63
Güç Birliği Holding A.Ş.	Less than 1%	41	41
Akdeniz Gübre San. A.Ş.	Less than 1%	1	1
Toros Gübre ve Kimya End. A.Ş.	Less than 1%	1	1
Tekfen Dış Ticaret A.Ş.	Less than 1%	1	1
		1,580	**1,580**

Carrying value of debt instruments given as collateral:

	2004	2003
Trading securities	9,259	3,618
Securities subject to repurchase agreements	617	733
Held to maturity securities	18,851	15,036

As of December 31, 2004, the carrying value and the nominal amounts of held to maturity securities kept in the Central Bank and İstanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Bank Inc.) for legal requirements and as a guarantee for stock exchange and money market operations are TL 12,473 and TL 6,378 (2003 – TL 566 and TL 17,644), respectively. The trading securities with a fair value of TL 9,259 (2003 – TL 8,215) are given as collaterals for Central Bank liquidity requirements.

6. ORIGINATED LOANS AND ADVANCES

	2004						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	15,408	24,394	30,967	70,769	18 - 28	5.2 - 5.75	5 - 10
Consumer loans	116	-	44	160	36 – 38	-	0.9
Total loans	15,524	24,394	31,011	70,929	-	-	-
Loans in arrears	10,781	-	-	10,781	-	-	-
Less: Reserve for impairment on loans	(10,775)	-	-	(10,775)	-	-	-
Less: Reserve calculated on portfolio basis	(619)	-	-	(619)	-	-	-
	14,911	**24,394**	**31,011**	**70,316**	**-**	**-**	**-**

	2003						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	6,829	15,667	22,343	44,986	29	5 - 9	5 – 10
Consumer loans	147	-	-	147	51 - 60	-	-
Total loans	6,976	15,667	22,343	45,133	-	-	-
Loans in arrears	13,101	-	-	13,101	-	-	-
Less Reserve for impairment on loans	(12,805)	-	-	(12,805)	-	-	-
Less: reserve calculated on portfolio bases(491)	-	-	(491)	-	-	-	
	6,781	**15,667**	**22,343**	**44,791**	**-**	**-**	**-**

As of 31 December 2004, foreign currency indexed loans amounting to TL 31,011 (US $ 15,858,500 and EURO 5,152,891) (2003: TL 22,343 corresponding to US $ 12,406,058, EURO 1,324,000).

Such loans are recorded at their initial transaction date TL values, and foreign currency gains or losses on these loans are included under interest on loans in the income statement.

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

Movements in the reserve for possible loan losses:

	2004	2003
At January 1	12,805	16,506
Provision for impairment on loans	101	190
Recoveries	(746)	(1,884)
Provision net of recoveries	(645)	(1,704)
Monetary gain	(1,385)	(2,007)
At December 31	**10,775**	**12,805**

As of December 31, 2004, there are no rescheduled loans at the loan portfolio of the Bank.

As of December 31, 2004, loans and advances on which interest is not being accrued, or where interest is suspended, amounted to TL 10,843 (2003 – TL 13,101). There is no uncollected interest accrued on impaired loans.

7. MINIMUM LEASE PAYMENTS RECEIVABLE

Gross investment in finance leases receivable:

	2004	2003
Not later than one year	22,942	23,406
Later than one year and not later than five years	15,028	17,957
Minimum lease payments receivable, gross	37,970	41,363
Less: Unearned interest income	(3,971)	(4,340)
Net investment in finance leases	33,999	37,023
Less: Reserve for impairment	-	-
Minimum lease payments receivable, net	**33,999**	**37,023**

Net investment in finance leases may be analyzed as follows:

	2004	2003
Not later than 1 year	20,270	20,556
Later than 1 year and not later than five years	13,729	16,467
	33,999	**37,023**

As of December 31, 2004, minimum lease receivable denominated in foreign currency, in US$ and Euro, are equivalent of TL 8,718 and TL 23,197 (2003 - TL 9,094 and TL 22,885), respectively.

8. PREMISES AND EQUIPMENT

	At January 1 2004	Additions/ Depreciation charge	Disposals	Effect of appraisal	At December 31 2004
Land & Buildings	29,393	623	-	(9,612)	20,404
Computers and office equipments	4,051	122	-	-	4,173
Furniture and fixtures	3,166	466	(63)		3,569
Vehicles	979	-	-	-	979
Leasehold improvements	201	-	-	-	201
Total cost	**37,790**	**1,211**	**(63)**	**(9,612)**	**29,326**
Buildings	(5,779)	(485)	-	(6,264)	-
Computers and office equipments	(3,377)	(485)	-	-	(3,667)
Furniture and fixtures	(2,542)	(276)	54	-	(2,764)
Vehicles	(447)	(155)	-	-	(602)
Leasehold improvements	(93)	(40)	-	-	(133)
Total accumulated depreciation	**(12,238)**	**(1,246)**	**54**	**(6,264)**	**(7,166)**
Net carrying amount	**25,552**	**(35)**	**(9)**	**(3,348)**	**22,160**

As at 31 December 2004, revalued amount of land and buildings has been examined and reviewed by another appraiser firm and the net book value of the land and buildings is stated to be TL 20,404. The carrying value of fixed assets is decreased to the revalued amount by decreasing the cost and the revalued amount is depreciated over the remaining useful life of the fixed asset.

Fixed Asset Type	Revaluation Date	Revalued Amount	Indexed Carrying Amount	2004 Revaluation Surplus
Buildings	2004	20,404	23,752	-

Fixed Asset Type	Revaluation Date	Revalued Amount	Indexed Carrying Amount	2003 Revaluation Surplus
Buildings	2003	23,614	20,897	2,717
Less: Deferred tax charge debited to revaluation surplus				(815)
Net revaluation surplus as of December 31, 2003				**1,902**

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

9. INTANGIBLES

	Total
At December 31, 2003, net of accumulated amortization	255
Additions	297
Amortization charge for the year	(141)
At December 31, 2004, net of accumulated amortization	**411**
At December 31, 2003	
Cost	2,010
Accumulated amortization	(1,755)
Net carrying amount	**255**
At December 31, 2004	
Cost	**2,307**
Accumulated amortization	**(1,896)**
Net carrying amount	**411**

Intangible assets comprise mainly softwares and licenses, which are amortized over a period of 5 years.

10. OTHER ASSETS

	2004	2003
Assets held for sale	2,101	1,932
Assets to be leased	1,235	129
Prepaid tax	540	-
Prepaid expenses	192	224
VAT receivables	472	-
Advances given	83	19
Others	321	411
	4,944	**2,715**

Assets to be leased are the purchases of machinery and equipment from domestic vendors made in the current year for the financial lease agreements signed in the same year for projects in progress of its customers, which will be completed in the subsequent year. As of December 31, 2004 and 2003, the equipment to be leased balance includes advances given and cost of the equipment to be leased together with related expenses.

11. DEPOSITS

Deposits from other banks

	2004				2003			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Deposits from banks								
Demand	-	8,682	-	0.61	-	6,237	-	-
Time	-	2,015	18.0	2.20	-	-	-	-
Total	**-**	**10,697**			**-**	**6,237**		
Customer Deposits								
Demand	81	5,588	-	-	133	5,932	-	-
Time	580	11,033	17.0	2.0 – 2.5	549	13,156	25-27	1-4
	661	**16,621**			**682**	**19,088**		
Commercial and other								
Demand	411	13,277	-	-	333	11,136	-	-
Time	140	2,182	14.2	2.1 – 2.6	162	3,022	25-27	1-4
	551	**15,459**			**495**	**14,158**		
Total	**1,212**	**42,777**			**1,179**	**39,481**		

The Bank collects deposits mainly from local companies and local individuals.

Other money market deposits

	December 31, 2004				December 31, 2003			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Obligations under repurchase agreements- due to customers	617	-	9.5 - 10.5	-	543	-	15-22	-
Interbank deposits	2,900	-	18.0	-	2,106	-	-	-
Total	**3,517**	**-**			**2,649**	**-**		

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

12. FUNDS BORROWED AND DEBT SECURITIES

	2004				
	Amount		Effective interest rate (%)		
	Turkish Lira	Foreign currency	Turkish Lira	EUR	US$
Short-term					
Fixed interest	218	205,917	16	2.0 - 4.5	2.0 - 2.4
Medium/long-term					
Fixed interest	-	15,634	-	3.4 - 4.1	3.6 - 3.7
Total	**218**	**221,551**			

	2003				
	Amount		Effective interest rate (%)		
	Turkish Lira	Foreign currency	Turkish Lira	EUR	US$
Short-term					
Fixed interest	57	217,027	31	2.8	1.4
Medium/ long-term					
Fixed interest	-	14,508	33	2.5 - 3.1	1-2
Total	**57**	**231,535**			

13. OTHER LIABILITIES AND PROVISIONS

Other liabilities

	2004	2003
Transitory accounts	2,506	1,045
Cash collaterals	2,016	1,920
Taxes other than on income	626	854
Payment orders	177	60
Other liabilities	674	2,517
	5,999	**6,396**

Provisions

	Employee Termination Benefits	Other	Total
At December 31, 2003	1,629	48	1,677
Interest cost	229	-	229
Net provision	748	-	748
Utilized/ paid	(31)	-	(31)
Monetary gain	(198)	(6)	(204)
At December 31, 2004	**2,377**	**42**	**2,419**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 1,575 million and TL 1,390 million at December 31, 2004 and 2003, respectively-historical) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as of December 31, 2004 and 2003, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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

	2004	2003
Discount rate	16%	25%
Expected rates of salary/limit increases	10%	18%

Actuarial gain and losses are recognized in the income statement in the period they occur.

14. INCOME TAXES

General Information

In 2003, the effective corporation tax rate was 30%. However, with Law No. 5035 published at January 2, 2004, only for the year 2004 the corporation tax is calculated at 33% and effective from January 1, 2005 corporate tax rate will be 30%.

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

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

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

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

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

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

Major components of income tax expense for the period ended December 31, 2004 are:

	2004	2003
Consolidated income statement		
Current income tax		
Current income tax charge	1,923	686
Deferred income tax		
Relating to origination and reversal of temporary differences and rate changes	(6,758)	1,258
Income tax expense (credit) reported in consolidated income statement	**(4,835)**	**1,944**
Consolidated statement of changes in equity		
Current income tax	-	-
Deferred income tax		
Change in revaluation of land and buildings	(815)	-
	(815)	**-**

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

	2004	2003
Net profit/(loss) from ordinary activities before income tax after monetary loss	4,902	11,863
At Turkish statutory income tax rate of 33% (2003-30%)	(1,618)	(3,559)
Income not subject to tax	1,826	-
Expenditure not allowable for income tax purposes	(1,270)	-
Investment allowances	4,624	-
Effect of restatement and other permanent differences	1,273	1,615
Income tax charge	**4,835**	**(1,944)**

Breakdown of income tax payable is as follows:

	2004	2003
Current income tax charge	1,923	686
Paid within the year	(2,463)	-
(Prepared taxes)/income taxes payable	**(540)**	**686**

Deferred income tax

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

	2004	2003
Deferred income tax liabilities		
Valuation differences of premises and equipment, intangibles and assets held for resale	-	815
Accounting for finance leases	-	713
Valuation differences of investment securities	-	430
Gross deferred income tax liabilities	**-**	**1,958**
Deferred income tax assets		
Losses available for offset against future taxable income	-	-
Valuation differences of premises and equipment, intangibles and assets held for resale	152	-
Valuation differences of investment securities	818	-
Provision for general loan reserve	186	307
Post-employment benefits	712	480
Investment incentives, deducted from income tax	1,375	-
Accounting for finance leases	2,450	-
Gross deferred income tax assets	5,729	787
Net deferred income tax asset/(liability)	**5,729**	**(1,171)**

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

At December 31, 2003	(1,171)
Deferred income tax credit recognized in income statement	7,573
Deferred income tax charge recognized in shareholders' equity	(815)
Monetary gain	142
At December 31, 2004	**5,729**

15. 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.

The fair values of forward contracts are 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.

As of December 31, 2004 and 2003, the forward contracts mature within one to three months after the respective balance sheet dates.

As of December 31, 2004 the Group has forward securities sale contract with notional amounts of TL 677 sale (December 31, 2003 - None). As of December 31, 2004 fair value relating to such contracts amounted to TL 671 (December 31, 2003 – None). Such contracts mature within two months after the respective balance sheet dates.

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

16. SHARE CAPITAL

	2004	2003
Number of common shares, TL 1,000, par value		
Authorized, issued and outstanding	29,000	20,000

As of December 31, 2004, the Bank's historical subscribed and issued share capital was TL 29,000 (historical terms).

The movement of the share capital (in numbers and in historical TL) of the Bank is as follows:

	2004		2003	
	Number (million)	TL	Number (million)	TL
At January 1,	20,000	20,000	20,000	20,000
Shares issued in				
- bonus shares (from prior year profit/losses)	9,000	9,000	-	-
At December 31	**29,000**	**29,000**	**20,000**	**20,000**

As of December 31, 2004 and 2003, the composition of shareholders and their respective percentages of ownership can be summarized as follows:

	2004		2003	
	Amount	%	Amount	%
Libyan Arab Foreign Bank	13,830	47.69	9,538	47.69
T. İş Bankası A.Ş.	5,800	20.00	4,000	20.00
T.C. Ziraat Bankası A.Ş.	4,350	15.00	3,000	15.00
Tekfenbank A.Ş.	3,164	10.91	2,182	10.91
Others	1,856	6.40	1,280	6.40
	29,000	**100.00**	**20,000**	**100.00**
Restatement effect	232,456		231,836	
	261,456		**251,836**	

Each shareholder has voting rights equivalent to their number of shares.

17. SUBORDINATED LOAN

The subordinated loan is borrowed from the Bank's major shareholder Libyan Arab Foreign Bank at December 30, 2002 amounting to US$ 12,000,000 with a maturity of 5 years + 1 month and an interest of Libor + 2. It has been committed that this loan is going to be incorporated in paid in capital at the end of its maturity.

As of December 31, 2003 and before, subordinated loan was reflected in the financial statements by converting the US$ amount with year-end rate. As of December 31, 2004 the Company changed the accounting treatment of subordinated loan retroactively and treated this loan like a share capital advance as a result of which, the balance is restated to be presented in equivalent purchasing power at year end. The effect of related restatement on the financial statements as of December 31, 2003 is as follows:

	Subordinated loan	Legal reserves and accumulated deficit (*)	Net profit for the year
Balances at December 31, 2003			
as previously reported	19,074	(179,946)	9,919
Effect of adjustment	6,366	(6,366)	(6,366)
Balance as at December 31, 2003 as restated	**25,440**	**(186,312)**	**3,553**

(*) Including net profit for the year.

18. LEGAL RESERVES AND ACCUMULATED DEFICIT

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2004, the Group's legal reserves, which were included within the legal reserves and accumulated deficit balance amount to TL 23,415 (2003 – TL 22,855). The net statutory profit subject to dividend distribution is TL 925 (2003 – TL 336) (excluding deferred tax credit as deferred tax credit is not subject to dividend distribution).

The statutory general reserve and statutory current year profit are available for distribution, subject to the reserve requirements referred to above.

19. RELATED PARTY DISCLOSURES

For the purpose of the accompanying financial statements, shareholders of the Group and related companies, non consolidated equity participations and related companies, directors and key management personnel together with their families and related companies and other companies in the Arap Türk Bankası Group are referred to as "Related Parties" in this report.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 / (Continued)

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

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

Related party		Cash loans	Non-cash loans	Deposits	Funds Borrowed	Derivative Instruments	Interest income	Interest expense
Direct and indirect shareholders	2004	15,868	4,082	747	218,224	-	22	5,034
	2003	13,978	3,233	-	154,615	-	242	2,447
Others	2004	1,690	24,458	5,473	-	1,378	-	415
	2003	683	23,689	5,053	-	-	19	107
Directors' interests	2004	-	-	104	-	-	-	-
	2003	-	-	-	-	-	-	-
Management interests	2004	-	-	311	-	-	-	-
	2003	-	-	-	-	-	-	-

As of December 31, 2004, total cash loans and non-cash loans granted to personnel is TL 112 and TL 15 respectively (2003 – TL 174 and TL 17).

Directors' Remuneration

The executive and non-executive members of the Board of Directors and management received remuneration and fees totaling TL 2,405 (2003 - TL 2,561).

20. SALARIES AND EMPLOYEE BENEFITS

	2004	2003
Staff costs		
Wages and salaries	8,113	7,838
Bonuses	1,740	2,751
Social aids	650	638
Provision for employee termination benefits	977	517
Cost of defined contribution plan (employers' share of social security premiums)	1,234	1,011
Other social expenses	1,712	2,403
Total	**14,426**	**15,158**

The average number of employees for the period is:

	2004	2003
The Bank	186	175
The subsidiary	16	16
Total	**202**	**191**

21. OTHER EXPENSES

	2004	2003
Rent and building expenses	479	634
Communication expenses	435	551
IT expenses	469	417
Professional fees	400	176
Utilities expenses	457	205
Motor vehicle expenses	97	88
Advertising expenses	116	207
Stationery expenses	587	197
Impairment of held to maturity securities	1,298	-
Value decrease on buildings (Note 8)	631	-
Insurance expenses	255	253
Cleaning expenses	190	193
Repair and maintenance expenses	261	225
Donation and subscription expenses	397	334
Other expenses	906	2,074
	6,978	**5,554**

22. COMMITMENTS AND CONTINGENCIES

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

	2004	2003
Letters of guarantee issued by the Bank	91,899	71,369
Letters of credit	64,461	38,860
Acceptance credits	-	-
Total non-cash loans	**156,360**	**110,229**
Other commitments	923	5,655
Derivative instruments	671	-
Total commitments and contingencies	**157,954**	**115,884**

Litigation

As of December 31, 2004, there is no pending litigation that may result in a possible loss in the future periods, which requires additional provision.

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

23. FINANCIAL RISK MANAGEMENT

Credit Risk

For credit risk analysis, loans are classified according to debtor or debtors' group or geographical regions and sectors. Risk classification, of which credit limits are being taken into consideration, are considered by the Bank for each loan given per debtors group and geographical region.

Risk limits and classifications related to the daily operations are determined in the Bank's credit procedures.

Loans and other receivables are being followed periodically as per the "Regulation On The Principals And Procedures Related To The Determination Of The Loans And Other Receivables For Which Provisions Shall Be Set Aside By Banks And To The Provisions To Be Set Aside". Financial statements of the debtors are examined as per the regulation, loan limits are being updated in parallel with the economic conditions under the authorization of the Credit Evaluation Committee and the Top Management. The Bank obtains guarantees for the loans and the other receivables. Those guarantees taken are generally third party guarantees, and mortgage, other bank guarantees, cash collateral, customer or personal checks are also obtained.

Cashed non-cash loans are put in the same category with the loans that have not been paid at maturity. They are being classified based on collaterals taken and transferred to legal follow-up accounts.

Risk diversification is not being done for the re-scheduled loans other than the method indicated in the related regulation.

The Bank does not have any banking activities and lending operations abroad.

The bank does not play an active role in international banking markets.

As it is mentioned in the "Regulation On The Principals And Procedures Related To The Determination Of The Loans And Other Receivables For Which Provisions Shall Be Set Aside By Banks And To The Provisions To Be Set Aside", the Bank has calculated the general provisions and set aside TL 478 for 1st group cash loans, TL 4 for 2nd group cash loans, TL 137 for non-cash loans, adding up a general provision of TL 619.

Economic sector risk concentrations within the cash loans portfolio are as follows:

	2004	2003
Finance	31,745	17,007
Construction	8,949	8,056
Food	13,425	-
Export trade	-	18,350
Machinery	377	-
Metal	1,477	-
Energy	6,711	-
Chemical	215	-
Plastics	2	-
Automotive	5,663	-
Manufacturing	1,352	448
Other	-	601
Corporate loans	69,916	44,462
Consumer loans	160	147
Interest accruals	853	377
Loans in arrears	10,781	13,101
Reserve for impairment on loans	(10,775)	(12,805)
Reserve calculated in portfolio basis	(619)	(491)
	70,316	**44,791**

Economic sector risk concentrations within the non cash loans portfolio are as follows:

	2004	2003
Construction	16,598	13,459
Finance	77,864	79,116
Manufacturing	4,483	5,953
Service	31,727	11,491
Communication	224	143
Other	25,464	57
Total	**156,360**	**110,229**

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements.

Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Liquidity risk of the Bank results from the possibility of recall of sources provided to the Bank before due dates. The Board of Directors of the Bank does not set any restrictions on using funds in case of immediate need for cash or repayments of borrowings that are due dated.

The borrowings, which constitute major portion of the Bank's sources, are mainly coming from previous periods and rolled forward consistently.

The Bank has obtained a subordinated loan from its major shareholder Lybian Arab Foreign Bank at December 30, 2002 amounting to US$ 12,000,000 with a maturity of 5 years + 1 month and with an interest rate of Libor + 2. It has been committed that this loan balance will be transferred to paid in capital at the end of its maturity.

The funds provided by decreasing the placements in the banks, financial institutions and interbank markets and increasing the loans borrowed are mostly used to increase securities held for trading and to pay the foreign resources other than deposits.

The Bank's funds raised are utilized in short-term bank placements, public sector debt securities denominated in foreign currencies that are actively traded in the secondary market and short-term loans granted. The portion of loans granted is below the total equity of the Bank.

The Bank's short-term liquidity need is met by its own resources. Additionally, if the domestic market conditions allow, domestic market sources are also used.

The Bank aims to convert the held to maturity securities to the securities held for trading as they are matured and increase the portion of short-term loans in total assets in order to strengthen its liquidity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 / (Continued)

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

Amounts and sources of cash flows, and maturity analysis based on the remaining period at balance sheet date are given in the table below.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
As at December 31, 2004						
Assets						
Cash and balances with the Central Bank	1,235	-	-	-	-	1,235
Deposits with banks and other financial institutions	24,703	1,756	-	-	535	26,994
Other money market placements	7,315	-	-	-	-	7,315
Reserve deposits at the Central Bank	18,395	-	-	-	-	18,395
Trading securities	10,469	1,416	3,595	22,701	-	38,181
Available for sale securities	-	-	-	-	1,580	1,580
Held to maturity securities	-	46,432	47,481	2,004	48,251	144,168
Loans, net	16,337	27,584	10,951	15,405	39	70,316
Minimum lease payments receivable	1,552	3,732	4,762	9,540	14,413	33,999
Premises and equipment and intangible assets	-	-	-	-	22,571	22,571
Deferred tax asset	-	-	-	-	5,729	5,729
Other assets	-	-	-	-	4,944	4,944
Total assets	**80,006**	**80,920**	**66,789**	**49,650**	**98,062**	**375,427**
Deposits	37,256	4,099	1,809	825	-	43,989
Other money market deposits	3,517	-	-	-	-	3,517
Funds borrowed and debt securities	20,105	159,903	10,635	11,614	35,619	237,876
Other liabilities and provisions	1,655	1,633	29	7	5,094	8,418
Total liabilities	**62,533**	**165,635**	**12,473**	**12,446**	**40,713**	**293,800**
Net liquidity gap	**17,473**	**(84,715)**	**54,316**	**37,207**	**57,349**	**81,627**
As at December 31, 2003						
Total assets	**33,420**	**40,500**	**16,408**	**52,884**	**234,485**	**377,697**
Total liabilities	**126,329**	**110,097**	**7,708**	**20,898**	**19,799**	**284,831**
Net liquidity gap	**92,909**	**(69,597)**	**8,700**	**31,986**	**214,686**	**92,866**

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into account. Net short and long position of Turkish Lira equivalent of each foreign currency is calculated. The higher absolute value position is taken as the base for calculating the share capital requirement. Share capital requirement is computed over this amount.

As a result of the uncertainty and volatility in the markets, no short or long positions are maintained, and accordingly, no currency risk is anticipated. The Bank provides required precautions to keep the currency risk at a minimum level. However, the currency risk that may arise has been calculated with the Standard Method on a weekly and monthly basis, and the results are reported to the official institutions and the Bank's senior management. In this regard, currency risk is closely monitored. Currency risk is taken into consideration as a part of the general market risk within the calculation of the Capital Adequacy Ratio.

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

	Turkish Lira	US Dollar	Euro	Japanese Yen	Other	Total
As at December 31, 2004						
Assets						
Cash and balances with the Central Bank	213	493	410	-	119	1,235
Deposits with banks and other financial institutions	13,728	6,757	6,124	2	383	26,994
Other money market placements	600	6,715	-	-	-	7,315
Reserve deposits at the Central Bank	74	18,321	-	-	-	18,395
Trading securities	16,294	21,887	-	-	-	38,181
Available for sale securities	131	1,449	-	-	-	1,580
Held to maturity securities	9,520	106,138	28,510	-	-	144,168
Loans, net	14,911	42,699	12,706	-	-	70,316
Minimum lease payments receivable	2,084	8,718	23,197	-	-	33,999
Premises and equipment and intangible assets	22,571	-	-	-	-	22,571
Deferred tax asset	5,729	-	-	-	-	5,729
Other assets	3,593	915	436	-	-	4,944
Total assets	**89,448**	**214,092**	**71,383**	**2**	**502**	**375,427**
Liabilities						
Deposits	1,212	25,388	16,367	-	1,022	43,989
Other money market deposits	3,517	-	-	-	-	3,517
Funds borrowed and debt securities	218	169,678	51,873	-	-	221,769
Other liabilities and provisions	3,455	3,476	1,393	-	94	8,418
Total liabilities	**8,402**	**198,542**	**69,633**	**-**	**1,116**	**277,693**
Net balance sheet position	**81,046**	**15,550**	**1,750**	**2**	**(614)**	**97,734**
Off-balance sheet position						
Net notional amount of derivatives	-	(671)	-	-	677	6
Non-cash loans	6,612	74,401	67,006	-	8,341	156,360
Off-balance sheet position	**6,612**	**73,730**	**67,006**	**-**	**9,018**	**156,366**
As at December 31, 2003						
Total assets	**89,042**	**222,855**	**64,388**	**2**	**1,410**	**377,697**
Total liabilities	**9,874**	**206,245**	**67,424**	**-**	**1,288**	**284,831**
Net balance sheet position	**79,168**	**16,610**	**(3,036)**	**2**	**122**	**92,866**
Off-balance sheet position	**7,451**	**59,390**	**38,831**	**-**	**4,557**	**110,229**

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

Interest Rate Risk

The Bank measures the interest rate sensitivity of its assets, liabilities and off-balance sheets items. General and specific interest rate risk tables within the Standard method, including assets and liabilities, are used in the calculation of the interest rate risk that the Bank faces, and included in the Capital Adequacy Standard Ratio as part of the general market risk calculation.

When the liabilities of the Bank are taken into consideration, domestic borrowings are low. The Bank mostly uses its advantage of having foreign shareholders in obtaining borrowings from abroad. Due to this fact, the Bank is not affected by interest rate fluctuations in domestic markets. The return in asset ratios are constantly reviewed to remain over the costs of borrowings including the operational expense portions. The Board of Directors does not set any restriction on daily interest rates. Any set interest rate by the Bank does not give reaction to any fluctuations in the market and mostly a stable strategy is adopted. The Board of Directors of the Bank delegates its responsibility to set interest and foreign exchange rates to General Management of the Bank. On the other hand, the Board of Directors of the Bank monitors the results on a monthly basis and governs the interest rates applied by the Bank.

The table below summarized the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the reprising 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 December 31, 2004							
Assets							
Cash and balances with the Central Bank	-	9	-	-	-	1,226	1,235
Deposits with banks and other financial institutions	25,969	-	-	-	-	1,025	26,994
Other money market placements	7,315	-	-	-	-	-	7,315
Reserve deposits at the Central Bank	-	18,395	-	-	-	-	18,395
Trading securities	10,469	1,416	3,595	22,701	-	-	38,181
Available for sale securities	-	-	-	-	-	1,580	1,580
Held to maturity securities	-	46,432	47,481	2,004	48,251	-	144,168
Loans, net	32,323	30,981	6,855	112	39	6	70,316
Minimum lease payments receivable	1,552	3,732	4,762	9,540	14,413	-	33,999
Investment property	-	-	-	-	-	-	-
Premises and equipment	-	-	-	-	-	22,571	22,571
Deferred tax asset	-	-	-	-	-	5,729	5,729
Other assets	-	-	-	-	-	4,944	4,944
Total assets	**77,628**	**100,965**	**62,693**	**34,357**	**62,703**	**37,081**	**375,427**
Liabilities							
Deposits	37,256	4,099	1,809	825	-	-	43,989
Other money market deposits	3,517	-	-	-	-	-	3,517
Funds borrowed and debt securities	29,505	168,579	23,685	-	-	-	221,769
Other liabilities and provisions	-	-	-	-	-	8,418	8,418
Total liabilities	**70,278**	**172,678**	**25,494**	**825**	**-**	**8,418**	**277,693**
Balance sheet interest sensitivity gap	**7,350**	**(71,713)**	**37,199**	**33,532**	**62,703**		
Off-balance sheet interest sensitivity gap	**-**	**-**	**-**	**-**	**-**		
Total interest sensitivity gap	**7,422**	**(87,865)**	**37,179**	**33,525**	**62,703**		

	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 December 31, 2003							
Assets							
Cash and balances with the Central Bank	-	-	-	-	-	1,316	1,316
Deposits with banks and other financial institutions	15,878	5,477	-	-	18,373	607	40,335
Other money market placements	6,358	-	-	-	-	-	6,358
Reserve deposits at the Central Bank	-	18,073	-	-	-	-	18,073
Trading securities	-	316	-	18,681	36,216	-	55,213
Loans, net	21,077	21,730	1,941	29	14	-	44,791
Held to maturity securities	-	-	-	12,800	131,686	-	144,486
Minimum lease payments receivable	1,972	4,028	5,140	10,298	15,585	-	37,023
Premises and equipment and intangible assets	-	-	-	-	-	25,807	25,807
Other assets	-	-	-		-	2,715	2,715
Total assets	**45,285**	**49,624**	**7,081**	**41,808**	**201,874**	**32,025**	**377,697**
Deposits	34,218	3,264	2,158	1,020	-	-	40,660
Other money market deposits	2,649	-	-	-	-	-	2,649
Funds borrowed and debt securities	85,039	106,648	5,562	19,866	14,477	-	231,592
Other liabilities and provisions	-	-	-	-	-	8,073	8,073
Income taxes payable	-	-	-	-	-	686	686
Deferred tax liability	-	-	-	-	-	1,171	1,171
Total liabilities	**121,906**	**109,912**	**7,720**	**20,886**	**14,477**	**9,930**	**284,831**
On balance sheet interest sensitivity gap	**(76,621)**	**(60,288)**	**(639)**	**20,922**	**187,397**		
Off-balance sheet interest sensitivity gap	**-**	**-**	**-**	**-**	**-**		
Total interest sensitivity gap	**(76,621)**	**(79,362)**	**(639)**	**20,922**	**187,397**		

Market Risk

The maturity and instrument distribution of the Bank's portfolio and the developments in the markets are followed by the senior management of the Bank. The treasury transactions of the Bank are realized within the approval and instruction of the senior management and fund management strategy of the Bank is revised by senior management, when required, in accordance with the new developments in the markets. High Level Risk Committee forms the risk management strategies and policies by evaluating the risk level of the Bank, and presents these to the Board of Directors. On the other hand, transactions are controlled and analyzed by the Risk Management Group and Internal Control Centre, which are responsible directly to the Board of Directors. Risk analysis reports prepared by Risk Management Department is presented to the Board of Directors periodically and when needed.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2004 and December 31, 2003, the Group's capital adequacy ratio on a consolidated basis is above 8%.

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

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried at other than fair values in the consolidated financial statements as of December 31, 2004.

	Carrying amount	Fair value
Financial Assets		
Loans, net	70,316	70,592
Investment securities excluding available for sale securities	182,349	182,622
Financial Liabilities		
Funds borrowed and debt securities	237,876	238,324

Fair values of remaining financial assets and liabilities carried at cost, including mainly deposits with banks and other financial institutions and deposits are considered to approximate their respective carrying values due to the fact that the effective interest rates on those financial asset and liabilities represent the current effective market rates. Interest rates are updated frequently depending on the conditions in the market.

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

As of December 31, 2004 the interest rates used to determine the fair values of loan receivables, lease contracts receivable and funds borrowed applied on the balance sheet date to reflect active market price quotations are as follows:

	Turkish Lira	US$	EUR
Originated loans and advances	34.00	7.50	8.00
Gross lease payments receivables	31.50	10.00	10.00
Funds borrowed and debt securities	22.00	4.35	5.10

25. OTHER

The credit note of the Bank is declared to be B by the international rating institution FitchRatings in 2004.

The details of the rating made by FitchRatings are as follows:

Foreign currency	
Long-term	B
Short-term	B
Outlook	Stable
Local Currency	
Long-term	B
Short-term	B
Outlook	Stable
National	
Long-term	BBB (tur)
Outlook	Stable
Individual	D
Support	5
Sovereign Risk	
Foreign long-term	B+
Local Long-term	B+
Outlook	Positive

Financial Statements

The following pages include Inflation Adjusted Financial Statements, prepared in compliance with Turkish Banking Regulation and Supervision Agency's communiqués.

CAPITAL ADEQUACY RATIO ANALYSIS FORM BASED ON UNCONSOLIDATED FINANCIAL STATEMENTS AND INFLATION ADJUSTED As of December 31, 2004

(TL billions)

1.		**SUM OF CORE CAPITAL (2+3+4+5+6-7)**	**76,509**
2.	a)	Paid-Up Capital	29,000
3.	b)	Legal Reserves	498
4.	c)	Optional reserves and reserves for probable losses	-
5.	d)	Capital Reserves resulting from the inflation accounting	39,004
6.	e)	Total of net profit for the period and previous years' profit	8,007
7.	f)	Total of loss for the period and previous years' losses (-)	-
8.		**SUM OF SUPPLEMENTARY CAPITAL (From 9 to 15)**	**16,724**
9.	a)	General loan reserves	619
10.	b)	Fixed asset revaluation fund (including reserves for cost value increase adjustment, shares of subsidiaries and affiliates to be included in capital and proceeds from the sale of real property)	-
11.	c)	Revaluation fund calculated for the fixed assets as specified in the definition of supplementary capital in Article 4, paragraph 4 of Regulation on the Establishment and Operation Principles of Banks	-
12.	d)	Provisions for revaluation of fixed assets of subsidiaries and affiliates (including those related to other participations held for the purpose of acquiring an interest in capital and booked among securities)	-
13.	e)	Subordinated debts	16,105
14.	f)	Securities value increase (revaluation) fund	-
15.	g)	Free reserves for probable risks	-
16.		**TIER 3 CAPITAL**	
17.		**CAPITAL (According the limits specified in the Regulation: 1+8+16)**	**93,233**
18.		**SUM OF ASSETS DEDUCTED FROM CAPITAL (From 19 to 26)**	**18,015**
19.	a)	All capital participations to the financial institutions which mainly operate in money and capital markets or insurance sector with permissions and licenses defined in specific acts in these fields.	17,799
20.	b)	Special expense values (cost accounts)	67
21.	c)	Preliminary expenses	-
22.	d)	Pre-paid expenses	149
23.	e)	Difference between the fair value and the book value if the fair value of subsidiaries, affiliates, investments in other participations and fixed assets are below their book value	
24.	f)	"Subordinated loans" extended to other banks operating in Turkey	-
25.	g)	Goodwill	-
26.	h)	Capitalised costs	-
27.		**OWN FUNDS (17-18)**	**75,218**
28.		**SUM OF RISK-WEIGHTED ITEMS (From 29 to 33)**	**125,886**
29.	a)	0 % Risk Weight (40* 0%)	0
30.	b)	20 % Risk Weight (81* 20%)	10,723
31.	c)	50 % Risk Weight (111* 50%)	5,415
32.	d)	100 % Risk Weight (129* 100%)	97,398
33.	e)	Market risk exposure	12,350
34.		**STANDARD CAPITAL ADEQUACY RATIO ((27/28)* 100)**	**59.75**
35.		**SUPPLEMENTARY CAPITAL / CORE CAPITAL ((8/1)*100)**	**21.86**
36.		**SUBORDINATED TERM DEBTS / CORE CAPITAL ((13/1)* 100)**	**21.05**
37.		**TOTAL NET RISK / ASSETS, NON-CASH CREDITS AND OBLIGATIONS (GROSS) ((28/39)* 100)**	**38.41**
38.		**CORE CAPITAL / RISK WEIGHTED ASSETS, NON-CASH CREDITS AND OBLIGATIONS ((1/28)* 100)**	**60.78**
39.		**ASSETS, NON-CASH CREDITS AND OBLIGATIONS (GROSS) (33+40+81+111+129)**	**327,771**

Arab Turkish Bank

INFLATION ADJUSTED BALANCE SHEET
As at December 31, 2004

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

ASSETS		December 31, 2004	December 31, 2003
I.	**CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY**	**1,235**	**1,315**
	1.1. Cash	138	42
	1.2. Foreign currency	865	665
	1.3. Balances with the Central Bank of Turkey	84	203
	1.4. Other	148	405
II.	**TRADING SECURITIES (Net)**	**34,667**	**50,469**
	2.1. Public sector debt securities	34,667	50,469
	2.1.1. Government bonds	34,667	50,469
	2.1.2. Treasury bills	0	0
	2.1.3. Other	0	0
	2.2.Share certificates	0	0
	2.3.Other marketable securities	0	0
III.	**BANKS AND OTHER FINANCIAL INSTITUTIONS**	**3,554**	**24,495**
	3.1. Due from banks	3,554	24,495
	3.1.1. Domestic banks	75	672
	3.1.2. Foreign banks	3,479	23,823
	3.2. Other financial institutions	0	0
IV.	**MONEY MARKET SECURITIES**	**7,311**	**6,356**
	4.1. Interbank money market placements	7,311	6,356
	4.2. Istanbul Stock Exchange money market placements	0	0
	4.3. Receivables from reverse repurchase agreements	0	0
V.	**INVESTMENT SECURITIES AVAILABLE FOR SALE (Net)**	**886**	**1,024**
	5.1. Share certificates	0	0
	5.2. Other marketable securities	886	1,024
VI.	**LOANS**	**70,082**	**44,852**
	6.1. Short-term	56,566	28,555
	6.2. Medium and long-term	13,510	16,001
	6.3. Loans under follow-up	10,781	13,101
	6.4. Specific provisions (-)	(10,775)	(12,805)
VII.	**FACTORING RECEIVABLES**	**0**	**0**
VIII.	**INVESTMENT SECURITIES HELD TO MATURITY (Net)**	**139,482**	**141,263**
	8.1. Public sector debt securities	139,482	141,263
	8.1.1. Government bonds	139,482	141,263
	8.1.2. Treasury bills	0	0
	8.1.3. Other	0	0
	8.2. Other marketable securities	0	0
IX.	**INVESTMENTS AND ASSOCIATES (Net)**	**0**	**0**
	9.1. Financial investments and associates	0	0
	9.2. Non-Financial investments and associates	0	0
X.	**SUBSIDIARIES (Net)**	**16,956**	**11,613**
	10.1. Financial subsidiaries	16,956	11,613
	10.2. Non-Financial subsidiaries	0	0
XI.	**OTHER INVESTMENTS (Net)**	**0**	**0**
XII.	**FINANCE LEASE RECEIVABLES (Net)**	**0**	**0**
	12.1. Gross finance lease receivables	0	0
	12.2. Unearned income (-)	0	0
XIII.	**RESERVE DEPOSITS**	**18,350**	**18,048**
XIV.	**MISCELLANEOUS RECEIVABLES**	**179**	**209**
XV.	**ACCRUED INTEREST AND INCOME RECEIVABLE**	**9,102**	**8,610**
	15.1. Loans	853	430
	15.2. Marketable securities	8,200	7,968
	15.3. Other	49	212
XVI.	**PROPERTY AND EQUIPMENT (Net)**	**24,616**	**24,576**
	16.1. Book value	37,516	36,172
	16.2. Accumulated Depreciation (-)	(12,900)	(11,596)
XVII.	**INTANGIBLE ASSETS (Net)**	**411**	**254**
	17.1. Goodwill	0	0
	17.2. Other	2,307	2,010
	17.3. Accumulated Depreciation (-)	(1,896)	(1,756)
XVIII.	**OTHER ASSETS**	**3,724**	**5,584**
	TOTAL ASSETS	**330,555**	**338,668**

LIABILITIES		December 31, 2004	December 31, 2003
I.	**DEPOSITS**	**44,774**	**40,514**
	1.1. Interbank deposits	10,691	6,236
	1.2. Saving deposits	652	674
	1.3. Public sector deposits	0	0
	1.4. Commercial deposits	336	338
	1.5. Other institutions deposits	218	154
	1.6. Foreign currency deposits	32,877	33,112
	1.7. Precious metals deposits	0	0
II.	**INTERBANK MONEY MARKET**	**3,517**	**2,648**
	2.1. Interbank money market takings	0	0
	2.2. Istanbul Stock Exchange money market takings	2,900	2,106
	2.3. Funds provided under repurchase agreements	617	542
III.	**FUNDS BORROWED**	**178,438**	**191,981**
	3.1. Funds borrowed from the Central Bank of Turkey	0	0
	3.2. Other funds borrowed	178,438	191,981
	3.2.1. Domestic banks and institutions	1,567	1,859
	3.2.2. Foreign banks, institutions and funds	176,871	190,122
IV.	**MARKETABLE SECURITIES ISSUED (Net)**	**0**	**0**
	4.1. Bills	0	0
	4.2. Asset backed securities	0	0
	4.3. Bonds	0	0
V.	**FUNDS**	**0**	**0**
VI.	**MISCELLANEOUS PAYABLES**	**4,206**	**2,199**
VII.	**OTHER EXTERNAL RESOURCES**	**578**	**1,931**
VIII.	**TAXES AND OTHER DUTIES PAYABLE**	**575**	**751**
IX.	**FACTORING PAYABLES**	**0**	**0**
X.	**FINANCE LEASE PAYABLES (Net)**	**25**	**200**
	10.1. Finance Leasing Payables	25	200
	10.2. Deferred finance leasing expenses (-)	0	0
XI.	**ACCRUED INTEREST AND EXPENSES PAYABLE**	**673**	**674**
	11.1. Deposits	102	155
	11.2. Borrowings	400	313
	11.3. Repurchase agreements	0	0
	11.4. Other	171	206
XII.	**PROVISIONS**	**5,155**	**8,218**
	12.1. General provisions	619	492
	12.2. Reserve for employee termination benefits	2,571	2,320
	12.3. Provisions for income taxes	1,923	5,358
	12.4. Insurance technical reserves (Net)	0	0
	12.5. Other provisions	42	48
XIII.	**SUBORDINATED LOANS**	**16,105**	**19,068**
XIV.	**SHAREHOLDERS' EQUITY**	**76,509**	**70,484**
	14.1. Paid-in capital	29,000	20,000
	14.2. Supplementary capital	39,004	38,385
	14.2.1. Share premium	0	0
	14.2.2. Share cancellation profits	0	0
	14.2.3. Marketable securities value increase fund	0	0
	14.2.4. Revaluation fund	0	0
	14.2.5. Value increase in revaluation fund	0	0
	14.2.6. Other capital reserves	0	0
	14.2.7. Adjustment to paid-in capital	39,004	38,385
	14.3. Profit reserves	498	164
	14.3.1. Legal reserves	498	164
	14.3.2. Status reserves	0	0
	14.3.3. Extraordinary reserves	0	0
	14.3.4. Other profit reserves	0	0
	15.4. Profit or loss	8,007	11,935
	15.4.1. Prior year income/loss	1,982	4,393
	15.4.2. Current year income/loss	6,025	7,542
	TOTAL LIABILITIES	**330,555**	**338,668**

Arab Turkish Bank

INFLATION ADJUSTED INCOME STATEMENT
For the year ended December 31, 2004

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

INCOME & EXPENSE ITEMS	December 31, 2004	December 31, 2003
I. INTEREST INCOME	**29,203**	**30,084**
1.1. Interest on loans	6,775	3,685
1.1.1. Interest on TL loans	5,130	2,324
1.1.1.1. Short-term loans	4,245	1,905
1.1.1.2. Medium and long-term loans	885	419
1.1.2. Interest on foreign currency loans	1,285	1,081
1.1.2.1. Short-term loans	1,285	1,081
1.1.2.2. Medium and long-term loans	0	0
1.1.3. Interest on loans under follow-up	360	280
1.1.4. Premiums received from Resource Utilisation Support Fund	0	0
1.2. Interest received from reserve deposits	137	124
1.3. Interest received from banks	353	769
1.3.1. The Central Bank of Turkey	0	1
1.3.2. Domestic banks	44	556
1.3.3. Foreign banks	309	212
1.4. Interest received from money market transactions	72	7,304
1.5. Interest received from marketable securities portfolio	21,863	18,197
1.5.1. Trading securities	6,732	6,260
1.5.2. Available-for-sale securities	0	0
1.5.3. Held to maturity securities	15,131	11,937
1.6. Other interest income	3	5
II. INTEREST EXPENSE	**5,748**	**4,812**
2.1. Interest on deposits	994	956
2.1.1. Interbank deposits	537	208
2.1.2. Saving deposits	134	164
2.1.3. Public sector deposits	0	0
2.1.4. Commercial deposits	32	64
2.1.5. Other institutions deposits	0	0
2.1.6. Foreign currency deposits	291	520
2.1.7. Precious metals deposits	0	0
2.2. Interest on money market transactions	661	71
2.3. Interest on funds borrowed	3,879	3,544
2.3.1. The Central Bank of Turkey	0	0
2.3.2. Domestic banks	177	241
2.3.3. Foreign banks	3,702	3,303
2.3.4. Branches and Offices Abroad	0	0
2.3.5. Other financial institutions	0	0
2.4. Interest on securities issued	0	0
2.5. Other interest expense	214	241
III. NET INTEREST INCOME (I - II)	**23,455**	**25,272**
IV. NET FEES AND COMMISSIONS INCOME	**5,110**	**5,545**
4.1. Fees and commissions received	5,233	5,727
4.1.1. Cash loans	4	0
4.1.2. Non-cash loans	1,626	1,145
4.1.3. Other	3,603	4,582
4.2. Fees and commissions paid	123	182
4.2.1. Cash loans	0	0
4.2.2. Non-cash loans	2	2
4.2.3. Other	121	180
V. DIVIDEND INCOME	**47**	**1**
5.1. Trading securities	0	0
5.2. Available-for-sale securities	47	1
VI. NET TRADING INCOME	**1,258**	**3,839**
6.1. Profit/losses on trading account securities (Net)	178	209
6.1.1. Profit on trading account securities	181	209
6.1.1.1. Profit on derivative financial instruments	0	0
6.1.1.2. Other	181	209
6.1.2. Losses on trading account securities (-)	3	0
6.1.2.1. Losses on derivative financial instruments	0	0
6.1.2.2. Other	3	0
6.2. Foreign exchange gains/loses (Net)	1,080	3,630
6.2.1. Foreign Exchange Gain	355,239	473,106
6.2.2. Foreign Exchange Loss	354,159	469,476
VII. OTHER OPERATING INCOME	**1,189**	**2,996**
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)	**31,059**	**37,653**
IX. PROVISION FOR LOAN LOSSES OR OTHER RECEIVABLES (-)	**3,803**	**112**
X. OTHER OPERATING EXPENSES (-)	**18,850**	**20,438**
XI. OPERATING PROFIT (VIII-IX-X)	**8,406**	**17,103**
XII. PROFIT/LOSSES FROM ASSOCIATES AND SUBSIDIARIES	**3,206**	**964**
XIII. NET MONETORY POSITION GAIN/LOSS	**(4,400)**	**(5,752)**
XIV. PROFIT BEFORE TAX (XI+XII+XIII)	**7,212**	**12,315**
XV. PROVISION FOR TAXES ON INCOME (-)	**(1,187)**	**(4,773)**
XVI. NET OPERATING PROFIT/LOSS AFTER TAX (XIV-XV)	**6,025**	**7,542**
XVII. EXTRAORDINARY INCOME/EXPENSE AFTER TAXES	**0**	**0**
17.1. Extraordinary net income/expense before taxes	0	0
17.1.1. Extraordinary income	0	0
17.1.2. Extraordinary expense (-)	0	0
17.2. Provision for taxes on extraordinary income	0	0
XVIII. NET PROFIT AND LOSS (XVI+XVII)	**6,025**	**7,542**

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