THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS
AT 31 DECEMBER 2005
TOGETHER WITH AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT

To the Central Bank of the Republic of Turkey

1. We have audited the accompanying balance sheet of the Central Bank of the Republic of Turkey ("the Bank") at 31 December 2005 and the related statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our audit.

2. 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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The financial statements of the Bank for the year ended 31 December 2004 were audited by another auditor whose report dated 11 March 2005 expressed an unqualified opinion.

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of the Republic of Turkey at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

Haluk Yalçın, SMMM

Istanbul, 27 February 2006

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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AT 31 DECEMBER 2005

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THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEET AT 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

	Notes	2005 thousand YTL	2004 thousand YTL	2005 Million US$ (*)	2004 Million US$ (*)
ASSETS					
Cash and gold reserves	6	3,008,521	2,756,249	2,242	2,054
Due from banks	7	6,328,670	4,541,573	4,717	3,385
Financial assets at fair value through profit or loss	8	80,936,749	68,992,312	60,320	51,418
Loans and advances to customers	9	46,624	505,193	35	377
Investment securities:					
-Available-for-sale	10	225,268	21,460	168	16
-Held-to-maturity	10	436,486	452,528	325	337
Property and equipment	11	243,130	237,940	181	177
Intangible assets	12	3,305	2,503	2	2
Other assets	13	34,707	27,717	26	21
Total assets		**91,263,460**	**77,537,475**	**68,016**	**57,787**
LIABILITIES					
Currency in circulation	14	19,612,019	13,823,325	14,616	10,302
Due to banks	15	27,937,406	20,749,029	20,821	15,464
Other deposits	16	37,016,098	34,833,941	27,587	25,961
Due to International Monetary Fund ("IMF")	17	6,748	4,173,758	5	3,111
Other borrowed funds	18	6,013,857	3,720,077	4,482	2,772
Other liabilities	19	1,690,692	1,432,108	1,260	1,068
Employment termination benefits	21	53,989	53,698	40	40
Total liabilities		**92,330,809**	**78,785,936**	**68,811**	**58,718**
SHAREHOLDERS' EQUITY					
Share capital	28	25	25	-	-
Adjustment to share capital		47,439	47,439	35	35
Total paid-in share capital		47,464	47,464	35	35
Accumulated deficit		(1,320,778)	(1,295,925)	(983)	(966)
Other reserves	10	205,965	-	153	-
Total shareholders' equity		**(1,067,349)**	**(1,248,461)**	**(795)**	**(931)**
Total liabilities and shareholders' equity		**91,263,460**	**77,537,475**	**68,016**	**57,787**
Commitments and contingent liabilities	27				

(*) US Dollar ("US$") amounts presented above are translated from YTL for convenience purposes only, at the official YTL bid rate announced by the Bank at 31 December 2005, and therefore do not form part of these financial statements (Note 2.c.).

The notes on pages 5 to 37 are an integral part of these financial statements.

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

	Notes	2005 thousand YTL	2004 thousand YTL	2005 Million US$ (*)	2004 Million US$ (*)
Interest and similar income	22	3,056,468	3,428,345	2,278	2,555
Interest expense and similar charges	22	(2,477,948)	(4,028,043)	(1,847)	(3,002)
Net interest income/(expense)		**578,520**	**(599,698)**	**431**	**(447)**
Fee and commission income	23	35,166	29,900	26	22
Fee and commission expense	23	(118,960)	(107,995)	(89)	(80)
Net fee and commission expense		**(83,794)**	**(78,095)**	**(63)**	**(58)**
Dividend income	24	3,249	4,206	2	3
Net trading income		(73,193)	(566,113)	(55)	(422)
Foreign exchange gains/(losses), net	25	(111,344)	(179,308)	(83)	(134)
Other operating income		2,997	1,975	2	1
Impairment losses on loans and advances	9	(51,140)	(25,378)	(38)	(19)
Operating expenses	26	(343,191)	(383,914)	(256)	(286)
Loss before income tax		**(77,896)**	**(1,826,325)**	**(60)**	**(1,362)**
Income tax expense	20	-	-	-	-
Gain on net monetary position		53,043	31,393	**40**	23
Net loss for the year		**(24,853)**	**(1,794,932)**	**(20)**	**(1,339)**

(*) US Dollar ("US$") amounts presented above are translated from YTL for convenience purposes only, at the official YTL bid rate announced by the Bank at 31 December 2005, and therefore do not form part of these financial statements (Note 2.c.).

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

	Share Capital					
	Share capital	Adjustment to share capital	Total paid-in capital	Other reserves	Retained Earnings/ (Accumulated Deficit)	Total
Balance at 1 January 2004	**25**	**47,439**	**47,464**	**-**	**498,885**	**546,349**
Other	-	-	-	-	122	122
Net loss for the year	-	-	-	-	(1,794,932)	(1,794,932)
Balance at 31 December 2004	**25**	**47,439**	**47,464**	**-**	**(1,295,925)**	**(1,248,461)**
Balance at 1 January 2005	**25**	**47,439**	**47,464**	**-**	**(1,295,925)**	**(1,248,461)**
Available-for-sale securities' net fair value gains (Note 10)	-	-	-	205,965	-	205,965
Net loss for the year	-	-	-	-	(24,853)	(24,853)
Balance at 31 December 2005	**25**	**47,439**	**47,464**	**205,965**	**(1,320,778)**	**(1,067,349)**

The notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CASH FLOW
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

	Note	2005	2004
Cash flows from operating activities			
Net loss for the year		(24,853)	(1,794,932)
Adjustment for:			
Depreciation of property and equipment	11	12,009	12,131
Amortisation of intangible assets	12	985	903
Provision for loan losses	9	51,140	25,378
Employment termination benefits	21	8,329	9,324
Net interest income/(expense)	22	(578,520)	599,698
Interest received	22	3,067,388	3,334,259
Interest paid	22	(3,145,860)	(4,247,685)
Add back dividend income	24	(3,249)	(4,206)
Inflation effect on non-operating activities		(46,685)	(306,055)
Cash flows from operating profits before changes in operating assets and liabilities		**(659,316)**	**(2,371,185)**
Changes in operating assets and liabilities:			
Net decrease/(increase) in loans and advances to customers	9	389,798	(232,089)
Net (increase)/decrease in other assets	13	(2,017)	315,509
Net increase in currency in circulation	14	5,788,694	1,347,087
Net increase/(decrease) in due to banks	15	7,129,006	3,774,103
Net increase/(decrease) in other deposits	16	2,887,996	(4,508,503)
Net increase/(decrease) in other liabilities	19	252,705	(485,525)
Inflation effect on operating activities		1,972,415	11,751,334
Net cash from operating activities		**17,759,281**	**9,590,731**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets, net	11, 12	(18,986)	(13,059)
(Purchase)/ redemption of securities	8	(11,928,395)	14,852,779
Dividends received		3,492	3,949
Inflation effect on investing activities		(1,909,735)	(12,559,301)
Net cash used in investing activities		**(13,853,624)**	**2,284,368**
Cash flows from financing activities			
Repayments of borrowed funds and due to IMF	18	(1,850,656)	(13,722,085)
Inflation effect on financing activities		191,019	2,101,939
Net cash from financing activities		**(1,659,637)**	**(11,620,146)**
Net increase in cash and cash equivalents		**2,246,020**	**254,953**
Inflation effect on cash and equivalents		**(207,014)**	**(987,917)**
Cash and cash equivalents at beginning of year	29	**7,297,220**	**8,030,184**
Cash and cash equivalents at the end of year	29	**9,336,226**	**7,297,220**

The notes on pages 5 to 37 are an integral part of these financial statements.

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey A.Ş. (the "Bank") was incorporated in Turkey in 1931. It is established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law Number 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches, 4 foreign representatives and 1 liaison office abroad. As at 31 December 2005, the Bank employed 4,770 people (2004: 4,715).

The primary objective of the Bank shall be to achieve and maintain price stability. The Bank shall determine on its own discretion the monetary policy that it shall implement and the monetary policy instruments that it is going to use in order to achieve and maintain price stability.

The fundamental duties of the Bank are;

a) to carry out open market operations,

b) to take necessary measures in order to protect the domestic and international value of the New Turkish Lira ("YTL") and to establish the exchange rate policy in determining the parity of YTL against gold and foreign currencies jointly with the Government; to execute transactions such as spot and forward purchase and sale of foreign exchange and banknotes, foreign exchange swaps and other derivatives transactions in order to determine the value of YTL against other currencies,

c) to determine the procedures and conditions of reserve requirements and liquidity requirement by taking into consideration the liabilities of banks and other financial institutions to be deemed appropriate by the Bank,

d) to conduct rediscount and advance transactions,

e) to manage the gold and foreign exchange reserves of the country,

f) to regulate the volume and circulation of the YTL, to establish payment, securities transfer and settlement systems and to set forth regulations to ensure the uninterrupted operation and supervision of the existing or future systems, to determine the methods and instruments including electronic environment for payments,

g) to take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets,

h) to monitor the financial markets, and

i) to determine the terms and types of deposits in banks and the terms of participation funds in special finance houses.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION

(a) New Turkish Lira financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), including the International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Commercial Practice and Tax Legislation and the Central Bank Law. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS issued by the IASB.

The financial statements are presented in the national currency of the Republic of Turkey, the YTL expressed in terms of the purchasing power of YTL at 31 December 2005.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in respective accounting policies.

Adoption of revised standards

Effective from 1 January 2005, the Bank adopted the following revised IFRS, which are relevant to its operations. The 2004 accounts have been amended in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets

The adoption of IAS 1, 8, 10, 16, 17, 21, 24, 32 and 39 (all revised 2003) have been made in accordance with the transition provisions in the respective standards and did not result in substantial changes to the Bank's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation and other disclosures.
- IAS 8, 10, 16, 17, 32 and 39 (all revised in 2003) and IAS 39 (revised 2004) have no material effect on the Bank's policies.
- IAS 21 (revised 2003) has no material effect on the Bank's policy.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.
- IAS 38 (revised 2004) has no adjustment resulted from the reassessment of useful lives of its intangible assets.

There was no impact on opening retained earnings at 1 January 2005 and 2004 from the adoption of any of the above-mentioned standards.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION (Continued)

(b) Accounting for the effect of hyperinflation

The restatement for changes in the general purchasing power of YTL at 31 December 2005 is based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") adjusted for Producer Price Index ("PPI") published by the Turkish Statistical Institute starting from 1 January 2005.

The inflation indices and the respective conversion factors used to restate these financial statements are as follows:

Dates	Index	Conversion factor
31 December 2005	**8,627.2**	**1,000**
31 December 2004	8,403.8	1,026
31 December 2003	7,382.1	1,168

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

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.

- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of equity are restated by applying the relevant (monthly, yearly average, year-end) conversion factors.

- Comparative financial statements are restated using general inflation indices at the current purchasing power at the latest balance sheet date.

- All items in the statement of income are restated by applying the monthly conversion factors.

- The effects of inflation on the Bank's net monetary position are included in the statement of income as gain on net monetary position.

(c) US$ translation

US$ amounts shown in the financial statements are translated from YTL for convenience purposes only, at official bid rates announced by the Bank on 31 December 2005 of YTL1.3418 = US$1 and therefore, do not form a part of financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in thousands of YTL, which is the Bank's functional and presentation currency.

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Exchange rates

The following YTL exchange rates for major currencies are used to convert foreign currency assets and liabilities to YTL for reporting purposes.

	2005	**2004**
US$	1.3418	1.3421
EUR	1.5875	1.8268
CHF	1.0188	1.1806
GBP	2.3121	2.5765
SDR (*)	1.9272	2.0879

(*) The SDR ("Special Drawing Rights") is treated in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of the four major currencies (EUR, JPY, GBP, US$). For accounting purposes, SDR is treated as a foreign currency.

(b) Derivative financial instruments

Derivative financial instruments, including forward agreements, are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently remeasured at their fair value. Derivative financial instruments are classified as held for trading. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank did not have any derivative financial instruments as at 31 December 2005 and 2004.

The best evidence of the fair value of a derivative at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profit or loss on day 1.

Certain derivative transactions, even though providing effective economic hedges under the Bank risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 "Financial Instruments: Recognition and Measurement" and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement.

(c) Interest income and expense

Interest income and expense is recognised in the income statement for all interest bearing instruments measured at amortised cost using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Fee and commission income

Fees and commissions are generally recognised in the income statement on an accrual basis when the service has been provided.

(e) Income taxes

(i) Income taxes currently payable

Income taxes ("corporation tax") currently payable are calculated based in accordance with the Turkish tax legislation.

Taxes other than on income are recorded within operating expenses (Note 26).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilised (Note 20).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Gold

(i) Gold Bullion

Gold bullion consists of the stocks of gold bars of international standard and non-international standard held at the Bank and held with correspondents. Gold is held by the Bank as part of its foreign reserves and presently represents 3.7% (2004: 4.4%) of aggregate foreign reserves. The Bank has no present intention to dispose of any of its existing gold reserve stocks as the Bank maintains the gold reserve as a part of its foreign reserve management. Gold bullion is recorded in physical weight in troy ounces.

Gold is initially recorded at the prevailing rates at recognition date, including transaction costs. Subsequent to initial measurement it is measured at fair value. Fair value is the amount which could be realised from the sale of an asset in an arm's length transaction between knowledgeable, willing parties and is calculated based on the fixing of the London Bullion Market in US$, converted to YTL at the spot YTL/US$ exchange rate.

Gains and losses from the valuation of gold bullions arising as a result of the changes in the fair value are charged directly to the income statement.

The exchange rate of gold bullion to YTL as at 31 December 2005 was YTL688 per troy ounce (2004: YTL587 per troy ounce).

(ii) Gold coins

Gold coins which are no longer legal tender typically have an artistic or collectors’ premium such that they are bought and sold at prices which are higher than the intrinsic value of the metal from which they are formed. However, it is unlikely that such a premium could be realised if the Bank were to release a significant quantity of the coins it holds. Consequently coins are valued at the market value of the gold content. Gains and losses are treated as for gold bullion.

(g) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the management. Derivatives are also categorised as held for trading unless they are designated as hedges. These financial assets are initially recognised at fair value plus transaction costs and subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. All related realised and unrealised gains and losses are included in net trading income. Dividends received are included in dividend income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at the settlement date.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Loans and advances to customers and provision for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost, less any provision for loan losses. All originated loans are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

The provision made during the year is charged against the income for the year. Loans that can not be recovered are written off and charged against the allowance for loan losses. Such loans are written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for loan losses for the year (Note 9).

(i) Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale securities. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at fair value plus transaction costs.

Available-for-sale investment debt and equity securities are subsequently remeasured at fair value based on quoted bid prices, or amounts derived from other valuation techniques. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the shareholders' equity as "other reserves", unless there is a permanent decline in the fair values of such assets, in which case they are charged to the income statement. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are transferred to the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any provision for impairment.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for- sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable is included separately in dividend income when a dividend is declared.

All purchases and sales of investment securities that require delivery with the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date, which is the date that the asset is delivered to/from the Bank.

(j) Offsetting financial instruments

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

(k) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as financial assets at fair value through profit or loss and the counterparty liability is included in amounts due to banks or other deposits as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as due from banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed and securities received as collateral for reverse transactions are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

Sale and repurchase agreements of YTL denominated securities are undertaken under open market operations.

(l) Money issuance

The Bank produces currency banknotes. Expenses associated with the banknotes are capitalized and are charged to income statement when banknotes are transferred to reserve funds of the Bank. Expenses for money issuance include depreciation of machinery, staff costs, other production costs and costs for transportation of banknotes.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial liabilities

Financial liabilities including due to banks, due to International Monetary Fund, other deposits and other funds borrowed are recognised initially at fair value, net of transaction costs incurred. Subsequently financial liabilities are stated at amortised cost including transaction costs and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest rate method. Due to banks represents reserve deposits of depository institutions' participants and current accounts of Bank.

(n) Property and equipment

All property and equipment carried at historical cost/expenditure that is directly attributable to the acquisition of the items less depreciation are restated to the equivalent purchasing power at 31 December 2005. Depreciation is calculated over the restated amounts of property, plant and equipment using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	50 years
Equipment and motor vehicles	5 years

Expenditure for the repair and renewal of property and equipment is charged against income. It is, however, capitalised if it results in an enlargement or substantial improvement of the respective assets.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net realisable value and value in use"), it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(o) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Banknotes and coins in circulation

(i) Currency in Circulation - New Turkish Lira

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value in these financial statements.

Through the enactment of the Law numbered 5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 30 January 2004, the YTL and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The sub-unit of the YTL is the YKr (1 YTL=100 YKr). When the prior currency, Turkish Lira, values are converted into YTL, one million TL shall be equivalent to 1 YTL. Accordingly, the currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

All references made to Turkish Lira or Lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other documents that produce legal effects as well as payment and exchange instruments shall considered to have been made to YTL at the conversion rate indicated as above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in keeping and presenting the books, accounts and financial statements.

(ii) Demonetised Currency - Turkish Lira

The legal circulation period of Turkish Lira banknotes, which were in circulation along with New Turkish Lira banknotes between 1 January 2005 and 31 December 2005 according to the Provisional Article 1 of the law on the currency unit of the Republic of Turkey No 5083, expired as of 31 December 2005 and these banknotes will be redeemed for a period of ten years starting from January 1, 2006 to the closure of working hours on 31 December 2015 which is the end of the 10 years legal redemption period, at the branches of the Bank and T.C. Ziraat Bankası A.Ş.. The banknotes will be of no value as of 1 January 2016 (Note 14). Although it is most unlikely that significant amounts of demonetised currency will be returned for redemption, the Bank is not able to derecognise any part of the liability unless and until it is legally released from the obligation.

The liability for Turkish Lira banknote in circulation is recorded at face value under "Currency in circulation" in these financial statements.

(q) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(r) Employment termination benefits

Employment termination benefits (ETB) represent the present value of the estimated total reserve for the future probable obligation of the Bank arising from the retirement of the employees, calculated in accordance with the Turkish Labor Law (Note 21).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties

For the purpose of these financial statements the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties (Note 30).

(t) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including, cash, gold reserves and current accounts with banks (Note 29).

(u) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and financial institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank (Note 27).

(v) Appropriations

The appropriation of the net annual profit of the Bank is as follows:

i) 20% to the reserve fund,

ii) 6% to the shareholders as an initial dividend,

iii) after deducting the above-stated percentages a maximum of 5% of the remaining amount to the Bank personnel in an amount not exceeding the total of two months' salaries, and 10% percent to the extraordinary reserve fund

iv) 6% as a secondary dividend to the shareholders, with the decision of the General Assembly.

The remaining balance shall be transferred to the Turkish Treasury after this allocation.

(w) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTE 4 - USE OF FINANCIAL INSTRUMENTS

Index to use of financial instruments

(a) Strategy in using financial instruments

By nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits and required reserves from banks, workers settled abroad and very short-term funds/securities through open market operations and places these funds as security holdings in local currency through open market operations for influencing short-term interest rates as the main monetary policy tool and foreign currency denominated securities and bank account holdings for foreign currency reserve management. The Bank seeks to hold the amount of foreign currency necessary for any possible future intervention in the foreign currency market and also for preventing high volatility in the market. The Bank also seeks to sustain price stability and achieve annual inflation target in the economy through influencing short-term interest rates by open market operations.

The duties and powers of the determination of monetary policies and strategies in order to achieve and maintain price stability, the determination of inflation target with the government, the announcement of monetary policy targets and its implementation to the public and Government and taking necessary measures to preserve the domestic and international value of the local currency against gold and foreign currencies jointly with the government through determining the exchange rate regime rests with the Monetary Policy Committee of the Bank.

(b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment, that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. The granting of loans is authorised at Board level or at appropriate levels of management depending on the size of the proposed commitment. The Bank places strong emphasis on obtaining sufficient collateral from borrowers.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

(c) Geographical concentrations of assets, liabilities and off-balance sheet items

Geographical concentrations of assets, liability and off-balance sheet items are as follows:

31 December 2005	Total assets	%	Total liabilities	%	Commitments and Contingent liabilities	%
Turkey	21,979,711	24	69,656,692	75	272,300,262	92
Other European countries	44,244,842	48	21,891,858	24	59,529	-
Canada and US	23,940,556	27	782,259	1	23,163,741	8
South-East Asia	1,050,643	1	-	-	-	-
Other countries	47,708	-	-	-	-	-
Total	**91,263,460**	**100**	**92,330,809**	**100**	**295,523,532**	**100**

31 December 2004	Total assets	%	Total liabilities	%	Commitments and Contingent liabilities	%
Turkey	26,874,064	35	50,595,825	64	250,392,279	90
Other European countries	34,262,574	44	27,696,507	35	64,303	-
Canada and US	16,238,526	21	493,604	1	27,391,789	10
South-East Asia	40,613	-	-	-	-	-
Other countries	121,698	-	-	-	-	-
Total	**77,537,475**	**100**	**78,785,936**	**100**	**277,848,371**	**100**

(d) Currency risk

Foreign currency denominated assets and liabilities, together with purchase and sale commitments, give rise to foreign exchange exposure. The Monetary Policy Committee of the Bank is responsible to take necessary measures to protect the domestic and international value of the YTL and to establish the exchange rate policy that determines the parity of the YTL against gold and foreign currencies. Such decisions of the Monetary Policy Committee are approved by the Governor and is furnished to the Board.

The table below summarises the Bank's net foreign currency position at 31 December 2005. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

	31 December 2005								
	Foreign currency								
	US$	EUR	CHF	GBP	SDR	Other	Total	YTL	Total
Cash and gold reserves	2,748,108	182,269	4,539	3,277	-	1,178	2,939,371	69,150	3,008,521
Due from banks	908,573	3,031,003	110,078	146,450	22,886	1,062,085	5,281,075	1,047,595	6,328,670
Financial assets at fair value through profit or loss	22,804,804	38,038,548	-	623,368	-	-	61,466,720	19,470,029	80,936,749
Loans and advances to customers	45,449	1,175	-	-	-	-	46,624	-	46,624
Investment securities:									
-Available-for-sale	-	31	-	-	225,237	-	225,268	-	225,268
-Held-to-maturity	436,486	-	-	-	-	-	436,486	-	436,486
Property and equipment	-	-	-	-	-	-	-	243,130	243,130
Intangible assets	-	-	-	-	-	-	-	3,305	3,305
Other assets	6,185	2,172	-	58	-	420	8,835	25,872	34,707
Total assets	**26,949,605**	**41,255,198**	**114,617**	**773,153**	**248,123**	**1,063,683**	**70,404,379**	**20,859,081**	**91,263,460**
Currency in circulation	-	-	-	-	-	-	-	19,612,019	19,612,019
Due to banks	3,116,127	11,524,210	-	165,373	-	3	14,805,713	13,131,693	27,937,406
Other deposits	11,180,418	24,677,326	94,418	13,618	-	419	35,966,199	1,049,899	37,016,098
Due to IMF	-	-	-	-	6,748	-	6,748	-	6,748
Other borrowed funds	-	-	-	-	-	-	-	6,013,857	6,013,857
Other liabilities	1,158,596	405,916	1,466	40,484	624	35,336	1,642,422	48,270	1,690,692
Employment termination benefits	-	-	-	-	-	-	-	53,989	53,989
Shareholders' equity	-	-	-	-	-	-	-	(1,067,349)	(1,067,349)
Total liabilities and shareholders' equity	**15,455,141**	**36,607,452**	**95,884**	**219,475**	**7.372**	**35,758**	**52,421,082**	**38,842,378**	**91,263,460**
Net balance sheet position	**11,494,464**	**4,647,746**	**18,733**	**553,678**	**240,751**	**1,027,925**	**17,983,297**	**(17,983,297)**	**-**

Due from banks in other currencies include JPY placements at an amount of JPY92,130,987,875 (New Turkish Lira equivalent of YTL1,050,521 thousand).

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

	31 December 2004								
	Foreign currency								
	US$	**EUR**	**CHF**	**GBP**	**SDR**	**Other**	**Total**	**YTL**	**Total**
Cash and gold reserves	2,501,646	240,299	6,675	3,352	-	1,267	2,753,239	3,010	2,756,249
Due from banks	2,149,607	2,006,170	134,484	181,706	19,326	49,679	4,540,972	601	4,541,573
Financial assets at fair value through profit or loss	15,591,878	28,827,600	-	660,926	3,814,119	-	48,894,523	20,097,789	68,992,312
Loans and advances to customers	127,518	624	-	-	-	-	128,142	377,051	505,193
Investment securities:									
-Available-for-sale	-	26	-	-	21,434	-	21,460	-	21,460
-Held-to-maturity	452,528	-	-	-	-	-	452,528	-	452,528
Property, plant and equipment	-	-	-	-	-	-	-	237,940	237,940
Intangible assets	-	-	-	-	-	-	-	2,503	2,503
Other assets	54	1,376	-	66	-	1,976	3,472	24,245	27,717
Total assets	**20,823,231**	**31,076,095**	**141,159**	**846,050**	**3,854,879**	**52,922**	**56,794,336**	**20,743,139**	**77,537,475**
Currency in circulation	-	-	-	-	-	-	-	13,823,325	13,823,325
Due to banks	5,842,631	7,725,055	-	86,824	-	2	13,654,512	7,094,517	20,749,029
Other deposits	5,580,140	28,122,728	135,826	25,573	-	8.865	33,873,132	960,809	34,833,941
Due to IMF	-	-	-	-	4,173,758	-	4,173,758	-	4,173,758
Other borrowed funds	-	-	-	-	-	-	-	3,720,077	3,720,077
Other liabilities	732,516	398,491	1,537	62,068	34,173	75,308	1,304,093	128,015	1,432,108
Employment termination benefits	-	-	-	-	-	-	-	53,698	53,698
Shareholders' equity	-	-	-	-	-	-	-	(1,248,461)	(1,248,461)
Total liabilities and shareholders' equity	**12,155,287**	**36,246,274**	**137,363**	**174,465**	**4,207,931**	**84,175**	**53,005,495**	**24,531,980**	**77,537,475**
Net balance sheet position	**8,667,944**	**(5,170,179)**	**3,796**	**671,585**	**(353,052)**	**(31,253)**	**3,788,841**	**(3,788,841)**	**-**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

(e) Interest rate risk

The interest rate risk is the exposure of the Bank to possible adverse movements in interest rates. Such an exposure can result from a variety of factors, including differences in the timing between the maturities or repricing of assets, liabilities and off-balance sheet instruments. Changes in the level and shape of interest rate curves may also create interest rate risk.

Since the primary objective of the Bank is to achieve and maintain price stability, it determines at its own discretion the monetary policy that it will implement and the monetary policy instruments that it is going to use in order to achieve and maintain price stability.

The tables below summarises the Bank's exposure to interest rate risks at 31 December 2005 and 2004. Included in the tables are the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

	31 December 2005						
	up to 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**more than 5 years**	**Non interest bearing**	**Total**
Cash and gold reserves	-	-	-	-	-	3,008,521	3,008,521
Due from banks	4,288,864	6,715	-	-	-	2,033,091	6,328,670
Financial assets at fair value through profit or loss	5,543,206	8,429,283	27,672,846	39,055,147	236,267	-	80,936,749
Loans and advances to customers	-	3,272	2,327	18,641	22,384	-	46,624
Investment securities:							
- Available-for-sale	-	-	-	-	-	225,268	225,268
- Held-to-maturity	-	-	-	-	-	436,486	436,486
Property, plant and equipment	-	-	-	-	-	243,130	243,130
Intangible assets	-	-	-	-	-	3,305	3,305
Other assets	-	-	-	-	-	34,707	34,707
Total assets	**9,832,070**	**8,439,270**	**27,675,173**	**39,073,788**	**258,651**	**5,984,508**	**91,263,460**
Currency in circulation	-	-	-	-	-	19,612,019	19,612,019
Due to banks	27,924,154	-	-	-	-	13,252	27,937,406
Other deposits	970,442	1,378,026	9,283,146	10,449,778	-	14,934,706	37,016,098
Due to IMF	-	-	-	-	-	6,748	6,748
Other borrowed funds	6,013,857	-	-	-	-	-	6,013,857
Other liabilities	-	-	-	-	-	1,690,692	1,690,692
Employment termination benefits	-	-	-	-	-	53,989	53,989
Shareholders' equity	-	-	-	-	-	(1,067,349)	(1,067,349)
Total liabilities and shareholders' equity	**34,908,453**	**1,378,026**	**9,283,146**	**10,449,778**	**-**	**35,244,057**	**91,263,460**
Net repricing gap	**(25,076,383)**	**7,061,244**	**18,392,027**	**28,624,010**	**258,651**	**(29,259,549)**	**-**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

	31 December 2004						
	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	more than 5 years	Non interest bearing	Total
Cash and gold reserves	-	-	-	-	-	2,756,249	2,756,249
Due from banks	1,206,488	2,755,680	-	-	-	579,405	4,541,573
Financial assets at fair value through profit or loss	4,996,257	8,338,425	21,744,264	25,144,900	8,768,466	-	68,992,312
Loans and advances to customers	378,494	40,594	39,743	15,629	24,239	6,494	505,193
Investment securities:							
-Available-for-sale	-	-	-	-	-	21,460	21,460
-Held-to-maturity	-	-	-	-	-	452,528	452,528
Property, plant and equipment	-	-	-	-	-	237,940	237,940
Intangible assets	-	-	-	-	-	2,503	2,503
Other assets	-	-	-	-	-	27,717	27,717
Total assets	**6,581,239**	**11,134,699**	**21,784,007**	**25,160,529**	**8,792,705**	**4,084,296**	**77,537,475**
Currency in circulation	-	-	-	-	-	13,823,325	13,823,325
Due to banks	19,569,344	-	-	-	-	1,179,685	20,749,029
Other deposits	1,184,120	1,722,006	11,615,047	13,091,341	-	7,221,427	34,833,941
Due to IMF	-	-	3,933,036	-	-	240,722	4,173,758
Other borrowed funds	3,720,077	-	-	-	-	-	3,720,077
Other liabilities	20,309	-	-	-	-	1,411,799	1,432,108
Employment termination benefits	-	-	-	-	-	53,698	53,698
Shareholders' equity	-	-	-	-	-	(1,248,461)	(1,248,461)
Total liabilities and shareholders' equity	**24,493,850**	**1,722,006**	**15,548,083**	**13,091,341**	**-**	**22,682,195**	**77,537,475**
Net repricing gap	**(17,912,611)**	**9,412,693**	**6,235,924**	**12,069,188**	**8,792,705**	**(18,597,899)**	**-**

The tables below summarise the range for effective average interest rates by major currencies for monetary financial instruments at 31 December 2005 and 2004:

	31 December 2005			
	US$ (%)	EUR (%)	YTL (%)	SDR (%)
Assets				
Due from banks	4.14	2.28	15.50	-
Financial assets at fair value through profit or loss	4.28	2.55	8.26	-
Loans and advances to customers	4.72	2.55	-	-
Investment securities	3.85	-	-	-
Liabilities				
Due to banks	2.03	1.14	10.25	-
Other deposits	4.33	4.48	-	-
Other borrowed funds	-	-	13.50	-

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

	31 December 2004			
	US$ (%)	EUR (%)	YTL (%)	SDR (%)
Assets				
Due from banks	2.22	2.15	-	-
Financial assets at fair value through profit or loss	2.67	2.34	9.32	-
Loans and advances to customers	3.08	2.55	18.22	-
Investment securities	1.90	-	-	-
Liabilities				
Due to banks	1.04	0.99	12.50	-
Other deposits	5.44	5.92	-	-
Other borrowed funds	-	-	18.00	-
Due to IMF	-	-	-	4.08

(f) Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. Occasionally the Bank is exposed to this risk due to the mismatch between the maturities of its assets and liabilities.

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

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

	31 December 2005							
	Demand	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Cash and gold reserves	3,008,521	-	-	-	-	-	-	3,008,521
Due from banks	2,093,230	4,203,338	6,715	-	-	-	25,387	6,328,670
Financial assets at fair value through profit or loss	-	5,543,206	8,429,283	27,672,846	39,055,147	236,267	-	80,936,749
Loans and advances to customers	-	-	3,272	2,327	18,641	22,384	-	46,624
Investment securities:								
-Available-for-sale	225,268	-	-	-	-	-	-	225,268
-Held-to-maturity	-	85,723	133,786	216,977	-	-	-	436,486
Property, plant and equipment	-	-	-	-	-	-	243,130	243,130
Intangible assets	-	-	-	-	-	-	3,305	3,305
Other assets	-	10,828	2,012	2,754	-	-	19,113	34,707
Total assets	**5,327,019**	**9,843,095**	**8,575,068**	**27,894,904**	**39,073,788**	**258,651**	**290,935**	**91,263,460**
Currency in circulation	19,612,019	-	-	-	-	-	-	19,612,019
Due to banks	13,224	27,924,154	-	-	-	-	28	27,937,406
Other deposits	14,374,766	970,442	1,378,026	9,283,146	10,449,778	-	559,940	37,016,098
Due to IMF	-	-	-	-	-	-	6,748	6,748
Other borrowed funds	-	6,013,857	-	-	-	-	-	6,013,857
Other liabilities	7,227	27,815	-	1,577,170	-	-	78,480	1,690,692
Employment termination benefits	-	-	-	-	-	-	53,989	53,989
Shareholders' equity	-	-	-	-	-	-	(1,067,349)	(1,067,349)
Total liabilities and shareholders' equity	**34,007,236**	**34,936,268**	**1,378,026**	**10,860,316**	**10,449,778**	**-**	**(368,164)**	**91,263,460**
Net liquidity gap	**(28,680,217)**	**(25,093,173)**	**7,197,042**	**17,034,588**	**28,624,010**	**258,651**	**659,099**	**-**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

	31 December 2004							
	Demand	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Cash and gold reserves	2,756,249	-	-	-	-	-	-	2,756,249
Due from banks	612,702	1,173,191	2,755,680	-	-	-	-	4,541,573
Financial assets at fair value through profit or loss	-	4,996,257	8,338,425	21,744,264	25,144,900	8,768,466	-	68,992,312
Loans and advances to customers	-	378,494	40,594	39,743	15,629	24,240	6,493	505,193
Investment securities:	-	-	-	-	-	-	-	-
-Available-for-sale	21,460	-	-	-	-	-	-	21,460
-Held-to-maturity	-	95,644	159,160	197,724	-	-	-	452,528
Property, plant and equipment	-	-	-	-	-	-	237,940	237,940
Intangible assets	-	-	-	-	-	-	2,503	2,503
Other assets	6,195	1,723	-	1,414	215	2,604	15,566	27,717
Total assets	**3,396,606**	**6,645,309**	**11,293,859**	**21,983,145**	**25,160,744**	**8,795,310**	**262,502**	**77,537,475**
Currency in circulation	13,823,325	-	-	-	-	-	-	13,823,325
Due to banks	1,179,443	19,569,344	-	-	-	-	242	20,749,029
Other deposits	6,269,192	1,184,120	1,722,006	11,615,047	13,091,341	-	952,235	34,833,941
Due to IMF	-	-	-	3,933,036	-	-	240,722	4,173,758
Other borrowed funds	-	3,720,077	-	-	-	-	-	3,720,077
Other liabilities	49,733	20,309	-	1,361,261	-	-	805	1,432,108
Employment termination benefits	-	-	-	-	-	-	53,698	53,698
Shareholders' equity	-	-	-	-	-	-	(1,248,461)	(1,248,461)
Total liabilities and shareholders' equity	**21,321,693**	**24,493,850**	**1,722,006**	**16,909,344**	**13,091,341**	**-**	**(759)**	**77,537,475**
Net liquidity gap	**(17,925,087)**	**(17,848,541)**	**9,571,853**	**5,073,801**	**12,069,403**	**8,795,310**	**263,261**	**-**

(g) Operational risk

Operational risk arises from the potential for financial loss or reputational damage as a result of inadequate systems (including systems breakdown), errors, poor management, breaches of intemal controls, fraud or external events. The Bank's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 4 - USE OF FINANCIAL INSTRUMENTS (Continued)

(h) Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying value		Fair value	
Financial assets	**2005**	**2004**	**2005**	**2004**
Cash and gold reserves	3,008,521	2,756,249	3,008,521	2,756,249
Due from banks	6,328,670	4,541,573	6,328,670	4,541,573
Loans and advances to customers	46,624	505,193	38,201	435,772
Investment securities (held-to-maturity)	436,486	452,528	440,323	454,615
Financial liabilities				
Due to banks	27,937,406	20,749,029	27,937,406	20,749,029
Other deposits	37,016,098	34,833,941	37,329,882	35,694,571
Other borrowed funds	6,013,857	3,720,077	6,013,857	3,720,077

The following methods and assumptions were used to estimate the fair value of the Bank's financial instruments:

(i) Financial assets

The fair values of certain financial assets carried at amortised cost, including cash and due from banks are considered to approximate their respective carrying values due to their short-term nature.

The fair value of loans and advances to customers, along with the related allowances for uncollectibility, is based on discounted cash flows using interest rates prevailing at the balance sheet date with similar assets.

Investment securities include only interest - bearing assets held to maturity, as assets available for-sale are unlisted equity participations. Fair value for held to maturity assets is based on market prices or prices prevailing at the balance sheet date and derived from the estimated market value of Federal Reserve Bank of NewYork.

(ii) Financial liabilities

The fair values of certain financial liabilities carried at amortised cost, including due to banks and other borrowed funds are considered to approximate their respective carrying values due to their short-term nature.

The estimated fair value of other deposits without quoted market price is based on discounted cash flows using money market interest rates prevailing at the balance sheet date with similar credit risk, currency and remaining maturity.

NOTE 5 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available for-sale equity investments

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

(c) Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 6 - CASH AND GOLD RESERVES

	2005	2004
Gold bullion in international standards	2,569,462	2,252,654
Cash in hand	368,223	441,493
Gold coins	70,117	55,847
Gold bullion in non-international standards	719	6,255
	3,008,521	**2,756,249**

Gold coins in the amount of YTL7,648 thousand (2004: YTL6,705 thousand) is kept in the Bank's vaults on behalf of the Turkish Treasury.

NOTE 7 - DUE FROM BANKS

	2005	2004
Funds lent under reverse repurchase transactions	1,025,000	-
Time deposits	3,210,440	3,928,871
Demand deposits	2,093,230	612,702
	6,328,670	**4,541,573**

Reverse repurchase transactions are performed as a part of the open market operations of the Bank.

NOTE 8 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005		2004	
	Cost	**Carrying value**	**Cost**	**Carrying value**
Turkish government bonds and treasury bills	19,160,779	19,470,029	23,345,963	23,780,505
Foreign government bonds and treasury bills	59,280,219	59,244,198	45,092,907	45,211,807
Foreign corporate bonds	2,219,112	2,222,522	-	-
	80,660,110	**80,936,749**	**68,438,870**	**68,992,312**

Corporate bonds are coupon and discount securities mainly issued by the European Investment Bank, KFW Bankengruppe and BIS.

The breakdown of carrying values of foreign government bonds, corporate bonds and treasury bills by country is as follows at 31 December 2005:

Country of origin	**2005**
United States	22,497,708
France	16,964,114
Germany	15,510,219
The Netherlands	2,700,845
Spain	1,963,507
Other	1,830,327
	61,466,720

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	2005	2004
Loans to corporate entities:		
Foreign country loans	1,824,835	1,894,331
Domestic loans	1,372	384,933
Total loans and advances to customers	**1,826,207**	**2,279,264**
Less: Allowance for loan losses	(1,779,583)	(1,774,071)
Net loans and advances to customers	**46,624**	**505,193**

Movement in the allowance for loan losses is as follows:

	2005	2004
Balance at 1 January	1,774,071	2,129,534
Impairment losses on loans and advances	51,140	25,378
Monetary gain	(45,280)	(299,139)
Foreign exchange loss	(348)	(81,702)
At 31 December	**1,779,583**	**1,774,071**

NOTE 10 - INVESTMENT SECURITIES

	2005	2004
Securities available-for-sale		
Equity shares		
- unlisted	225,268	21,460
Total securities available-for-sale	**225,268**	**21,460**
Securities held-to-maturity		
Government bonds	436,486	452,528
Total securities held-to-maturity	**436,486**	**452,528**
Total investment securities	**661,754**	**473,988**

Securities held-to-maturity consist of bonds issued by the US Treasury and kept under Federal Reserve Bank of NewYork custody in the name of Turkish Defense Fund. Any proceeds from these securities is credited to the deposit account of the Fund, therefore the securities are carried at incurred cost.

The Bank owns shares issued by the Bank for International Settlements ("BIS"). The shares have a par value of SDR5,000 each and are paid up to SDR1,250 each. The balance of SDR3,750 per share is callable at three months' notice by decision of the BIS Board and is disclosed under contingencies and commitments (Note 27).

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 10 - INVESTMENT SECURITIES (Continued)

The available-for-sale-securities at 31 December are as follows:

		Ownership (%)		Amount	
Name	**Nature of business**	**2005**	**2004**	**2005**	**2004**
BIS	Banking Supervision	1.5	1.5	225,237	21,434
S.W.I.F.T.	Electronic Fund Transfer Services	0.007	0.007	31	26
				225,268	**21,460**

The movement in investment securities is as follows:

	Available- for-sale	Held-to- maturity	Total
At 1 January 2005	21,460	452,528	473,988
Purchases	10	971,934	971,944
Fair value changes (*)	205,965	-	205,965
Redemptions	-	(975,459)	(975,459)
Foreign exchange loss	(1,611)	(834)	(2,445)
Monetary loss	(556)	(11,683)	(12,239)
At 31 December 2005	**225,268**	**436,486**	**661,754**

(*) The Bank measured the carrying value of BIS at cost as of 31 December 2004. In 2005, the Bank started to measure this investment at fair value as the variability in the range of reasonable fair value estimates is not significant for this investment and the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. The unrealised gain arising from changes in the fair value of BIS amounting to YTL205,965 thousand is recognised in the shareholders' equity as "other reserves".

(Amounts expressed in thousands of New Turkish Lira (“YTL”) in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 11 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and vehicles	Construction in progress	Total
At 1 January 2004				
Cost	314,412	31,955	-	346,367
Accumulated depreciation	(92,554)	(15,419)	-	(107,973)
Net book amount	**221,858**	**16,536**	**-**	**238,394**
Year ended 31 December 2004				
Opening net book amount	221,858	16,536	-	238,394
Additions	1,812	7,347	2,702	11,861
Disposals (net)	(16)	(168)	-	(184)
Depreciation charge (Note 26)	(5,679)	(6,452)	-	(12,131)
Closing net book amount	**217,975**	**17,263**	**2,702**	**237,940**
At 31 December 2004				
Cost	316,197	26,978	2,702	345,877
Accumulated depreciation	(98,222)	(9,715)	-	(107,937)
Net book amount	**217,975**	**17,263**	**2,702**	**237,940**
Year ended 31 December 2005				
Opening net book amount	217,975	17,263	2,702	237,940
Additions	5,095	11,607	538	17,240
Disposals (net)	-	(41)	-	(41)
Depreciation charge (Note 26)	(5,708)	(6,301)	-	(12,009)
Closing net book amount	**217,362**	**22,528**	**3,240**	**243,130**
At 31 December 2005				
Cost	321,292	36,053	3,240	360,585
Accumulated depreciation	(103,930)	(13,525)	-	(117,455)
Net book amount	**217,362**	**22,528**	**3,240**	**243,130**

NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated Amortisation	Net Book Value
At 1 January 2004	**4,073**	**(2,049)**	**2,024**
Additions	1,382	(903)	479
Balance at 31 December 2004	**5,455**	**(2,952)**	**2,503**
Opening balance at 1 January 2005	5,455	(2,952)	2,503
Additions	1,787	(985)	802
Balance at 31 December 2005	**7,242**	**(3,937)**	**3,305**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 13 - OTHER ASSETS

	2005	2004
Raw material and work in progress	10,126	12,672
Income accruals	10,824	4,469
Other	13,757	10,576
	34,707	**27,717**

The Bank produces national currency banknotes; expenses associated with the banknotes for the uncompleted banknotes are recorded under work-in-progress and the banknote papers used in production of banknotes are recorded under raw material.

NOTE 14 - CURRENCY IN CIRCULATION

	2005			2004		
	YTL	TL	Total	YTL	TL	Total
Balance at 1 January	**-**	**13,823,325**	**13,823,325**	**-**	**12,476,239**	**12,476,239**
Inflation effect of carrying opening balances	-	(256,083)	(256,083)	-	(1,653,810)	(1,653,810)
Banknotes issued into circulation	20,475,060	4,284,672	24,759,732	-	77,561,425	77,561,425
Banknotes withdrawn from circulation and destroyed	(1,689,547)	(17,025,408)	(18,714,955)	-	(74,560,529)	(74,560,529)
Balance at 31 December	**18,785,513**	**826,506**	**19,612,019**	**-**	**13,823,325**	**13,823,325**

NOTE 15 - DUE TO BANKS

	2005	2004
Deposits for reserve requirement obligations	22,547,493	12,397,104
Current accounts of banks	5,389,913	8,351,925
	27,937,406	**20,749,029**

Deposits for reserve requirement obligations represent the amount deposited by banks which is based on a proportion of all deposits taken from customers, other than domestic interbank deposits, according to banking regulations in Turkey.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 16 - OTHER DEPOSITS

	2005	2004
Deposits by citizens abroad	22,081,393	27,612,513
Deposits of Undersecratariat of Treasury	14,228,360	6,107,121
Deposit of state owned entities	146,406	162,071
Deposits of state owned funds	559,939	952,236
	37,016,098	**34,833,941**

Deposits by citizens abroad are time deposits with maturities varying from 1 year to 3 years, other deposits held by government related institutions are demand deposits except for the amount YTL82,469 thousand.

The breakdown of deposits by citizens abroad by currency type and related interest rates is as follows.

	2005		2004	
	Interest (%)	YTL amount	Interest (%)	YTL amount
US$	2.25-4.50	1,574,123	1.50-4.50	1,866,335
EUR	2.50-4.00	20,399,511	2.50-4.80	25,592,509
CHF	0.81-0.90	94,418	0.74-1.78	135,826
GBP	4.15-4.43	13,341	4.21-4.95	17,843
		22,081,393		**27,612,513**

NOTE 17 - DUE TO IMF

Due to IMF are denominated in SDR. Due to IMF include borrowings related to Turkey's IMF quota for the year ending 31 December 2005 and borrowings related to Turkey's IMF quota and borrowings from the general resources of the IMF for the year ending 31 December 2004. As of 31 December 2005 and 2004, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity. As of 31 December 2004 borrowings from the general resources of IMF amounting to YTL4,173,758 thousand bear interest at rates set by the IMF on a weekly basis and are repayable according to the repayment schedules of the agreements. The interest rate was 4.08% as at 31 December 2004.

All borrowings from the IMF are guaranteed by promissory notes which have been cosigned by the Government.

NOTE 18 - OTHER BORROWED FUNDS

	2005	2004
Interbank money market	6,013,857	3,588,609
Funds borrowed under repurchase transactions	-	131,468
	6,013,857	**3,720,077**

Interbank money market transactions are undertaken as a part of open market operations of the Bank.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 19 - OTHER LIABILITIES

	2005	2004
Import transfer orders and deposits	1,538,136	1,203,439
Blocked accounts for pending court cases	53,022	55,407
Taxes and withholdings payable	52,645	71,052
Expense accruals	8,535	7,228
Other	38,354	94,982
	1,690,692	**1,432,108**

NOTE 20 - TAXATION

Corporation tax is payable at a rate of 30% (2004: 33%) on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% (2004: 33%) on their corporate income. Advance tax is payable by the 15th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set-off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable properties held for not less than two years were tax exempt until 31 December 2004, if such gains are added to paid-in capital by the end of the second year following this sale. However, this arrangement has been added to Corporation Tax Law article 8 as a permanent exception with law numbered 5281 effective from 1 January 2005.

Capital expenditures after the date 24 April 2003, with some exceptions, over YTL10 thousand (2004: YTL6 thousand) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowance utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8% irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods. The carry forward tax losses of the Bank as of 31 December 2005 amount to YTL2,230,197 thousand.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 15th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 20 - TAXATION (Continued)

Deferred taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2005 under the liability method using a principal tax rate of 30%.

The deferred tax asset and liability represents the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax retum, in accordance with the applicable tax law. Since the Bank does not have a plan regarding future taxable profit that will be available against which unused tax losses and unused tax credits can be utilised, no deferred tax has been calculated in these financial statements. The temporary differences giving rise to deferred income tax assets and deferred tax liabilities are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2005	2004	2005	2004
Employment termination benefits	53,989	53,698	-	-
Difference between carrying value and tax base of property and equipment	49,035	59,550	-	-
Transfer of valuation account to income statement	2,029,328	2,086,578	-	-
Accumulated tax losses	2,230,197	1,738,869	-	-
Deferred tax assets	**4,362,549**	**3,938,695**	**-**	**-**
Effect of IFRS 39 adjustment	50,856	49,803	-	-
Deferred tax liabilities	**50,856**	**49,803**	**-**	**-**
Deferred tax assets/(liabilities), net	**4,311,693**	**3,888,892**	**-**	**-**

NOTE 21 - EMPLOYMENT TERMINATION BENEFITS

Under the Turkish Labour Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of YTL1,727.15 (31 December 2004: YTL1,574.74) for each year of service.

The liability is not funded, as there is no funding requirement.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 21 - EMPLOYMENT TERMINATION BENEFITS (Continued)

The reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees.

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2005	2004
Discount rate (%)	5.49	5.45
Turnover rate to estimate the probability of retirement (%)	0.99	0.99

Additionally, the principal actuarial assumption is that the maximum liability of YTL1,727.15 for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of YTL1,770.63 effective from 1 January 2006 (1 January 2005: YTL1,648.90), has been taken into consideration in calculating the reserve for employment termination benefit of the Bank.

Movement in the liability recognised in the balance sheet:

	2005	2004
At 1 January	**53,698**	**56,881**
Current year charge	8,329	9,324
Monetary gain	(1,405)	(6,916)
Paid during the year	(6,633)	(5,591)
At 31 December	**53,989**	**53,698**

NOTE 22 - NET INTEREST INCOME/(EXPENSE)

	2005	2004
Interest income:		
Due from banks	55,526	127,545
Financial assets at fair value through profit or loss	2,914,664	3,187,682
Loans and advances to customers	68,746	96,559
Other	17,532	16,559
	3,056,468	**3,428,345**
Interest expense:		
Due to banks	977,942	912,422
Other deposits	876,539	1,794,822
Other borrowed funds	568,471	1,066,209
Due to IMF	53,207	254,525
Other	1,789	65
	2,477,948	**4,028,043**
Net interest income/(expense)	**578,520**	**(599,698)**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 23 - NET FEE AND COMMISSION EXPENSE

	2005	2004
Fee and commission income:		
Electronic fund transfer ("EFT")	26,958	22,133
Other fund transfer fees	2,317	2,761
Open market operations	2,192	2,038
Other	3,699	2,968
	35,166	**29,900**
Fee and commission expense:		
Correspondent bank accounts	115,514	105,957
Other	3,446	2,038
	118,960	**107,995**
Net fee and commission expense	**(83,794)**	**(78,095)**

NOTE 24 - DIVIDEND INCOME

Dividend income represents cash dividends from the equity participation of the Bank.

	2005	2004
Available-for-sale securities	3,249	4,206
	3,249	**4,206**

NOTE 25 - FOREIGN EXCHANGE GAINS/(LOSSES)

	2005	2004
Foreign exchange gains and losses		
- translation gains less losses	(382,810)	(1,381,686)
- transaction gains less losses	271,466	1,202,378
	(111,344)	**(179,308)**

NOTE 26 - OTHER OPERATING EXPENSES

	2005	2004
Wages and salaries	252,979	255,685
Administrative expenses	35,437	76,527
Social security costs	26,879	25,783
Depreciation (Note 11 and 12)	12,994	13,034
Provisions	7,709	4,654
Other	7,193	8,231
	343,191	**383,914**

The average number of persons employed by the Bank during the year 2005 was 4,847 (2004: 4,908).

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

The Bank's off-balance sheet items mainly consist of securities in custody, guarantees taken and reserve banknotes:

	2005	**2004**
Securities in custody	266,162,831	247,004,266
Banknotes reserve	17,506,149	22,431,185
Guarantees taken	11,796,736	8,348,617
Uncalled BIS shares (Note 10)	57,816	64,303
	295,523,532	**277,848,371**

As of 31 December 2005, there are a number of legal proceedings outstanding against the Bank amounting to YTL83,577 thousand, US$7,242,351 and EUR831,096 (2004: YTL85,016 thousand, US$7,187,446, EUR685,473).

These financial statements do not include any provision provided for those proceedings as the probability of an outflow is estimated as low by the Bank.

NOTE 28 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2005 and 2004 is as follows:

	31 December 2005		**31 December 2004**	
	YTL	**Share %**	**YTL**	**Share %**
T.C. Başbakanlık Hazine Müsteşarlığı	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
Güvenlik Yard. Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	2	1	2
Türkiye İş Bankası A.Ş.	1	2	1	2
Other	3	17	3	17
Historical share capital	**25**	**100**	**25**	**100**
Inflation adjustment on share capital	**47,439**		**47,439**	
Total paid-in capital	**47,464**		**47,464**	

According to 5th article of the Central Bank Law, the capital of the bank is YTL25 thousand and is divided into 250,000 shares, with a value of YTL0.1 each. The capital may be increased with the approval of the Government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

NOTE 29 - CASH AND CASH EQUIVALENTS

	2005	2004
Cash and gold reserves	3,008,521	2,756,249
Due from banks	6,327,705	4,540,971
	9,336,226	7,297,220

NOTE 30 - RELATED PARTY BALANCES AND TRANSACTIONS

These financial statements include the following related party balances and transactions.

(i) Balances with related parties

	2005	2004
Assets:		
Financial assets at fair value through profit or loss issued by the Turkish Treasury	19,470,029	23,780,505
Funds lent under reverse repurchase transactions	1,000,000	-
Liabilities:		
Due to banks	16,376,935	8,069,246
Other deposits	14,934,705	7,221,428

(ii) Transactions with related parties

	2005	2004
Salaries and other short-term benefits to key management	2,265	2,001
Interest income	1,569,846	2,024,651
Interest expense	420,383	422,711

NOTE 31 - SUBSEQUENT EVENT

On 31 January 2006, Ministry of Finance published the draft version of the new Corporate Income Tax Law ("Draft Law"), which will be effective from 1 January 2006 and will replace the current Corporate Income Tax Law No: 5422. The key amendments with this Draft Law are as follows:

- The corporate income tax rate will be decreased to 20%,
- The withholding tax rate applied to dividend distributions will be increased to 15%,
- The Council of Ministers will be given the authority to decrease the advance corporate income tax rate by 5% or to re-increase it to the rate defined by the law, and
- The corporate income tax return will be filed in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year.

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