



75th
Anniversary

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ANNUAL REPORT 2006

CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY

2006 ANNUAL REPORT DRAWN UP BY THE BOARD FOR
THE SEVENTY-FIFTH ACCOUNTING YEAR

Submitted to

THE GENERAL ASSEMBLY OF SHAREHOLDERS

on April 6, 2007

ANKARA
2007

Annual Report 2006

Address

Central Bank of the Republic of Turkey
Head Office
İstiklal Caddesi No: 10
06100 Ulus, Ankara, Turkey

Telephone

(+90 312) 310 36 46

Fax

(+90 312) 310 74 34

E-mail

iletisimbilgi@tcmb.gov.tr

Website

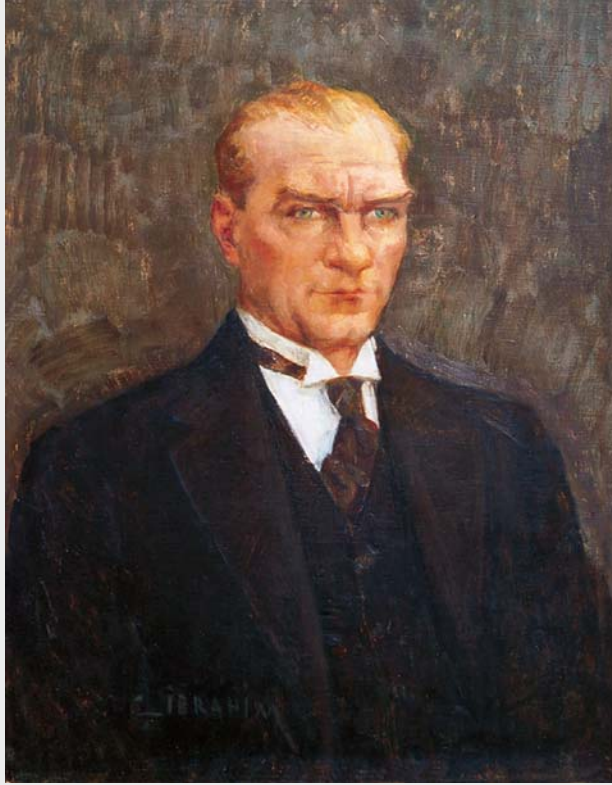
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İbrahim Çallı
"Portrait of Atatürk"
(Undated), Oil on canvas, 79x61 cm.

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ABBREVIATIONS

BIS	Bank for International Settlements
BİMER	Communication Center for Prime Ministry
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CCSA	Certification in Control Self-Assessment
CIA	Certified Internal Auditor
CISA	Certified Information Systems Auditor
Committee	Monetary Policy Committee
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
FXRIC	Foreign Exchange Risk and Investment Committee
EDDS	CBRT Electronic Data Delivery System
EMU	Economic and Monetary Union
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
SCA	Special CPI Aggregates
SDIF	Savings Deposit Insurance Fund
SB	Strategic Benchmark
SPO	State Planning Organization
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
TCC	Turkish Commercial Code
TELEKOM	Turk Telecom, Inc.
TIC-ESTS	Turkish Interbank Clearing – Electronic Security Settlement System
TIC-RTGS	Turkish Interbank Clearing – Real-Time Gross Settlement System
TL	Turkish lira
TURKSTAT	Turkish Statistical Institute
US	United States
USD	United States dollar
YTL	New Turkish lira

CBRT ART COLLECTION

A selection from the Art Collection of the Central Bank of the Republic of Turkey

İbrahim Çallı, "Portrait of Atatürk"	3
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LETTER OF TRANSMITTAL



Abidin Dino
"Flowering"
1990, Gouache on Paper, 65x50 cm.

Dear Shareholders,

2006 has been a meaningful year for us, being the 75th anniversary of our bank. We celebrated our anniversary within the country through a variety of events. Besides, we made public our 75th anniversary via an international conference on “Dollarization: Consequences and Policy Options” held on December 14 and 15. The year 2006 was also important in that we started implementing a full-fledged inflation targeting after experiencing a four-year implicit inflation targeting. In this sense, we have paid utmost importance on using an effective communication policy on every occasion.

The activities of our bank in 2006 were consistent with our Law, Articles of Association and Strategic Plan, as before. For the first time, our departments prepared a tri-annual budget in line with our basic strategic objectives. Our objectives in the strategic plan can be listed as:

- Maintenance of trust in the national currency,
- Maintenance of convergence to the European Union and developing relations with other international organizations,
- Developing an adequate and effective communication,
- Focusing on the basic functions of the Central Bank of the Republic of Turkey,
- Developing corporate governance.

With its renewed content and format, our Annual Report is a reflection of this important turning point. By adding new features, our report has avoided repeating our Bank’s other periodic publications, highlighted our corporate identity and become visually enriched. Accordingly, instead of being a direct communication instrument of monetary policy, our report has come out to be a concise document by which the Bank’s Strategic Plan, its operations, organizational structure and comparative financial statements with explanations are shared with you, our esteemed shareholders, and the public.

We submit, herewith, for your examination and approval, the Balance Sheet of December 31, 2006 and the Profit and Loss Statement of January 1, 2006 - December 31, 2006, which present the 75th accounting year results.

Respectfully yours,

Board of the Central Bank of the Republic of Turkey



Nejat Melih Devrim
"Homage to Stravinsky"
1952, Oil on Canvas, 278x47 cm.

FOREWORD



The primary objective of the Bank, as stipulated by its Law, shall be to achieve and maintain price stability. The Bank has been decisively executing its policies in light of this objective and responsibility, the legal framework and implementing principles of which were established in 2001. Within this framework the Bank determines the inflation target with the Government and in compliance with the target, adopts monetary policy instruments and related implementing principles. Instrumental independence enables monetary policy to be designed and adopted with a medium-term perspective.

During the past five years we have made tremendous progress in order to reach price stability, as a result of the compatible and decisive implementation of monetary and fiscal policies. As a matter of fact, with the help of relative economic stability, the volatility in growth and inflation rates has eased significantly and inflation has declined to single-digits with an economic growth averaging above 7 percent per annum. However, despite these achievements, it should be born in mind that price stability has not yet been maintained and the fight against inflation is a lengthy and tough process.

Today, we are at a historic turning point in our fight against inflation. We must completely win this fight in order to have a strong economy and a bright future. It should be fully understood by everyone that fighting against inflation is not only a monetary issue but also a process that our Central Bank undergoes for every individual. It is crucial that all spheres of society continue and, under current circumstances, even strengthen the support they gave throughout this journey since the now-distant epoch of double-digit inflation. Inertia and lethargy should be avoided, and certain levels of inflation should never be

perceived as a threshold. Within this framework, as experienced in the past, should any risk to threaten our fight against inflation materialize in the upcoming period, the Central Bank will, with a medium-term perspective, continue to take the necessary measures to attain the target. Our commitment to lower single-digit inflation targets is the key indicator of our fight against inflation.

2006 is a turning point in the history of our Central Bank for being the 75th anniversary of our establishment and the first year of implementing the full-fledged inflation targeting. Great progress has been made in the communication policy of our Bank, regarding the main principles of our monetary policy strategy, i.e. accountability, transparency and predictability. Under the targeted communication policy, apart from our diversified and enriched reporting system, press releases and national/international conferences and presentations are also among instruments that have improved our communication with the public. Furthermore, the advances in the information technology structure of the Bank have made our data network more up-to-date and more easily accessible. In line with these developments, the format and contents of the Annual Report, in which the activities and balance sheet details of the year are shared, has been renewed to meet current requirements and is hereby presented to you, our esteemed shareholders. Here, I would like to re-emphasize that the 75th anniversary of our Bank and the new design of the Annual Report refer to a meaningful coincidence.

The mission of achieving and maintaining price stability also imposes important duties and responsibilities on the Bank's staff. It should be kept in mind that every success we have had is also a reflection of the qualified and self-sacrificing efforts of our members of staff. I would like to thank all my colleagues for their present and future contributions as we advance along the path we target.

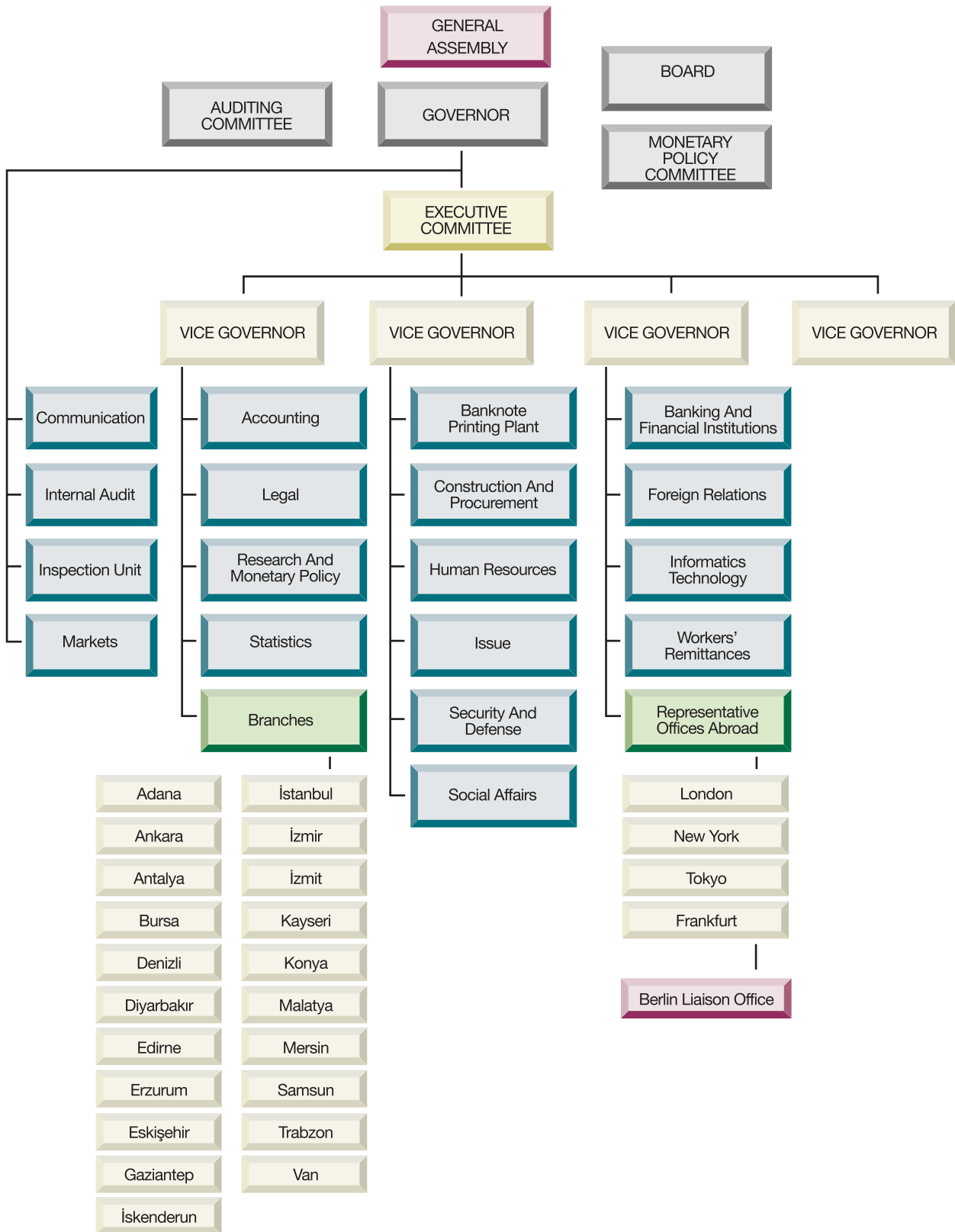
Durmuş YILMAZ
Governor



Şefik Bursalı
"Bursa Landscape"
(Undated) Oil on Duralite, 80x110 cm.

1. GOVERNING BODIES OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

1.1. ORGANIZATION CHART



1.2. BOARD



Left to right: Dr. Lokman Gündüz, Dr. M. İbrahim Turhan, Prof. M. İlker Parasız, Durmuş Yılmaz, Necati Şahin, M. Vehbi Çıtak, Prof. Necdet Şensoy.

The Board is composed of the Governor and six members to be elected by the General Assembly. The term of office of Board members is three years and a third of Board members is replaced each year. The Governor is the Chairman of the Board. The Board meets at least once a month at the call of the Governor. The Board convenes with the participation of at least two-thirds of the members and renders a decision by the majority of the members present.

Making decisions concerning monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations on banknotes in circulation; making regulations regarding open market operations, foreign exchange operations, interest rates relating to rediscount and advance operations, reserve requirements and instruments, the management of gold and foreign exchange reserves of the country; preparing the budget, annual report, balance sheet, income statements and the agenda of the General Assembly of the Bank and approving the regulations on the administration, organization, services and

personnel of the Bank are among the duties and powers of the Board. Within this framework, the Board issued 132 decisions through 22 meetings in 2006.

As at December 31, 2006, the Chairman of the Board is Governor Durmuş Yılmaz and members are: M. Vehbi Çıtak, Dr. Lokman Gündüz, Prof. M. İlker Parasız, Necati Şahin, Prof. Necdet Şensoy and Dr. M. İbrahim Turhan. At the regular General Assembly meeting of the Central Bank of the Republic of Turkey (CBRT) held on April 13, 2006, Board members Durmuş Yılmaz and Prof. M. İlker Parasız, whose memberships were going to end on April 30, 2006, were re-elected as members for a three-year period from May 1, 2006 to April 30, 2009. Prof. Necdet Şensoy, who was a member of the Auditing Committee, was put forward by the Board for approval of the next General Assembly to be elected to fill the Board membership, which became vacant when Durmuş Yılmaz was appointed as Governor and took office on April 18, 2006, and assumed the duty on December 8, 2006.

1.3. MONETARY POLICY COMMITTEE

The Monetary Policy Committee (The Committee), under the chairmanship of the Governor, is composed of Vice-Governors, a member to be elected by and from among Board members and a member to be appointed by a joint decree on the recommendation of the Governor. The Undersecretary of Treasury or his/her designee (Deputy Undersecretary) may participate in the meetings without the right to vote. The Committee is furnished with the duties and powers of determining the principles and strategy of monetary policy in order to achieve and maintain price stability; determining the inflation target with the Government within the framework of the monetary policy strategy; providing information to the Government and, in line with the principles set forth, to the public, within specified periods by preparing reports regarding monetary policy targets and their implementations; and taking necessary measures jointly with the Government in order to protect the domestic and

international value of the Turkish lira and to establish the exchange rate policy in determining the parity of Turkish lira against gold and foreign currencies.

As at December 31, 2006, the Chairman of the Monetary Policy Committee is Governor Durmuş Yılmaz and members are: Assoc. Prof. Erdem Başçı, Burhan Göklemmez, and Assoc. Prof. Mehmet Yörükoğlu, Vice-Governors, and Board member Dr. M. İbrahim Turhan. The term of Prof. Güven Sak, who was appointed on September 6, 2001 to Committee membership for five years, has ended. The membership of Durmuş Yılmaz, whose Committee membership ended after being appointed Governor of the CBRT, was replaced by Board member Dr. M. İbrahim Turhan who took office on June 7, 2006.

In 2006, the Monetary Policy Committee held 14 meetings: 12 regular and 2 interim.



Left to right: Assoc. Prof. Mehmet Yörükoğlu, Dr. M. İbrahim Turhan, Assoc. Prof. Erdem Başçı, Burhan Göklemmez, Durmuş Yılmaz.

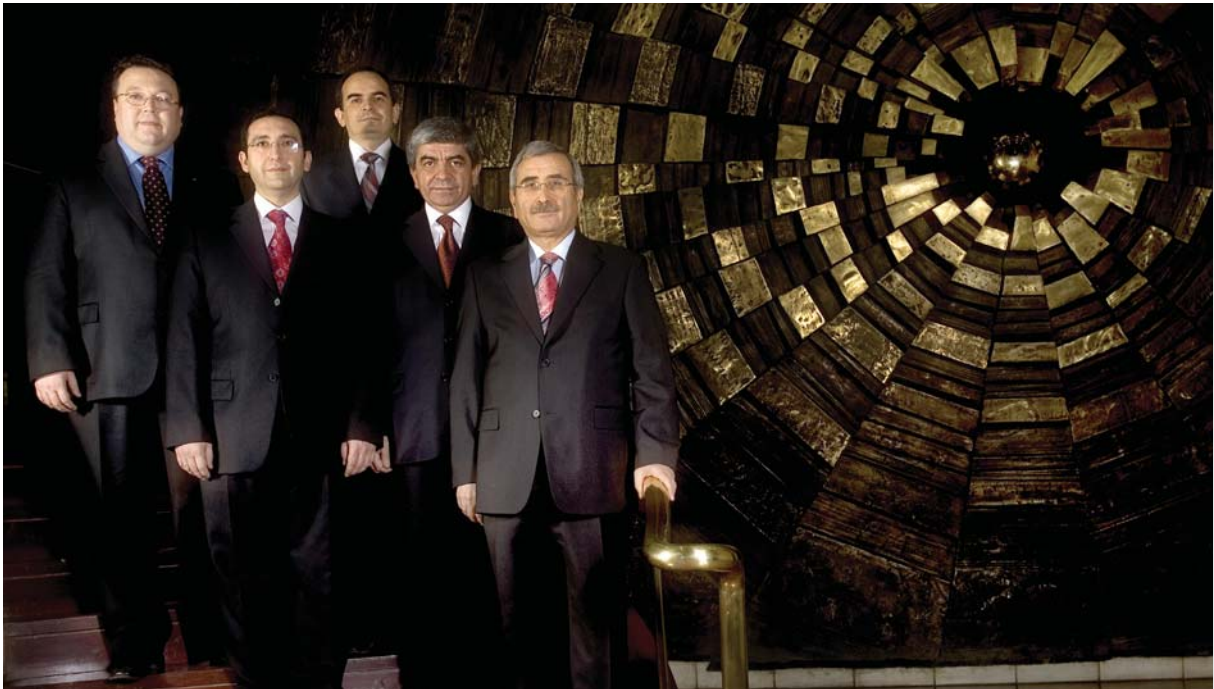
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In 2006, the Monetary Policy Committee held 14 meetings: 12 regular and 2 interim.



Left to right: Assoc. Prof. Mehmet Yörükoğlu, Dr. M. İbrahim Turhan, Assoc. Prof. Erdem Başçı, Burhan Göklemmez, Durmuş Yılmaz.

1.4. AUDITING COMMITTEE



Left to right: Mehmet Tüfekçi, Dr. Bilal San, Mustafa Saim Uysal, Abdullah Yalçın.

Members of the Auditing Committee are elected as follows: one member by the shareholder of class (A), two members by the shareholders of classes (B) and (C) and one member by the shareholders of class (D). Members of the Auditing Committee serve a term of two years. The Auditing Committee supervises all operations and accounts of the Bank. The Auditing Committee, having no administrative power, submits its opinions in writing to the Board and presents a copy thereof to the Prime Ministry. At the end of the year, the Committee submits a report of the operations and accounts of the Bank to the General Assembly.

As at December 31, 2006, members of the Auditing Committee are Mehmet Tüfekçi, Mustafa Saim Uysal, Abdullah Yalçın and Dr. Bilal San. Prof. Necdet Şensoy was re-elected by Class (A) shareholder to serve for two years between May 1, 2006 and April 30, 2008. However, as Class (A) membership became vacant when Prof. Necdet Şensoy was elected as a Board member, the Auditing Committee elected Mehmet Tüfekçi as a member to serve from December 13, 2006 until the next General Assembly meeting.

1.5. EXECUTIVE COMMITTEE

The Executive Committee is composed of Vice-Governors under the chairmanship of the Governor. The Governor is appointed by the Council of

Ministers to serve for five years. Vice-Governors are appointed for five years by a joint decree on the recommendation of the Governor. Decisions of

the Executive Committee are taken by a majority of all members. When deemed appropriate by the Governor, the Committee prepares proposals to be submitted to the Board, by examining in advance issues subject to Board decision, and draws up regulations on the administration, organization and services of the Bank. In addition, the Committee is also responsible for ensuring coordination in the operations of the Bank and performing duties related to the appointment, remuneration, dismissal and retirement of personnel other than those appointed by the Board.

As at December 31, 2006, members of the Executive Committee are Governor Durmuş Yılmaz, the Chairman, Assoc. Prof. Erdem Başçı, Burhan Göklemmez and Assoc. Prof. Mehmet Yörükoğlu. As Ex-Governor N. Süreyya Serdengeçti retired on

March 14, 2006 at his own request on completion of his five-year service, the Board concurrently appointed Vice-Governor Assoc. Prof. Erdem Başçı the Acting Governor until the new governor took office. On April 18, 2006, Board member Durmuş Yılmaz was elected and assumed the office of governor. Vice-Governors Sedef Ayalp, Prof. Fatih Özatay and Şükrü Binay retired on March 8, April 4, and June 5, 2006, respectively, at their own requests. The vacant Vice-Governor positions were temporarily filled by Rifat Günay, General Manager of the Banking and Financial Institutions Department, and Çiğdem Köse, General Manager of the Markets Department. The Manager of Istanbul Branch, Burhan Göklemmez, and Assoc. Prof. Mehmet Yörükoğlu were appointed to Vice-Governorship on May 31, 2006 and June 5, 2006, respectively, replacing Sedef Ayalp and Prof. Fatih Özatay.



Left to right: Assoc. Prof. Mehmet Yörükoğlu, Assoc. Prof. Erdem Başçı, Durmuş Yılmaz, Burhan Göklemmez.

1.6. HEAD OFFICE DEPARTMENTS



Back (left to right): Rifat Günay, Çetin Özbek, Dr. Ahmet Kıpıcı, H. Cahit Özçet, Mehmet Sertbudak, Ömer Öztürk, Selahattin Akkaş.
Front (left to right): Mesut Arslan, Ahmet Aktaş, Ahmet Tugay, Gülten Tınaz, Leyla Öney, Çiğdem Köse, A. Canan Karayalçın, Aydın Özmen.

As at December 31, 2006;

Accounting Department
Banking and Financial Institutions Department
Banknote Printing Plant
Communication Department
Construction and Procurement Department
Foreign Relations Department
Human Resources Department
Informatics Technology Department
Inspection Unit
Internal Audit Department
Issue Department
Legal Department
Markets Department
Research and Monetary Policy Department
Security and Defense Secretariat
Social Affairs Department
Statistics Department
Workers' Remittances Department

Deputy General Manager, Mesut Arslan
General Manager, Rifat Günay
General Manager, Selahattin Akkaş
Deputy General Manager, Aydın Özmen
General Manager, Ahmet Aktaş
General Manager, Süha Mirahur
General Manager, Leyla Öney
General Manager, Ömer Öztürk
Executive Director, Ahmet Tugay
General Manager, Çetin Özbek
General Manager, Mehmet Sertbudak
General Manager, M. Kudret Mennan
General Manager, Çiğdem Tunçtürk Köse
General Manager, Dr. Ahmet Kıpıcı
Security and Defense Secretary, Halit Yıldırım
General Manager, Gülten Tınaz
General Manager, H. Cahit Özçet
General Manager, A. Canan Karayalçın

1.7. BRANCHES

As at December 31, 2006;

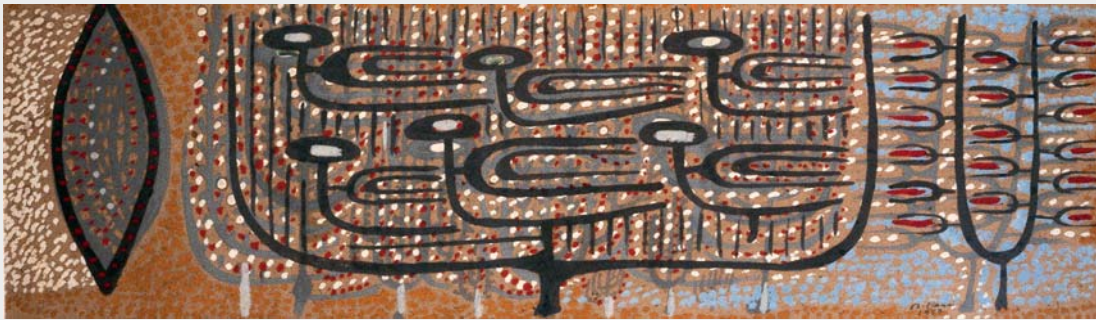
Adana Branch	Deputy Manager, Ayşe Kellecioğlu
Ankara Branch	Manager, M. Ali Koca
Antalya Branch	Manager, Mine Topçu
Bursa Branch	Manager, İsmail Yürümez
Denizli Branch	Manager, Kadriye Ay
Diyarbakır Branch	Manager, İsmail Çakar
Edirne Branch	Manager, Muharrem Zengin
Erzurum Branch	Manager, İ. Selami Yürek
Eskişehir Branch	Manager, Seniha Özer
Gaziantep Branch	Deputy Manager, Namık Kemal Kargül
İskenderun Branch	Manager, Tufan Sonek
İstanbul Branch	Manager, L. Ümit Fındıkoğlu
İzmir Branch	Manager, Emin Demirci
İzmit Branch	Manager, Atanur Dursun
Kayseri Branch	Manager, Meral Kiper
Konya Branch	Manager, Şerafettin Baydaş
Malatya Branch	Manager, A. Cengiz Sağdıç
Mersin Branch	Manager, Ridvan Songör
Samsun Branch	Manager, Süleyman Koruyucu
Trabzon Branch	Manager, T. Hayati Boyalı
Van Branch	Manager, Süleyman Miçooğulları

1.8. REPRESENTATIVE BRANCHES AND LIAISON OFFICE

As at December 31, 2006;

Frankfurt Representative Office	Vice-Representative, Nesrin Tokoğlu
Berlin Liaison Office	Chief, Ayla Şenel
London Representative Office	Representative, İ. Hakkı Arslan
New York Representative Office	Representative, Akil Özçay
Tokyo Representative Office	Vice-Representative, Gökhan Erencan

2. STRATEGIC PLAN AND OPERATIONS OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY



Bedri Rahmi Eyübođlu

1. "Centipede", (Undated) Gouache on Paper, 33x87 cm.
2. "Tree of Life", 1957, Gouache on Paper, 22x40 cm.

2.1. STRATEGIC PLAN

Mission

- To achieve price and financial stability, thus contributing to the enhancement of the prosperity of individuals and society, and to the sound and stable functioning and improvement of money, credit, capital, goods and services markets
- To support the growth and employment policies of the Government provided that it shall not be in conflict with the objective of achieving and maintaining price stability

Vision

- To enhance the transparency and predictability regarding monetary policy
- To pursue an efficient communication policy
- To improve the structure of our Bank through the principles of institutionalization and governance
- To make the independence and credibility of the Central Bank permanent
- To continue harmonization activities with the European Union

Pursuant to the duties assigned to our Bank by the CBRT Law, Basic Strategies are grouped under five headings, as follows:

1. Maintenance of Trust in the National Currency

To ensure price and financial stability so as to contribute to sustainable growth and elevate the prosperity of our nation by maintenance of trust in the national currency, provided that there is no conflict with the objective of achieving and maintaining price and financial stability.

2. Maintenance of Convergence to the European Union and Developing Relations with Other International Organizations

To establish the necessary legal, social and organizational structure in the process of integration with the European Union (EU), and to take the necessary measures thereof.

3. Developing an Adequate and Effective Communication

To improve and take an active role in domestic and international communication in order to increase the efficiency of policies applied through the principles of accountability, credibility and transparency. Also, to strengthen the organizational structure by improving internal communication.

4. Focusing on the Basic Functions of the Central Bank of the Republic of Turkey

To carry out career planning and to focus on the fundamental functions of our bank by revising both the functions and the human resources. To do research in order to accord to the changing environment and to take effective decisions, and to improve the actions of our Bank by applying the results of such research.

5. Developing Corporate Governance

To provide a functional, secure and flexible working environment within the Bank. Moreover, to improve the auditing activities of our Bank in accordance with the developments in international auditing standards, so as to help improve the governance. Thus, to be a good example of corporate governance by enhancing the transparency and accountability. To develop a corporate culture in which the personnel can participate efficiently in processes.

2.2. PRICE STABILITY AND MONETARY POLICY

2.2.1. Overview

The primary aim of monetary, fiscal and incomes policies has been determined as maintaining an environment of sustainable growth by achieving price stability within the framework of the current macroeconomic program. In this respect, in accordance with the monetary policy strategy designed with a medium-term perspective focusing on price stability, a full-fledged inflation targeting regime was adopted in 2006. Medium-term inflation targets expressed by lower single-digit numbers for a three-year period confirm the commitment to achieving and maintaining price stability. In this context, attaining these targets requires the support of fiscal and incomes policies and structural reforms as well as an efficient monetary policy, as before. In other words, reducing public debt stock permanently and sustaining the improvement in budget performance, applying an incomes policy in accordance with inflation targets and in a way that enables efficient resource allocation are important in terms of achieving price stability in the forthcoming period. On the other hand, reforms that strengthen the market mechanism; improve the financial sector's intermediary capacity to meet the resource requirement of the real sector; enhance the quality of the labor force and increase competition, will contribute to both price stability and sustainable growth.

In the aftermath of the 2001 crisis, the macroeconomic program and structural reforms formed within the framework of maintaining an environment of sustainable growth through

achieving price stability were implemented decisively. Furthermore, along with the support of suitable international conditions, the Turkish economy displayed high growth performance and this trend continued in the first half of 2006. However, fluctuations in global markets and an increase in risk aversion that occurred in the second quarter of 2006 raised financing costs due to the increase in the risk premium in Turkey as in other emerging markets. As a result of these developments, inflation and inflation expectations increased, and the Central Bank raised policy rates to control increasing inflation expectations.

Depreciation of the New Turkish lira (YTL) and increase in interest rates in the face of fluctuations in financial markets resulted in a significant decline in total domestic demand, which was mainly in the demand for durable goods. Furthermore, oil prices displayed a rapid downward trend in the second half of 2006, and unit labor costs decreased thanks to strong productivity gains of the private manufacturing industry in the first three quarters of the year. In addition to this positive demand and cost factors, a decline was observed in inflation expectations as of August and the annual inflation rate resumed its downward trend thanks to the decisive implementation of monetary policy and re-appreciation of YTL. However, in spite of the observed downward trend, the year-end inflation rate was realized above the upper limit of the uncertainty band, which is 7%, in the face of supply shocks and exchange rate fluctuations.

2.2.2. Macroeconomic Developments

Supply and Demand Developments

The rapid pace of growth in the Turkish economy since 2002 continued in the first half of 2006. The Gross Domestic Product (GDP), which increased by 6.5% and 7.8% in the first two quarters of 2006, respectively, slowed down and grew by 3.4% in the third quarter (Table 1). Due to the financial turmoil in May and June of 2006, the YTL depreciated and interest rates rose. Accordingly, both the waning demand for durable goods and the slow

growth rate of private sector machinery-equipment investments were the main sources of the slowdown of economic growth in the third quarter. At the same time, expenditures on non-durable and semi-durable goods and private construction investments rose at high rates in the third quarter. As a result, the GDP increased by 5.7% in the first nine months of 2006.

1

GDP Developments by Expenditures (Constant Prices of 1987, Annual Percentage Change)

	2004	2005					2006			
	Annual	I	II	III	IV	Annual	I	II	III	First Nine Months
1-Consumption Expenditures	9.0	4.1	3.9	9.8	14.1	8.1	8.4	11.1	2.3	6.9
Public	0.5	4.4	4.0	3.2	0.0	2.4	8.1	18.0	15.4	14.2
Private	10.1	4.1	3.9	10.4	16.7	8.8	8.4	10.4	1.3	6.2
Durable Goods	29.7	3.2	2.9	26.0	31.3	15.0	13.4	16.5	-8.9	6.3
Food and Beverages	2.8	3.3	8.6	10.8	8.7	8.2	6.7	5.6	-1.1	2.9
Semi-dur. and Non-dur. Goods	18.8	9.0	3.0	3.7	39.6	12.9	12.7	22.4	20.9	18.5
2-Fixed Capital Formation	32.4	10.3	20.0	30.6	33.0	24.0	30.8	11.5	9.4	15.7
Public	-4.7	30.7	30.2	38.2	17.1	25.9	34.5	-11.4	-5.6	-2.2
Private	45.5	8.8	18.4	29.0	41.6	23.6	30.4	15.4	13.0	18.8
Machinery-Equipment	60.3	5.1	15.4	26.8	43.5	21.4	32.7	11.5	4.8	15.5
Construction	15.3	20.8	28.8	33.2	35.9	29.9	24.1	27.7	28.7	27.2
3-Exports of Goods and Services	12.5	14.0	6.7	3.9	10.9	8.5	2.9	3.4	5.7	4.1
4-Imports of Goods and Services	24.7	10.6	9.1	11.2	15.3	11.5	8.2	9.5	1.7	6.6
5-Total Domestic Demand	14.1	5.6	6.8	10.9	11.6	8.8	8.8	10.4	1.7	6.8
6-Total Final Domestic Demand	14.1	5.5	8.4	14.5	19.1	12.1	13.8	11.2	4.2	9.3
7-GDP (Expenditure side)	9.0	6.6	5.5	7.7	9.5	7.4	6.5	7.8	3.4	5.7

Source: TURKSTAT.

Net foreign demand contributed negatively to growth in the first half of 2006 as imports grew faster than exports. In the third quarter, import growth decelerated due to the slowdown in domestic demand and depreciation of the YTL, whereas exports exhibited strong performance, mainly due to sustained gains in productivity. In this respect, following the first quarter of 2005, for the first time net exports contributed positively to growth in the third quarter, and partially compensated the slowdown in domestic demand. To sum up, the contribution of demand conditions to the disinflation process became more pronounced as of the second half of 2006 (Chart 1).

1

Output Gap (%)

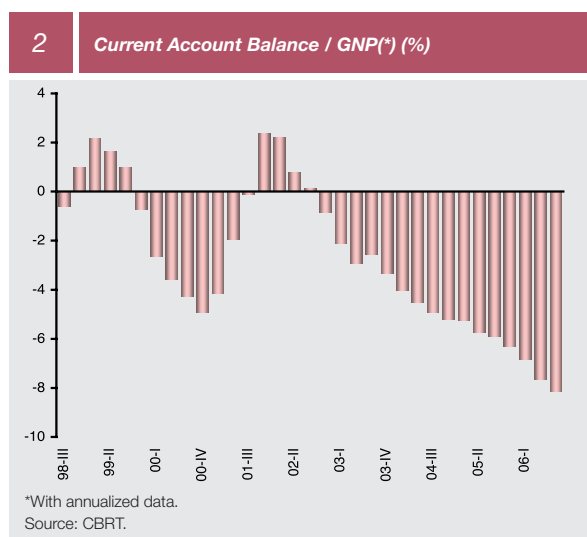


Source: CBRT.

Balance of Payments Developments

In 2006, total goods exports grew by 19.2% over the previous year, amounting to a volume of USD 91.7 billion, while respective figures for total goods imports were 19.3% and USD 131.8 billion. Accordingly, the external trade deficit equaled USD 40.1 billion. The expansion of the trade deficit lost pace in the second half of 2006 compared to the first half, as a result of the slowdown in domestic demand, receding crude oil prices and strong external demand. However, the fall in services

revenues owing to the drop in tourism revenues and the widening of investment income deficit throughout the year further contributed to the expansion of the current account deficit. Consequently, the current account deficit widened to USD 31.5 billion in 2006. The ratio of the annual current account deficit to the Gross National Product (GNP) reached 8.1% as of the first three quarters of 2006 (Chart 2).

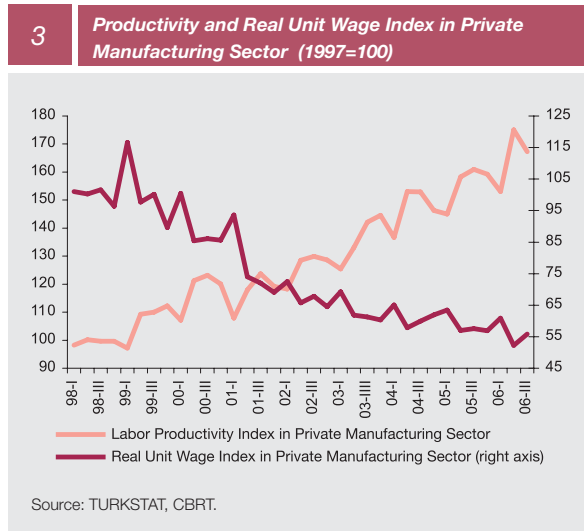


One of the main reasons behind the rise in the current account deficit in Turkey has been private investment growth surpassing savings growth in recent years. Nevertheless, this development is boosting the country's growth potential and signals stronger export performance in the future. There has also been an improvement in the financing quality of the widening current account deficit. The share of long-term borrowing and direct investment has been increasing for the last two years. All these developments contribute significantly to ease concerns over the sustainability of the current account deficit.

Employment, Labor Productivity and Energy Prices Developments

High growth rates experienced by the Turkish economy in recent years have not lead to a rise in employment to the same extent. Although the average annual growth rate of the GDP was 7.4% between 2002 and 2005, the rate of average annual increase in employment remained at 1.1%. While the level of employment decreased by 1.1% in the first quarter of 2006 with respect to the same period of the previous year, it recorded 0.6%, 1.9% and 3.3% of increases in the second, third and fourth quarters, respectively. In 2006, annual farm employment losses slowed down significantly

beginning from the third quarter, and in the last quarter employment rates in this sector increased albeit at a moderate pace. On the other hand, non-farm employment continued to increase, but at lower rates, in comparison with those in 2005. Among non-farm sectors, industrial and services sectors recorded lower rates of increase in the level of employment beginning from the first and third quarter of 2006, respectively, while only the construction sector continued to show its strong employment performance of 2005 throughout 2006. Taking into consideration sectoral developments, it



is observed that the labor force has been inclined towards industrial, construction and services sectors from the agricultural sector, and in this sense, a reallocation of the labor force has taken place among the sectors. As the labor force moved from agriculture to other sectors where productivity was relatively higher, this transformation process led to a rise in economic productivity in general. This tendency is important in terms of the Turkish economy's real convergence to the European Union.

In 2006, only a limited improvement was recorded in unemployment rates, which went down to 9.9% in 2006 from 10.3% in 2005. Employment losses in the agricultural sector restrained the favorable performance of non-agricultural sectors, and this development was significant in terms of explaining the limited improvement in unemployment rates in comparison with high growth rates in national

income. In fact, the non-farm unemployment rate, which went down to 12.6% in 2006 from 13.6% in 2005, shows a more significant decline than that of the total unemployment rate. Besides, it is thought that changes in the manufacturing sector in favor of large-scale and capital-intensive sectors and the pressure of global competition mainly resulting from China and India on labor-intensive sectors prevented high employment rates.

In the private manufacturing industry, real unit wages continued to decline in the first quarter of 2006 as a result of the gains in productivity and the limited increases in real wages. In this period, real unit wages went down by 4.0% from the same period of the previous year. Mainly due to productivity gains in the second and third quarters of the year, real unit wages declined by 8.4% and 3.0%, respectively (Chart 3). The falling trend of real unit wages in 2006 made a positive contribution to export performance through increasing competitiveness, on the one hand, and reducing cost pressures on prices, on the other.

In recent years, high growth rates in the global economy have created pressure on crude oil prices where idle capacity opportunities were limited. However, oil prices have remarkably declined mainly due to the reduced crude oil consumption driven by the slowdown in the U.S. economy since the second quarter of 2006, favorable weather conditions, and two-year high US crude supplies. Crude oil prices fell to USD 60.1 per barrel by December 29, 2006.

Credit Developments

The environment of confidence formed as a result of the restructuring of the financial system after the 2001 crisis favorably influenced expectations of both the banking system and individuals, and led to maturity extensions in financial agreements

as well as an increase in the amounts subject to agreement. One of the impacts of this development has been the expansion in credits since the second half of 2003. Due to the effects of increasing foreign participation in the banking sector and ongoing

fiscal discipline, credit expansion continued in the first half of 2006. Yet, after the May-June financial turbulence, overnight interest rates have increased, raising costs of credit funds and risk aversion. Hence, in the second half of the year, credit growth slowed down more visibly and, in particular, the sub-item of automobile loans decreased (Table 2).

2 Consumer Credits and Credit Card Receivables (Real Quarterly Percentage Change)

	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4
Consumer Credits	23.3	14.4	17.2	20.0	1.5	3.3
Housing Credits	50.6	33.3	29.2	22.8	0.9	2.0
Automobile Loans	11.4	6.0	1.9	5.1	-6.4	-5.5
Other Loans	11.3	1.6	11.7	24.3	6.0	8.7
Credit Cards	6.3	2.3	2.0	6.8	2.1	4.4

Source: CBRT.

Public Finance and Debt Stock Developments

In 2006, the central government budget system was put into practice in lieu of the consolidated budget system. The analysis on the central government budget developments reveals that targets associated with public finance were achieved in 2006. Maintaining fiscal discipline decisively and carrying out reforms in public sector increased the

efficiency of the public finance, on the one hand, and helped move the economy toward a more competitive structure, on the other. Developments in public finance affected price dynamics positively, and played a crucial role in mitigating concerns over current account sustainability in 2006.

3 Central Government Budget Aggregates (Billion YTL)

	2005	2006	Rate of Increase (%)	2006 Budget Target	Realizations/ Budget Target (%)	Realizations/ GNP (%) ¹
Central Government Expenditures (A+B)	159.2	175.3	10.1	174.3	100.6	31.2
A) Interest Expenditures	45.7	45.9	0.4	46.3	99.2	8.2
B) Non-Interest Budget Expenditures	113.5	129.4	14.0	128.1	101.0	23.0
1. Gov. Premiums to Personnel and Social Security Agencies	37.4	42.8	14.4	41	104.4	7.6
2. Purchases of Goods and Services	15.2	18.6	22.4	17.7	105.3	3.3
a) Defense-Security	6.5	7.5	15.4	7.8	96.1	1.3
b) Health Expenditures	4.0	5.3	32.5	4.1	130.4	0.9
c) Other Purchases of Goods and Services	4.7	5.7	21.3	5.7	100.4	1.0
3. Current Transfers	45.6	49.6	8.8	49.1	101.0	8.8
4. Capital Expenditure	10.3	11.9	15.5	12.5	95.5	2.1
5. Capital Transfers	1.2	2.6	116.7	1.8	146.5	0.5
6. Lending	3.8	3.7	-2.6	4.3	86.9	0.7
7. Reserve Appropriations	0.0	0.0	-	1.7	0.0	0.0
Central Government Revenues (A+B+C)²	-	171.3	-	160.3	106.9	30.5
A) General Budget Revenues (I+II+III+IV)	132.7	166.6	25.6	156.2	106.7	29.6
I-Tax Revenues	106.9	137.5	28.6	132.2	104.0	24.5
1. Taxes on Income, Profits and Gains	30.3	40.1	32.4	39.0	103.0	7.1
2. Taxes on Property	1.8	3.1	69.4	3.1	99.3	0.6
3. Domestic Taxes on Goods and Services	50.5	59.4	17.7	59.4	100.0	10.6
4. Taxes on International Trade and Transactions	19.3	27.6	42.8	24.3	113.6	4.9
II-Non-Tax Revenue	23.2	26.4	14.0	21.4	123.7	4.7
III-Capital Revenue	2.0	1.8	-9.9	2.3	81.1	0.3
IV-Special Revenues, Grants and Aids	0.5	0.9	78.8	0.4	232.5	0.2
B) Revenues from Private Budget Organizations	-	3.3	-	3	109.7	0.6
C) Revenues from Regulatory and Supervisory Agencies	-	1.4	-	1.1	127.1	0.2
Budget Balance	-	-4.0	-	-14	28.5	-0.7
Primary Balance	-	42.0	-	32.3	129.9	7.5

Source: Ministry of Finance

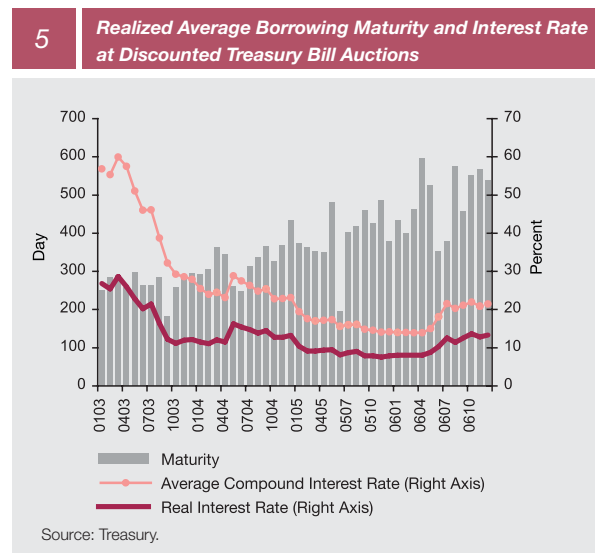
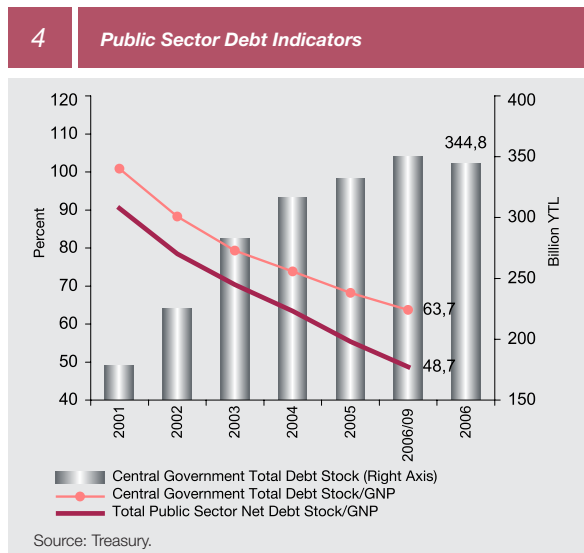
¹GNP growth rate for 2006 taken from SPO Program of 2006.²Not comparable due to change of scope.

Both the budget and the primary budget balances overperformed in terms of year-end targets in 2006 (Table 3). While the central government primary budget balance surplus amounted to YTL 42.0 billion, the budget balance registered a small deficit of YTL 4.0 billion; hence, the ratio of central government budget deficit to the GNP dropped to 0.7% in 2006. This positive performance can be attributed mainly to central government budget revenues, which surpassed the initial target of YTL 160.3 billion by YTL 11.0 billion. Despite the underperformance of corporate tax revenues with respect to the initial target due to the tax rate cut in 2006, tax revenues increased by 28.6% compared to 2005 thanks to the overperformance of VAT on imports and income tax revenues. Nonetheless, it should be kept in mind that the surge in central government budget revenues mainly stemmed from one-off measures peculiar to 2006. Transfers of overdue interest and tax penalty payments of mobile phone operator Telsim Inc. to the Treasury by the Savings Deposit Insurance Fund (SDIF) and the cash surplus of Turk Telecom, Inc. (TELEKOM)

to the budget contributed significantly to the aforementioned high revenue performance.

Despite the financial turbulence in May and June, public debt stock maintained its declining pace in 2006. By December 2006, central government debt stock, which constitutes a large share of total public sector debt stock, increased by 4.0% over the previous year to YTL 344.8 billion. Debt stock growth was limited by the overperformance in the primary balance target and by the YTL 10.6 billion-worth privatization revenue in 2006 (Chart 4).

As a result of the re-issuance of variable and fixed coupon securities with a five-year maturity resumed as of September 2006, the average maturity of borrowing, which was shortened in May-July period, increased significantly and reached pre-turbulence levels. Nominal and real interest rates, which have been declining since the second half of 2004, rose substantially after the financial turbulence in the May-June period and persisted at these levels (Chart 5).



Inflation Developments

In 2006, the Consumer Price Index (CPI) increased by 9.65% and inflation remained above the upper limit of the uncertainty band of 7%, which was set for the year-end (Chart 6). In order to identify

the reasons for the significant overshooting of the inflation target, it would be better to examine 2006 in two periods, as pre-May and post-May.

In the pre-May period, the main reason for the increase in inflation can be summarized as the simultaneous emergence of different supply-side shocks. These shocks can be classified as rising crude oil prices, increases in unprocessed food prices and surges in gold prices. The strong course of domestic demand in the first half of 2006 also had an effect on the increase in inflation during the pre-May period. However, as regards the sub-items and capacity indicators, it is observed that supply-side factors are more effective in the overshooting of the inflation target.

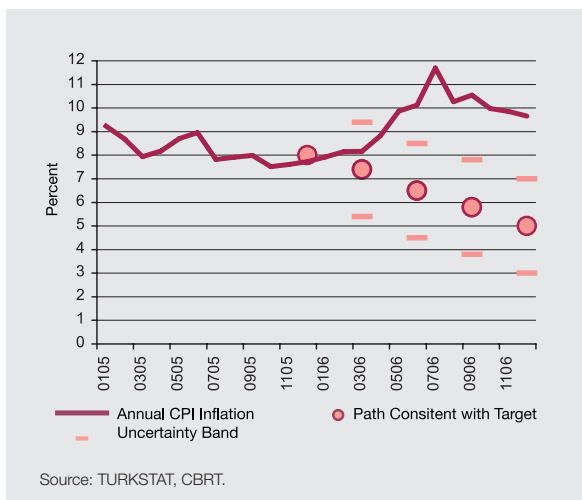
On the other hand, in the post-May period, the change in global risk perception and exchange rate developments resulting from the global liquidity shock were influential on inflation dynamics. Since early 2006, developed economies hiked their interest rates due to increasing concerns about inflation. This situation resulted in a serious reverse movement of international capital flows to developing economies in May and June 2006. Apart from rising interest rates in developed countries, the increasing risk aversion in global markets caused capital outflows from countries like Turkey, Hungary and the Republic of South Africa. These adverse developments in international liquidity conditions

produced fluctuations in the Turkish financial market as well as in other developing countries.

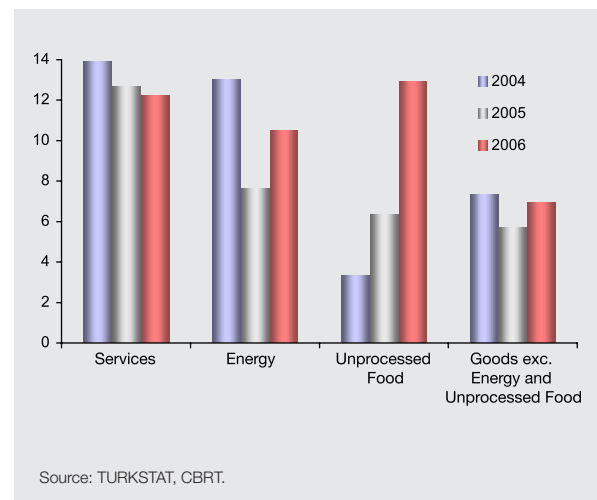
During May and June, the risk perception about Turkey deteriorated seriously and Turkey's credit risk premium increased by around 150 basis points. In addition, the Turkish lira depreciated against the US dollar by more than 20% in the same period. As a result of these developments, annual inflation surged to 10.1% in the second quarter of 2006 and exceeded the 8.5% upper limit of the uncertainty band consistent with the target set for that period. Annual inflation in July reached 11.7%. The cumulative effect of exchange rate movements during May and June on 2006 inflation amounted to 3.5 percentage points. Along with the said cumulative effects and the high course of unprocessed food prices, annual inflation remained at high levels for the rest of the year. Annual inflation rates in the third and fourth quarters of 2006 were 10.6% and 9.7%, respectively. These figures also exceeded the upper limit of the uncertainty band for the mentioned periods.

In 2006, inflation developments in sub-items indicate that unprocessed food prices increased significantly higher than the previous two years,

6 Annual CPI Inflation and Path Consistent with the Target



7 Consumer Prices (Annual Percentage Change)

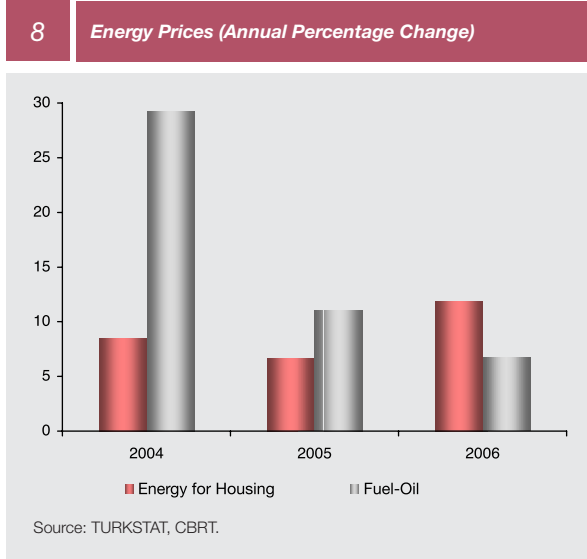


services inflation decreased slightly and goods inflation was higher than that of the last two years. Goods excluding unprocessed food were mainly subject to the effects of the weakening Turkish lira. The adverse effect of energy prices on inflation became more significant as a result of the continued rise in oil prices in the first half of the year and the depreciation of the Turkish lira (Chart 7).

It is observed that the rising trend of unprocessed food prices stemmed from the above-seasonal price hikes in fresh fruit and vegetables, on which weather conditions and crop yields are the main determinants. Meanwhile, prices of other unprocessed food items increased at moderate levels. This situation underlines the supply-side factors in food price hikes. While annual inflation of unprocessed food prices climbed to 21% in July, it eased in the last quarter and became 12.9% by the end of 2006.

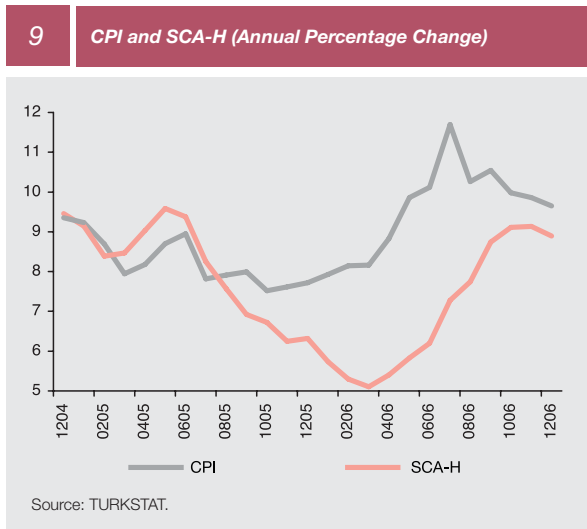
While annual services inflation decelerated in 2006 compared to the previous year, it showed a stable trend throughout the year. The reduction in services inflation was 1.2 percentage points in 2005 while that of 2006 became 0.5 points. Beside the limited contribution of domestic demand conditions to disinflation, exchange rate fluctuations during May and June followed by the rise in the inflation tendency in the short-term were influential on this development.

Energy prices pursued a volatile course throughout 2006 due to developments in international markets and exchange rates. Energy prices increased significantly until August due to rising oil prices and the depreciation of the Turkish lira. The said increase slowed down after August, as a result of the reversal of the trend in oil prices and in the Turkish lira. However, annual inflation in the energy



group averaged 10.5% in 2006 because of the high course of utilities and other prices for housing (Chart 8).

The annual inflation of the SCA-H, which is one of the Special CPI Aggregates used for extracting the main trend of inflation by excluding temporary movements, reached 8.9% by the end of the year.¹ Consequently, price hikes in goods and services included in the SCA-H were the main determinants of the mid-2006 rise in inflation (Charts 9 and 10). On the other hand, with the exchange rate pass-through in the last quarter, the rate of increase in the



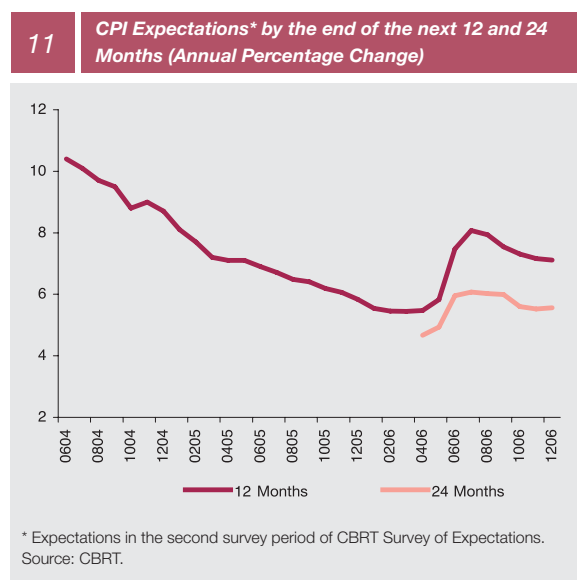
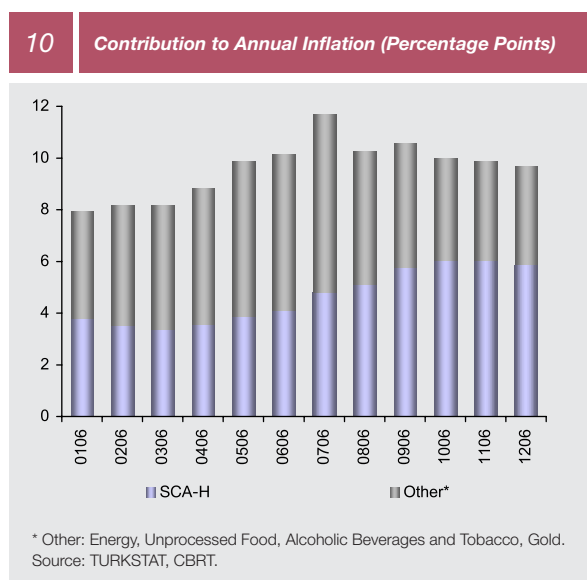
¹The fact that durable goods have a significant weight in the mentioned index makes it vulnerable to exchange rate fluctuations. Consequently, by the end of the year, while annual inflation increased by 0.8 points compared to April, annual inflation in the SCA-H increased by 3.5 points.

SCA-H slowed down considerably and the rising trend was replaced by a downfall.

Inflation expectations are influential on inflation realizations through affecting price developments as well as wage adjustments. In this framework, developments in inflation expectations play an important role in the Central Bank's analyses and evaluations.

Inflation showed an upward trend beginning from May and inflation expectations deteriorated. However, the monetary policy² conducted by

Central Bank to achieve medium-term targets contributed to the recovery of inflation expectations. According to the results of the Survey of Expectations carried out by the Central Bank periodically, the deterioration in inflation expectations came to a halt in July. In the following period, 12 and 24-month ahead inflation expectations displayed a downward trend consistently (Chart 11). Nevertheless, the improvement in inflation expectations was limited due to the high-rated inflation that mainly affected inflation expectations. By end-2006, the inflation expectation for end-2007 was 7.11% while that for end-2008 was 5.56%.



2.2.3. Monetary Policy Implementations

The General Framework of the Inflation Targeting Regime

The formal inflation targeting regime was launched early 2006, and since its implementation, crucial steps have been taken towards transparency, accountability and predictability.

Under the framework of the inflation targeting regime, monetary policy decisions are made by the Monetary Policy Committee in pre-announced monthly meetings by voting. The main instrument

of monetary policy is the short-term interest rates at the Interbank Money Market and at the Istanbul Stock Exchange Repo/Reverse Repo Market. While making interest rate decisions, the Committee maintains its medium-term perspective and focuses on the consistency of inflation expectations and forecasts with the target. In 2006, press releases explaining the decisions on interest rates along with the rationale of decisions were published on

²Monetary policy implementations are analyzed in detail in section 2.2.3.

the same day and the summary reports of the Committee's discussions were released within five working days following the meetings. The main communication tool of monetary policy is the quarterly "Inflation Report", which is published on pre-announced dates and contains a detailed analysis on economic developments, inflation forecasts, as well as an analysis of risk factors and likely policy reactions.

As it is an effective way of accurately measuring the cost of living and owing to its communication advantage, the inflation target is defined in terms of the annual percentage change of the Consumer Price Index and it is set as year-end point target, which is jointly set with the government for a three-year period. Within this framework, the year-end targets for 2006, 2007 and 2008 were set as 5%, 4% and 4%, respectively. In order to form a basis for the accountability mechanism, a quarterly path consistent with the year-end target for 2006 with an uncertainty band of 2 percentage points on both sides was announced (Table 4). This path has also been used as a performance criterion for the quarterly reviews within the scope of the Stand-by program implemented with the International Monetary Fund (IMF). Within the framework of the accountability principle, if inflation realizations breach the uncertainty band, the Central Bank shall submit an "Open Letter" to the Government disclosing the reasons for the deviation from the target and the measures to be taken for convergence to the target and share this report

with the public. This open letter is also presented to the IMF in the scope of IMF program conditionality. Inflation realizations breached the upper limit of the uncertainty band as of the second quarter of 2006. Consequently, the CBRT wrote open letters to the Government in accordance with the accountability principle, explaining the reasons of exceeding the target and evaluating the measures to be taken by the CBRT to bring inflation back to the target. The mentioned letters were shared with the public and sent to the IMF in the scope of IMF program conditionality as well.

It is quite common for countries implementing an inflation targeting regime to experience significant deviations from the inflation target. What matters most in this respect is to be able to explain the reasons for deviation, to take the necessary measures to ensure that the target could be attained again and to inform the public of the convergence period. If the Central Bank had changed its inflation target for end-2006 as a reaction to the deviation of the inflation realizations from the target, it would have achieved its "new" year-end target and would not have been liable to be called to account to the public. However, instead of changing the target, the Central Bank preferred to render account to foster its communication policy. In conclusion, the Central Bank considers that frequent changes in targets are likely to have adverse effects on inflation expectations and pricing behaviors, which could damage the credibility of future commitments. For this reason, it is important in the upcoming

4

Inflation Path Consistent with the Year-End Target, the Uncertainty Band and Inflation Realizations in 2006

	March	June	September	December
Upper limit of the uncertainty band	9.4	8.5	7.8	7
Path consistent with the target	7.4	6.5	5.8	5
Lower limit of the uncertainty band	5.4	4.5	3.8	3
Realizations	8.16	10.12	10.55	9.65

Source: CBRT

period that targets should be left intact as long as inflation is expected to converge to targets within a reasonable period of time.

The exchange rate policy in 2006 was implemented in accordance with the general framework announced in the press release entitled “The General Framework of Inflation Targeting Regime and Monetary and Exchange Rate Policy for 2006” on December 5, 2005. Under this framework, exchange rates have been determined by demand and supply conditions in the foreign exchange market and the Central Bank does not target any level of exchange rates. However, the Central Bank can participate in the exchange rate markets in two ways. Firstly, the Bank conducts foreign exchange purchase auctions, the terms and schedule of which are announced in advance, to improve the international reserve position. Secondly, the Bank may conduct direct sale or purchase interventions in cases of excessive volatility in exchange rates or of developments that could lead to excessive volatility in the market. Despite the fact that the exchange rate was determined by supply and demand conditions in the foreign exchange markets in 2006, the Central Bank directly intervened in the foreign exchange market via one buying and three selling interventions as a response to the excessive volatility in exchange rates observed in 2006.

The general framework of the monetary policy for 2007 is announced in a press release entitled “Monetary and Exchange Rate Policy in 2007” on December 13, 2006. Accordingly, the 4% year-end

point target set for the year 2007 was announced along with both the uncertainty band of 2 percentage points and the quarterly inflation path consistent with the year-end target. The year-end targets for 2008 and 2009 were set as 4% (Table 5).

Although the general framework of the monetary and exchange rate policy for 2006 has been maintained in 2007, the operational framework of the inflation targeting regime has been adjusted with the objective of implementing communication and monetary policies more effectively. The inflation forecasts presented in the Inflation Reports published throughout 2006 covered a period of one and a half years. From 2007 onwards, the forecast horizon will refer to a two-year period with an objective to help economic agents to predict the future more effectively. As a result of this adjustment, a forecast horizon has been formed that can be compared to the results of the Survey of Expectations. This will provide the opportunity to analyze and assess inflation forecasts more easily. Another adjustment in the operational framework of the inflation targeting regime is that, starting from 2007, the press release on interest rates published immediately after the Monetary Policy Committee meeting will be published on the same day along with its English translation. Moreover, in 2006, the statement entitled “Summary of the Monetary Policy Committee Discussions” will be published within eight working days following the meeting, with the title “Summary of the Monetary Policy Committee Meeting”, along with its English translation.

5

Inflation Path Consistent with the Year-End Target and the Uncertainty Band in 2007

	March	June	September	December
Upper limit of the uncertainty band	11.2	8.7	7.3	6.0
Path consistent with the target	9.2	6.7	5.3	4.0
Lower limit of the uncertainty band	7.2	4.7	3.3	2.0

Source: CBRT

Monetary Policy Implementations

Consistent with the projections in January, the downward trend in inflation displayed a slowdown tendency as of the first quarter of 2006. The annual inflation rate as of end-March 2006 was 8.16%, staying within the uncertainty band. The Committee kept policy rates unchanged in the first quarter of the year. On the other hand, excluding items beyond the control of monetary policy, such as energy, unprocessed food, alcoholic beverages and tobacco, the main trend of inflation continued to be downward in the mentioned period. Thus, the Central Bank maintained its medium-term outlook that annual inflation would move downwards beginning from the second quarter of the year 2006. In this context, preserving the policy perspective in the Inflation Report, the Committee decreased policy rates by 25 basis points in April.

Coupled with the unfavorable supply-side shocks stemming from the commodity and unprocessed food prices, the depreciation of YTL due to the financial volatility experienced in the May-June period have deteriorated inflation expectations seriously and brought about the risk of second round effects. Therefore, the Central Bank took several policy measures in order to prevent this deterioration from making a lasting impact on pricing behavior and finally to make inflation targets attainable in the medium-term.

The first reaction of the Central Bank was to suspend the daily foreign exchange purchase auctions, which had been held regularly since the end of 2004, starting from May 16, 2006. In this way, the Central Bank aimed at reducing the volatility in exchange rates stemming from the sharp decline in foreign exchange supply. Secondly, the Committee held an interim meeting on June 7, at which policy rates were hiked by 175 basis points. Following

this, fluctuations in financial markets eased to some extent. In fact, at the subsequent regular Monetary Policy Committee meeting of June 20, the Committee assessed that the information flow between June 7 and 20 did not justify a change in the policy stance and decided to keep policy rates on hold. However, after the Committee meeting, the volatility in the markets increased again, putting pressure on exchange rates and medium and long-term interest rates. Moreover, medium-term inflation expectations continued to deteriorate. In response to these developments, the Committee held another interim meeting on June 25 and increased policy rates by a further 225 basis points.

During the meeting held on June 25, the Committee decided on a set of measures regarding YTL and foreign exchange liquidity in order to reinforce monetary tightening. Within this framework, the Central Bank initiated "New Turkish Lira Deposit Buying Auctions" with standard maturities of one and two weeks as of June 26, with an aim of gradually reducing the excess YTL liquidity in the markets and increasing the efficiency and flexibility of monetary policy.

Furthermore, as a reaction to the exchange rate volatility stemming from the reduction of liquidity in the foreign exchange markets, it was decided that "Foreign Exchange Sale Auctions" would be held on dates and in amounts to be announced in advance. Besides, it was announced that in case of excessive volatility in exchange rates, the Central Bank might intervene in the foreign exchange market in the form of direct selling.³

In the meeting held in July 2006, the Committee raised interest rates by a further 25 basis points in order to alleviate the secondary effects of the

³Operations held within this framework are given in detail under the section titled "Exchange Rate Policy".

exchange rate and improve inflation expectations. Consequently, from June 7 to July 20, the Central Bank overnight borrowing rate was increased by 425 basis points in total.

The policy measures taken by the Central Bank displayed their effects in the economy in a short period of time. Financial markets stabilized and the YTL rebounded. Meanwhile, the deterioration in inflation expectations, stemming from the volatility observed in financial markets in May-June period, stopped, and the inflation expectations for end-2006 started to decline as of September. Expectations continued to improve by the end of the year, although they remained well above the targets. As of the second half of December 2006, the 24-months-ahead-expected annual inflation declined to 5.56%. The risk premium declined by almost 100 basis points from end-June to end-August, and the borrowing interest rates started to display a declining trend after a sharp increase from May onwards. Finally, the foreign exchange market became relatively stable and the foreign exchange purchase auctions, which were suspended in May 2006, were resumed on November 10, 2006.

By mid-2006, the contribution of domestic demand to the disinflation process increased

while international liquidity conditions improved. Nevertheless, the tight stance of monetary policy was maintained as of August and policy interest rates were held at 17.50% during the rest of the year, due to the facts that the rigidity in services prices could not ease yet; the risks related to oil and other commodity prices persisted; the uncertainties over unprocessed food prices and global liquidity conditions did not disappear; and inflation expectations were not yet in total harmony with the medium-term targets (Table 6).

6 Monetary Policy Committee Meeting Dates and Interest Rate Decisions in 2006

Meeting Dates	Interest Rate Decision	Interest Rate
23 January 2006	No change	13.50
23 February 2006	No change	13.50
23 March 2006	No change	13.50
27 April 2006	-0.25	13.25
25 May 2006	No change	13.25
7 June 2006*	+1.75	15.00
20 June 2006	No change	15.00
25 June 2006*	+2.25	17.25
20 July 2006	+0.25	17.50
24 August 2006	No change	17.50
26 September 2006	No change	17.50
19 October 2006	No change	17.50
23 November 2006	No change	17.50
21 December 2006	No change	17.50

* Interim meeting
Source: CBRT.

Exchange Rate Policy

The Central Bank continued the implementation of the floating exchange rate regime in 2006. As mentioned before, in the current floating exchange rate regime, exchange rates are determined by supply and demand conditions in the market and the Central Bank does not have any exchange rate target. However, the Bank can intervene directly in the market in case of excess volatility in the foreign exchange market. In this regard, as a response to the excessive volatility in exchange rates observed during the year, the Bank directly intervened in the

foreign exchange market via one buying and three selling interventions.

Following the increase in foreign exchange sales driven, *inter alia*, by developments in international markets, the Central Bank decided to directly intervene in the market by buying a total amount of USD 5.4 billion on February 15, 2006, in order to prevent realized and expected excessive volatilities. On June 13 and 23, 2006, the Bank decided to directly intervene in the market by selling foreign

exchange in order to prevent the excessive volatility observed in line with the liquidity shortage in the foreign exchange market due to global liquidity conditions. Total amounts sold were USD 0.5 billion and USD 0.8 billion, respectively.

In the Monetary Policy Committee meeting held on June 25, 2006 following the aforementioned interventions, it was stated that the liquidity shortage in the foreign exchange market continued and once again underlined that an effective foreign exchange market was a prerequisite for the price stability target. Thus, in order to provide foreign exchange supply via its instruments and mechanisms, the Central Bank directly re-intervened in the market by selling an amount of USD 0.9 billion on June 26, 2006. In addition to this intervention, two more foreign exchange selling auctions were held on June 26 and 27, 2006, at which a total amount of USD 1 billion was sold.

The daily amount that can be bought to build up reserves was set as USD 60 million, with an auction amount of USD 20 million and an optional selling amount of USD 40 million, to be effective as of January 2, 2006. This auction program was announced on an annual basis, and unless

extraordinary differences were observed in foreign exchange liquidity conditions, the program would not change. In fact, in line with the decline in foreign exchange supply due to global liquidity conditions, the depth of the foreign exchange market was lost, which resulted in increasing volatility in exchange rates. Therefore, the Bank decided to suspend the daily foreign exchange buying auctions for a certain period of time, starting from May 16, 2006.

On the other hand, following the measures taken by the Central Bank against the volatility in financial markets in May and June 2006 and the improved global liquidity conditions, the foreign exchange market has become relatively stable. For this reason, the Central Bank has decided to resume the foreign exchange buying auctions, which were suspended on May 16, 2006, as of November 10, 2006. Accordingly, the maximum daily amount to be purchased in the auctions has been set at USD 45 million, with USD 15 million as the auction amount, and USD 30 million as the optional selling amount. Consequently, in 2006, the total amount of foreign exchange bought via auctions and interventions is USD 9.7 billion, while the total amount sold is USD 3.1 billion (USD 6.6 billion is the net purchase amount).

Liquidity Management

In 2006, considering the low level of interest rates, the arrangements related to liquidity management incorporated some technical interest rate adjustments in order to determine the borrowing and lending overnight interest rate margins. The motive of such decisions had been declared not to be related to the inflation targeting framework. The first adjustment on January 2, 2006, was a one-percentage point decline in the lending rate, so the difference between the borrowing and the lending rate decreased to 3 percentage points. Additionally, the lending rate and the borrowing

rate on the late liquidity window facility were set 3 percentage points higher than the intra-day lending rate and 4 percentage points lower than the intra-day borrowing rate, respectively.

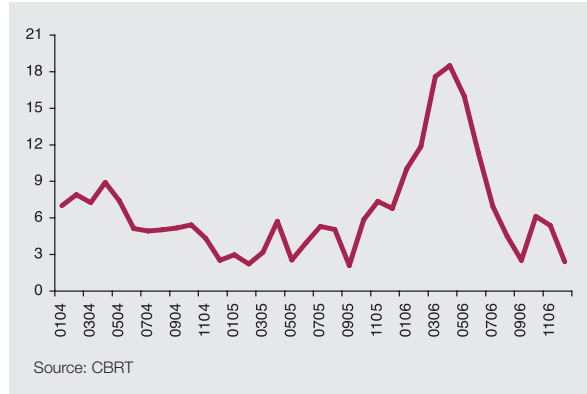
The average excess liquidity of YTL 10 billion in January 2006 soared to YTL 17.6 billion in March 2006, mainly due to CBRT's intervention to buy foreign exchange in lieu of YTL on February 15, 2006 in consideration of the realized and potential volatilities in the foreign exchange market resulting from the pressure of foreign exchange sales

driven by international market developments.

In May, the heightened volatility in international financial markets resulted in a waning demand for emerging market assets and a higher risk premium. This development put pressure on both the foreign exchange market and created medium and long-term inflation expectations far higher than implied by economic fundamentals. The CBRT initiated weekly and bi-weekly New Turkish Lira Deposit Buying Auctions starting on June 26, 2006 to sterilize part of the excess liquidity for a longer period of time than the standard overnight maturity, in order to prevent excessive volatility, which may spoil positive economic expectations and risk perceptions beyond the level justified by the economic fundamentals, from retarding the medium-term disinflation trend and to enhance the effectiveness of monetary policy decisions. The measures taken resulted in an average level of excess liquidity diminishing to YTL 7 billion in July. The auctions were maintained until the excess liquidity surpassed the desired level and suspended on August 25 upon the envisaged decline. In the following period, the level of liquidity was determined by the level of Treasury's cash accounts, demand for currency in circulation and banks' cash preferences, and it fluctuated on average between YTL 2.4 and 6 billion monthly (Chart 12).

12

Open Market Operations (Net, Monthly Average)



The second technical interest rate adjustment of the year was made on June 28, 2006 in order to boost the flexibility and effectiveness of liquidity management in the aftermath of the surge in volatility during the May-June period. Accordingly, the borrowing interest rate had been held constant, whereas the lending rate was increased by 2 percentage points expanding the borrowing/lending margin to 5 percentage points.

Furthermore, to enhance the effectiveness and flexibility of monetary policy and liquidity management, technical procedures regarding the issue of Central Bank liquidity bills with a maturity of up to 91 days were completed and "The Communiqué on Liquidity Bills" was published in the Official Gazette no 26310 of October 5, 2006.

2.3. FINANCIAL STABILITY DEVELOPMENTS AND OPERATIONS

The primary objective of central banks is to achieve and maintain price stability. In accordance with this primary objective, it is of critical importance for central banks, which are in charge of payment systems and act as the monetary policy implementer and the lender of last resort, to monitor the financial markets as a whole in cooperation with other authorities, to assess, on a macro basis, the factors

that pose a threat to the financial system and create systemic risks, to determine the factors that can harm financial stability and to take necessary precautions thereof.

The CBRT, within the framework of the duty and power entitled by its law, makes analyses related to financial stability and shares its assessments with

the public twice a year via the Financial Stability Report. In 2006, the Reports were published in June and December, in both English and Turkish.

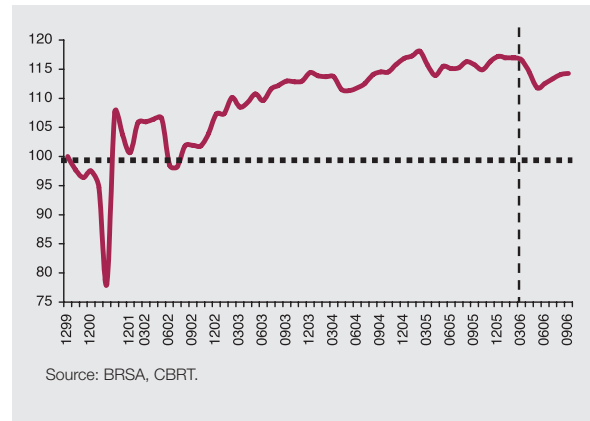
Financial Stability Reports are among the most important instruments of central banks regarding their transparency. In fact, as of end-2006, over 50 central banks have shared their assessments related to the financial system via these financial stability reports. Furthermore, it is known that in the inflation targeting regime, enhancing the interaction and the exchange of information between central banks and the public makes the regime more functional and effective. In this framework, it is observed that 20 out of 23 central banks that use inflation targeting publish financial stability reports, while the rest share their financial stability assessments as an individual chapter to their inflation or annual reports.

In order to prevent financial instability, the most likely measure to be taken by a central bank is to provide a macroeconomic environment with low and stable inflation and sustainable growth. Within this framework, the measures that are summarized in previous sections aim to prevent the deterioration of medium and long-term macroeconomic balances and contribute to continued financial stability. As a matter of fact, the positive impact of the measures

taken has unfolded as from July and the volatility in the markets has diminished.

Maintenance of macroeconomic stability, tight monetary and fiscal policies, ongoing structural reforms, convergence to the EU and floating exchange rate regime have all enabled the Turkish financial system to become stronger against external shocks. The limited effects of the financial turbulence experienced in the second quarter of 2006 confirm this fact. In fact, the moderate decline –notwithstanding the turbulence of May and June– in the Financial Strength Index, which is monitored as an indicator of the robustness of the banking sector, and its fast recovery from then on, indicate that the sector is resistant to volatilities (Chart 13).

13 Financial Strength Index



2.4. PAYMENT AND SETTLEMENT SYSTEMS AND CURRENCY IN CIRCULATION

2.4.1. Monitoring and Reporting Payment Systems

The electronic payment system, Turkish Interbank Clearing – Real-Time Gross Settlement Payment System (TIC-RTGS), which transfers and settles domestic payments in Turkish liras between banks, was launched on April 1, 1992 as an early example of RTGS systems in the world. Moreover, the Turkish Interbank Clearing – Electronic Security Transfer and

Settlement System (TIC-ESTS), which electronically transfers and settles Turkish government securities between banks, started to operate on October 30, 2000.

Any bottleneck in payment systems has a strategic importance for a country, which will successively

affect the banks, the production sector, individuals and ultimately the whole economy of the country. In this sense, both the owner and operator of TIC-RTGS/ESTS systems, the Central Bank, under the powers entitled by its law, expands the use of payment systems, makes necessary arrangements for the continuous operation of the systems as well as for their oversight, enhances the reliability and efficiency of the systems and makes the required updates.

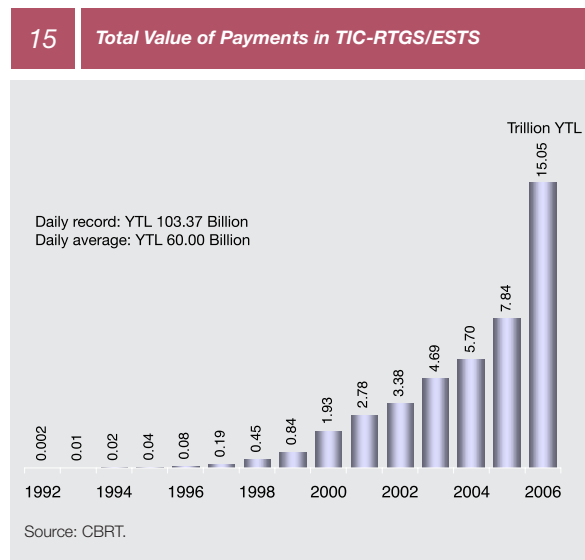
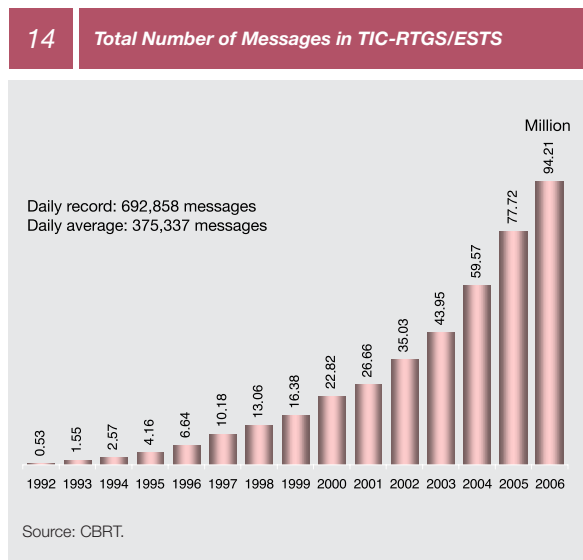
During 2006, the bank continued its activities relating to the analyses and assessment of global changes and developments in payment systems. Within this framework, especially the developments regarding the international payment systems CLS, SWIFT, TARGET were closely monitored.

The Region Economies' Payment Systems Workshop, which has been held since 2001 in cooperation with the Committee for the Payments Settlement Systems (CPSS) of the Bank for International Settlements (BIS), was held in Istanbul between June 14 and 17, 2006. In the workshop, speeches and country presentations were delivered on risks and risk management in the payment

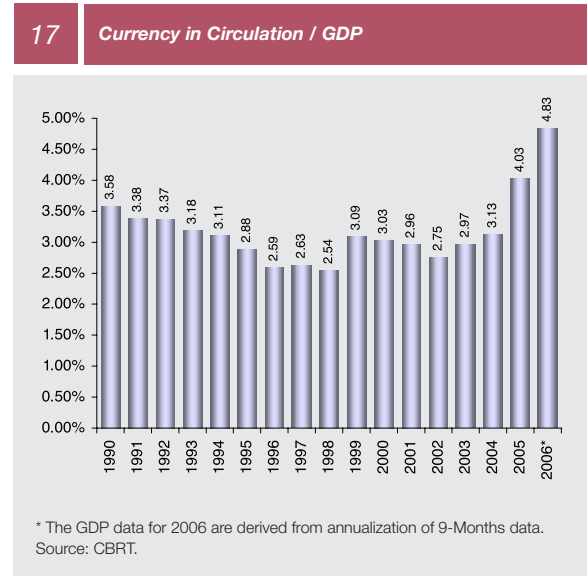
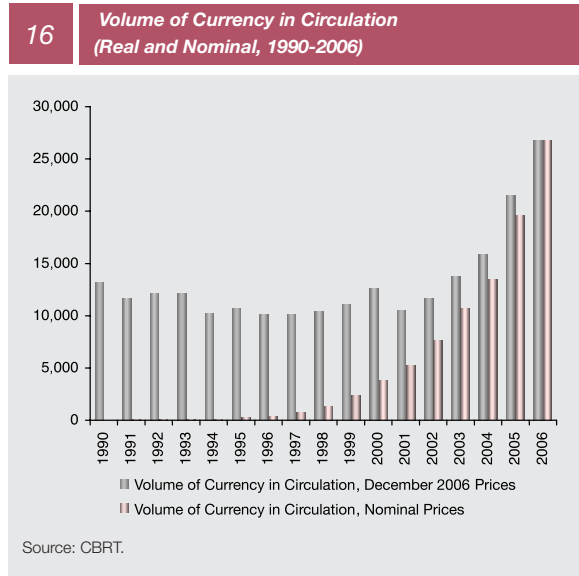
systems, monitoring the payment systems, cross-border payments, studies on the general principles of international fund transfer systems, cross-border collaterals, CLS system and the recording of public payments.

At two projects in April and December 2006, fields were added to TIC-RTGS and TIC-ESTS messages for tax ID number and citizenship ID number. Due to changes in the communication network and systems, the TIC-RTGS/ESTS Disaster Recovery Guide was updated and sent to participants.

Year by year, the utilization of TIC-RTGS has sharply increased in terms of both the total amount of payments and the total number of messages passing through the system. In 2006, the volume of money transferred through the system was YTL 15.05 trillion. The daily transaction volume peaked on February 22, 2006 with YTL 103.37 billion. In 2006, 94.2 million transactions were realized within the system. The daily number of messages peaked at 692,858 on October 16. Forty-eight institutions participate in TIC-RTGS/ESTS as of end-2006 (Charts 14 and 15).



2.4.2. Currency in Circulation



By the end of 2006, the volume of currency in circulation increased 36.7% annually, reaching YTL 26.8 billion. The Feast of Sacrifice, celebrated on December 31, 2006, has had impacts on this expansion. In fact, by the end of November 2006, the volume of currency in circulation was YTL 22.1 billion (Chart 16). The average ratio of Currency in Circulation to GDP was realized as 3% between the years 1990-2001. On the other hand, between 2002-2006, as a consequence of the disinflation process and the substantial elimination of economic uncertainties, this ratio hit 4.8% by the end of 2006, despite the robust growth performance (Chart 17).

Excluding the Turkish lira (TL) banknotes, which are still in the redemption period, there are 775.6 million banknotes in circulation as at December 31, 2006.

Before the changeover to YTL (December 31, 2004), this figure was 1.18 billion. Despite the increase observed in the volume of currency in circulation, the principal reason for the decline in the number of banknotes is the issuance of the new YTL 50 and 100 banknotes on January 1, 2005 with the changeover (Table 7).

By the end of 2006, excluding Turkish lira notes, YTL 50 had the largest share in both volume and value in circulation. The share of the largest two denominations (YTL 50 and 100) in the total reached 45.1% in units and 80% in value.

In 2006, a total transaction of YTL 188.9 billion, YTL 90.8 billion being deposits and YTL 98.1 billion payments, was realized through 21 branches, 13

7 **Banknotes in Circulation (as at December 31, 2006)***

Denomination (YTL)	Amount (YTL)	Share (%)	Pieces	Share (%)
100	7,641,951,850.00	28.7	76,419,518.50	9.9
50	13,656,231,250.00	51.3	273,124,625.00	35.2
20	3,600,294,270.00	13.5	180,014,713.50	23.2
10	1,190,120,280.00	4.5	119,012,028.00	15.3
5	492,209,260.00	1.9	98,441,852.00	12.7
1	28,571,106.50	0.1	28,571,106.50	3.7
TOTAL	26,609,378,016.50	100.0	775,583,843.50	100.0

* Excluding Turkish lira banknotes that are still in redemption period.
Source: CBRT.

banknote depots and the cash center. Moreover, in 2006, YTL 9.4 billion deposits and YTL 10.7 billion payment transactions were made in banknote depots, which are established in thirteen cities where the CBRT does not have branches, in order

to improve the banknote quality and to meet the various cash demands of the market on time. In other words, almost 10.6% of the Bank's total transaction volume in 2006 was made through these banknote depots.

2.5. FOREIGN EXCHANGE RESERVE AND RISK MANAGEMENT

The Central Bank holds foreign exchange reserves in order to achieve a range of objectives which include assisting the Turkish Government in meeting its foreign exchange denominated domestic and foreign debt obligations, maintaining foreign exchange liquidity against external shocks, supporting monetary and exchange rate policies and providing confidence to markets. The legal basis for the Central Bank's reserve management operations derives from the Central Bank Law No 1211. Additionally, guidelines and decisions made by the Board under the authority granted by the Law are among the other bases of the foreign exchange and gold reserve management operations.

The institutional decision-making framework of reserve management has a three-tier hierarchical structure. The Board, as the top decision-making authority of the Central Bank, determines the general investment criteria for reserve management by approving the Guidelines for Foreign Exchange Reserve Management, which is prepared in accordance with the reserve management priorities set by the Law as security, liquidity and return, respectively, and authorizes the Executive Committee and the Foreign Exchange Risk and Investment Committee (FXRIC) to make decisions regarding implementation. The decisions made by the Executive Committee and FXRIC in accordance with the Guidelines for Foreign Exchange Reserve Management approved by the Board constitute the second-tier of the institutional decision-making process. At this stage, the Strategic Benchmark (SB), which reflects the general risk tolerance and

investment strategy of the Bank, is established and adopted. According to the strategic asset allocation preferences of the Bank, the SB is determined by the FXRIC at each year-end to be implemented in the following year and becomes effective upon approval by the Executive Committee. The last tier of the institutional decision-making process is the implementation of the reserve management operations within the limits specified by the Guidelines and the SB. The reserve management activities are carried out under an organizational structure characterized by separation of duties. Accordingly, reserve management activities are performed by the Foreign Exchange Transactions Division, whereas the related risk management is carried out by the Foreign Exchange Risk Management Division.

Based on the objectives and limits set by the Guidelines and the SB, reserve management operations are carried out through spot and forward purchases/sales of foreign exchange in international markets, cross-border purchase/sale and transfer of foreign exchange, domestic transfer of foreign exchange through local branches, time deposit transactions, purchase/sale of securities, repo and reverse repo transactions, security lending transactions, and derivative instruments for risk management purposes.

The Central Bank's gold holdings of international standards are managed within the rules and provisions involved in the Law, under the guidelines set by the Board. Pursuant to these guidelines, the

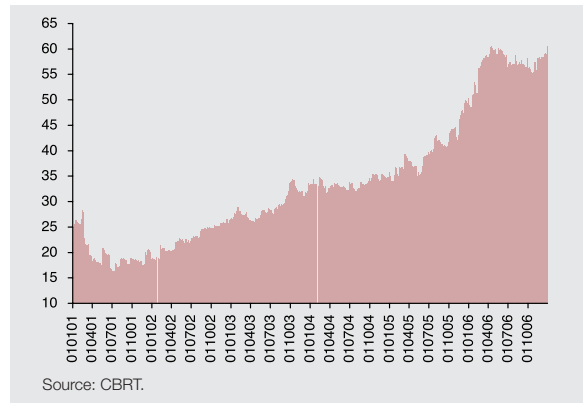
Central Bank may conduct outright purchase and sale transactions, demand or term gold deposit transactions and gold swap transactions.

The control of risks that the Central Bank is exposed to during reserve management begins when strategic assets are allocated, in other words, when defining the SB. Once the currencies and instruments to be used in reserve management and the duration target for the investments are set, the expected return and financial risks involved in reserve management are also determined to a great extent. Reflecting the Bank’s preferences regarding strategic asset allocation, the SB consists of the target currency composition, duration targets and related deviation limits from these targets, the size and number of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing permissible transaction types, countries and instruments to invest in. While determining the SB, the aim is to ensure that an adequate return is obtained while observing the capital preservation and liquidity constraints, and the utmost importance is attached to the prudent management of foreign exchange

reserves, hence the national wealth of the country. After the overall acceptable risk level is defined through the SB with respect to the Central Bank’s risk tolerance, existing risks are measured, recorded and monitored regularly.

In brief, theoretical and technical progress in reserve and risk management are closely monitored parallel to developments in international economic and financial markets, and the related operations in Turkey are revised according to current circumstances with regard to the Central Bank’s own requirements.

18 Foreign Exchange Reserves of CBRT (Billion USD)



2.6. EUROPEAN UNION HARMONIZATION ACTIVITIES

The screening process, which is the first stage of the EU negotiations and started on October 3, 2005, was completed in 2006. The screening process consisted of two phases. In the explanatory phase the European Commission conveyed information on the EU Acquis, and in the bilateral phase, the

Commission was informed about the Turkish laws and regulations that correspond to the Acquis. The Central Bank attended 12 of 33 Chapters discussed through the screening process, which was held between Turkey and the EU (Table 8).

8 CBRT-Attended Chapters of EU Screening Process

Directly Related Chapters		Indirectly Related Chapters	
Chapter No		Chapter No	
4	Free Movement of Capital	2	Free Movement of Workers
9	Financial Services	6	Corporate Law
17	Economic and Monetary Policy	16	Taxation
18	Statistics	19	Social Policy and Employment
32	Financial Control	28	Consumer and Health Protection
33	Financial and Budgetary Provisions	30	External Relations

In this context, the CBRT has contributed to the presentations made on behalf of the Republic of Turkey on directly related chapters. On the other hand, the Bank has made no legal rearrangement to comply with the Acquis under the abovementioned Chapters. In general, regulations regarding CBRT's harmonization with the European Central Banks System will be made prior to Turkey's EU membership, whereas regulations regarding the

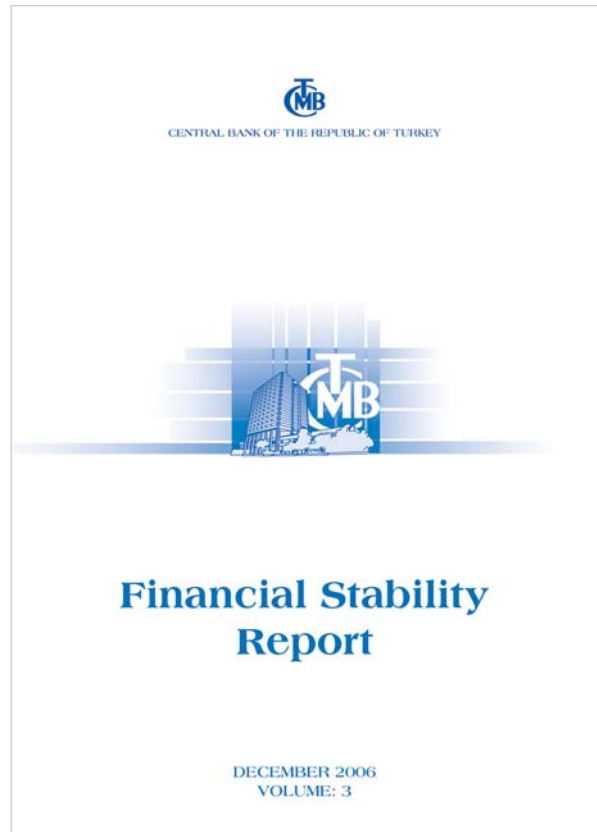
single currency and exchange rate policy as a part of the Economic and Monetary Union (EMU), which Turkey will join after fulfilling the Maastricht Criteria, will be made following the accession to EU, prior to EMU membership. Information on these regulations will appear in the Position Papers that will be submitted to the European Commission and include the current state of the harmonization process and the remarks on full membership.

2.7. COMMUNICATION POLICY AND ACTIVITIES

An effective communication policy is an indispensable factor for achieving the expected results from policy implementations; in other words, in shaping public expectations according to policy targets and objectives. Principles of transparency and accountability are the bases for an effective communication policy. Within this scope, the CBRT addresses a wide range of societies such as the business world, markets,

academic circles, the national and international press, the Government, the Turkish Grand National Assembly, non-governmental organizations and the public in general; and communicates its duties, responsibilities, policy decisions and objectives by means of various communication channels.

Pursuant to Article 42 of the Law on the Central Bank of the Republic of Turkey and as a requisite of the



principle of accountability, Governor Durmuş Yılmaz gave presentations on the economic outlook before the Council of Ministers on May 1 and October 30 and before the Planning and Budget Commission of the Turkish Grand National Assembly on May 3 and November 1, 2006.

Another reflection of the principle of accountability is the open letters written to the Government. These letters elaborate the reasons for deviating inflation from the path consistent with year-end inflation and overshooting the year-end target, explain the measures taken to put inflation back on track and evaluate probable developments in light of the inflation and monetary policy outlook. These open letters were made public through press releases.

Press releases were also used effectively to provide the public with first-hand information about the Bank throughout 2006. Within this scope, decisions pertaining to policy interest rates were circulated to all media agencies in electronic format simultaneously through a press release following the Monetary Policy Committee meeting and were published on our web site. Summary reports about Monetary Policy Committee meetings, which contain the Committee's evaluations and stance against the inflation outlook, were made public through a press release within five working days following the meetings.

After launching the inflation targeting regime, the report, which used to be called the "Monetary Policy Report", started to be published as a main communication tool under the title of "Inflation Report". After a press meeting with the Governor, inflation developments, economic outlook, medium-term projections related to inflation and quantitative forecasts were shared with the public through four Inflation Reports published on January 31, April 28, July 28 and October 31, 2006.

With the aim of ensuring better understanding of the data on inflation, starting from July 2006, a monthly technical evaluation related to inflation developments, "Monthly Price Developments", have been published within two working days of the announcement of price indices. Furthermore, studies on issues such as pricing behavior in the manufacturing industry, the experience of the implicit inflation targeting regime in Turkey, determinants of capital inflows to Turkey and yield curve forecasts for Government securities were published in a working paper format in 2006.

The CBRT, aimed at maintaining financial stability as an auxiliary objective in addition to its main objective of price stability, released two Financial Stability Reports in 2006, in June and December, and introduced them at a press meeting given by Governor Durmuş Yılmaz.

In addition to the publications, various important issues related to the Turkish economy and to monetary policy were put on the public agenda through international conferences. In the Conference on "Inflation Targeting: Performance and Challenges", which was organized on January 19-20, 2006, the full-fledged inflation targeting regime launched in 2006 was discussed from various perspectives, and challenges and opportunities facing Turkey and emerging economies were addressed. Another international conference, "Dollarization: Consequences and Policy Options" was held on December 14-15, 2006 within the scope of the 75th anniversary events. At the Conference, the dollarization concept was elaborated with respect to monetary and exchange rate policies; and strategies for de-dollarization in developing countries were discussed. Around 350 guests, including central bank governors from various countries, academicians, local and foreign participants from



“Dollarization: Consequences and Policy Options”

December 14-15, 2006, İstanbul



financial markets and from press attended these conferences.

The adoption of the full-fledged inflation targeting regime in 2006 created the need to inform the public about this regime. With this aim, a booklet titled “Inflation Targeting Regime” on the general framework of inflation targeting and its implementation in Turkey compared to other countries was published and distributed throughout the country.

In order to diversify the communication tools and inform the public of monetary policy implementations, as well as the structure and the publications of the Bank, “The Bulletin” has been published in Turkish and English beginning from 2006. The Bulletin, which is distributed in Turkey and abroad, is also accessible on the CBRT web site.

In 2006, in the framework of the communication policy of the Bank, the Governor continued to give

various speeches and presentations analyzing current economic developments and introducing the policies and implementations of the Bank in meetings within the country and abroad. The chambers of commerce and industry of various cities in Turkey held conferences open to press in the presence of non-governmental organizations. In this scope, meetings on the economic outlook were held in İzmir and Malatya in 2006. Likewise, speeches were delivered in universities and briefings were given to media representatives and the economics editors of newspapers.

The support given and the importance attached to education played a major role in the communication policy implementations of 2006. In this framework, at the request of universities, information meetings were held within the Bank and 360 students were informed about the Bank’s history, policies, as well as career opportunities, and 1,190 students were accepted as trainees. In addition, the CBRT established the Financial Support Program for Academic Studies in 2005, with the aim of providing

financial support to conferences and policy-making activities on economics and finance to be held within the country and abroad. Within the framework of the Program, the Bank also continued to give financial support to various institutions, universities and events in 2006.

Parallel to technological advances and the increasing role of websites as an effective communication tool, the activities regarding the enhancement of the content of the CBRT website continued also in 2006. With this aim, the new design of the CBRT website launched on August 6, 2006 focused on highlighting the main functions of the Bank, was made more user-friendly and its visual design was enhanced.

The email address, "iletisimbilgi@tcmb.gov.tr", intended to ensure communication between the Bank and individuals, institutions and organizations, continued to be an efficient and quick communication tool in 2006. Likewise, the Information Unit that was established within the

scope of the "Law on Access to Information" and the Communication Center of the Prime Ministry (BİMER), which became operative on March 2, 2006, evaluated and addressed requests for information.

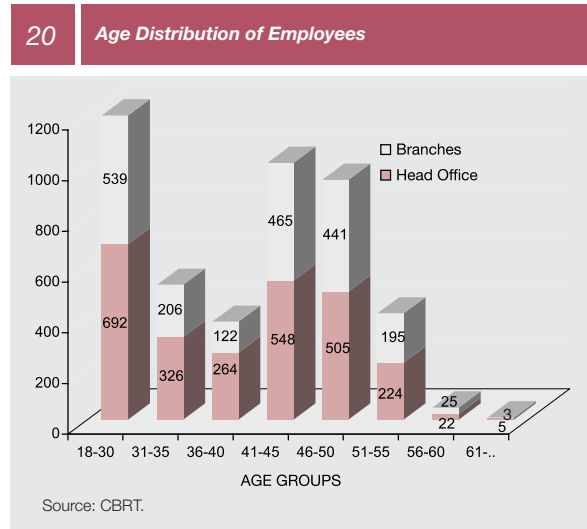
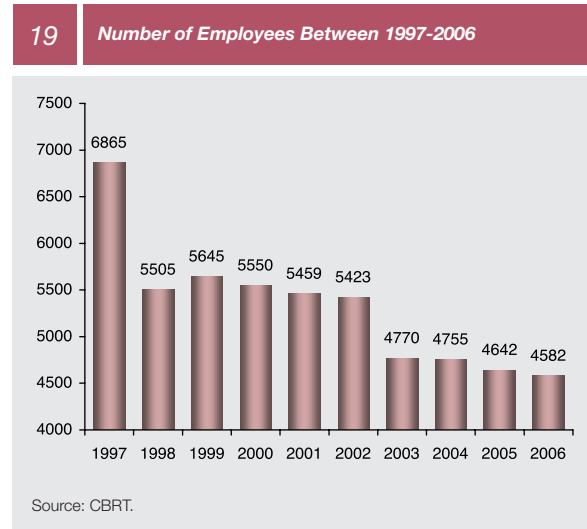
Within the framework of the effective communication policy of the Bank, the aim has not only been to share economic and monetary policy developments but also to inform the public about the corporate identity of the CBRT. In this respect, in collaboration with the Turkish Radio and Television Corporation, a documentary was produced on the establishment of the Bank, its effects on the Turkish economy, its duties, decisions, and institutional structure. The documentary, made to celebrate the 75th anniversary of the Bank, aimed to contribute to the establishment of a visual archive and history of the CBRT from its foundation till today and to provide information about matters that were unknown to the public and about points of curiosity. The said documentary has been distributed within the country and abroad.



Ibrahim Çalli
"Under the Plane Trees"
(Undated) Oil on Plywood, 61x85 cm.

3. HUMAN RESOURCES AND ADMINISTRATIVE AND SOCIAL AFFAIRS

3.1. STAFFING

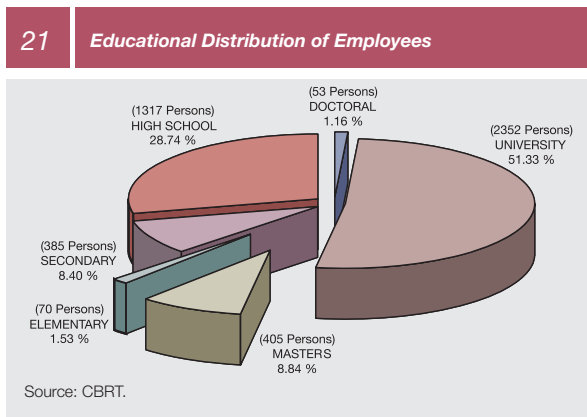


As at end-2006, the total number of CBRT staff positions is 5,247. The number of staff employed is 4,582 and the occupancy rate is 87%.

331 staff members have ceased employment upon retirement, resignation, transfer or death, while 234 employees have been recruited due to the excess workload of departments as researchers, assistant auditors, economists, lawyers, training researchers, assistant specialists, engineers, designers, officers, operators, security officers, technicians, workers and cooks. Besides, 37 staff members who left for their military service have returned. Consequently, the actual number of staff members by the end of the year was reduced by 60 to 4,582 compared to 2005 (Chart 19).

The distribution of the CBRT staff is as follows: 67.02% are represented by general administrative

services, 8.75% by assistance services, 6.57% by support services (medical, technical, legal) and 17.66% by contract personnel. 56.57% of the CBRT staff work at the head office while 43.43% work at branches. Based on age distribution of the staff, 42.75% of our personnel fall in 41-50. On the other hand, the percentage of personnel with bachelors, masters and doctoral degrees equals 61.33% (Charts 20 and 21).



3.2. TRAINING

In 2006, 10,096 persons in total benefited from training activities organized by the Human Resources Department within and outside the Bank.

Number of participations to the training activities held within the bank on “Banking and Central Banking Training”, “Job Training”, “Management

Training”, “General Purpose Training”, “Conferences and Panels” and “Department Programs” was 7,973. 362 members of staff participated in short-term training activities of other institutions held in Turkey, while 324 participated in training activities abroad.

102 employees, 35 of whom were newly enrolled, have studied Masters/PhD in Turkey, while 69

employees, including 19 newly enrolled, have studied Masters/PhD abroad. Moreover, 13 members of staff were assigned as lecturers/speakers at 23 training activities. In 2006, 1,190 university students benefited from internship programs at related departments of the CBRT. In addition, 76 persons from a variety of foreign institutions attended training activities organized by the Bank.

3.3. RECREATION, ART AND SPORTS

The 75th anniversary of our Bank was celebrated through a series of events. Among those activities were: the 23rd Ankara Music Festival’s opening concert of İdil Biret with the Cairo Symphony Orchestra, the concert of Güher and Süher Pekinel with the Presidential Symphony Orchestra, a CD project including the masterpieces of the leading composers of 18th and 19th centuries in cooperation with the Ministry of Culture and Tourism and the 75th Anniversary Reception organized simultaneously in Ankara and in cities where branch offices are located. Furthermore, as 2006 is also the 125th birth year of Mustafa Kemal Atatürk, an exhibition consisting of selected pieces from the Central Bank Art Collection was organized in Samsun under the theme of Atatürk, and the Amateur Turkish Classical Music Chorus made up of the Bank’s personnel in Ankara gave a concert.

As regards sports activities, hosted by the Central Bank of Turkey, a Bridge Tournament was organized in Antalya attended by European central banks and international institutions; an International Friendly Football Tournament was organized in İzmir; and an Interbank Chess Tournament was organized in Ankara in which banks operating in Turkey participated. On the other hand, the CBRT teams attended chess (Belgium), tennis (France), football (Czech Republic) and table tennis (Hungary) tournaments, which were organized by central banks that are members of the European Central Banks Culture and Sports Clubs Association. Moreover, the table tennis team attended the second Central Banks’ Tournament hosted by the Central Bank of Bosnia and Herzegovina.



Erol Akyavas
"Lament For the Last Voices"
1991, Mixed Media on Canvas, 178x258 cm.

4. FINANCIAL STATEMENTS

4.1. COMPARATIVE FINANCIAL STATEMENTS OF CBRT

4.1.1. Comparative Balance Sheets

ASSETS	31.12.2005 (YTL)	31.12.2006 (YTL)	CHANGE (YTL)
I. Gold	2,640,297,700	3,427,102,716	786,805,016
A. International Standard	2,569,461,698	3,335,423,279	765,961,581
B. Non-International Standard	70,836,002	91,679,437	20,843,435
II. Foreign Exchange	67,781,346,062	85,618,500,266	17,837,154,204
A. Convertible	67,781,345,292	85,618,499,360	17,837,154,068
a. Foreign Banknotes	299,072,377	369,526,582	70,454,205
b. Correspondent Accounts	67,264,932,935	85,009,416,123	17,744,483,188
c. Reserve Tranche Position	217,339,980	239,556,655	22,216,675
B. Non-convertible	770	906	136
a. Foreign Banknotes	770	906	136
b. Correspondent Accounts			
III. Coins	69,150,222	68,450,275	(699,947)
IV. Domestic Correspondents			
V. Securities Portfolio	20,495,029,120	22,309,872,550	1,814,843,430
A. Government Securities	20,495,029,120	22,309,872,550	1,814,843,430
a. Bonds	20,495,029,120	20,638,673,549	143,644,429
b. Treasury Bills		1,671,199,001	1,671,199,001
B. Other			
VI. Domestic Credit	1,371,900	755,447	(616,453)
A. Banking Sector	1,371,900	755,447	(616,453)
a. Rediscount	1,371,900	755,447	(616,453)
b. As per Art 40/c of Law No 1211			
c. Other			
B. Credit to SDIF			
VII. Open Market Operations	1,026,305,864	3,514,337,947	2,488,032,083
A. Repurchase Agreements	1,026,305,864	3,514,337,947	2,488,032,083
a. Cash			
i. Foreign Exchange		3,512,337,947	3,512,337,947
ii. Securities	1,026,305,864	2,000,000	(1,024,305,864)
b. Securities			
B. Other			
VIII. Foreign Credit	45,168,842	43,350,368	(1,818,474)
IX. Share Participations	19,302,988	21,279,622	1,976,634
X. Fixed Assets	292,229,737	282,550,193	(9,679,544)
A. Buildings and Buildings Sites	313,056,679	313,988,975	932,296
Depreciation Allowance for Real Estate (-)	(39,872,293)	(45,957,955)	(6,085,662)
B. Furniture and Fixtures	73,192,048	78,107,299	4,915,251
Depreciation Allowance for Furniture and Fixtures (-)	(54,146,698)	(63,588,126)	(9,441,428)
XI. Claims under Legal Proceedings (Net)			
A. Claims under Legal Proceedings	1,779,582,864	1,961,971,427	182,388,563
B. Provision for Past-Due Receivables (-)	(1,779,582,864)	(1,961,971,427)	(182,388,563)
XII. Treasury Liabilities Due to SDR Allocation	216,438,050	238,562,529	22,124,479
XIII. Revaluation Account	2,029,328,035	1,243,948,118	(785,379,917)
XIV. Accrued Interest and Income	12,214,713	12,508,294	293,581
XV. Miscellaneous Receivables	30,809,346	28,399,972	(2,409,374)
XVI. Other Assets	21,699,791	19,432,566	(2,267,225)
XVII. Loss of the Period	131,438,625		(131,438,625)
TOTAL	94,812,130,994	116,829,050,863	22,016,919,869
REGULATING ACCOUNTS	573,982,394,113	578,630,387,893	4,647,993,780

LIABILITIES	31.12.2005 (YTL)	31.12.2006 (YTL)	CHANGE (YTL)
I. Currency Issued	19,612,018,803	26,815,150,603	7,203,131,800
II. Liabilities to Treasury	259,564,868	278,355,462	18,790,594
A. Gold	7,647,823	9,927,654	2,279,831
B. Reserve Tranche Means	217,339,980	239,556,655	22,216,675
C. Other (Net)	34,577,065	28,871,153	(5,705,912)
III. Foreign Correspondents	962,056	1,017,618	55,562
A. Convertible	962,056	1,017,618	55,562
B. Non-Convertible			
IV. Deposits	63,482,072,439	76,442,368,880	12,960,296,441
A. Public Sector	14,367,118,234	19,349,803,743	4,982,685,509
a. Treasury, General and Special Budget Administrations	14,220,712,655	19,173,610,200	4,952,897,545
b. Public Economic Institutions	297,464	12,104	(285,360)
c. State Economic Enterprises	57,306,228	75,111,732	17,805,504
d. Other	88,801,887	101,069,707	12,267,820
B. Banking Sector	27,665,721,395	33,758,304,648	6,092,583,254
a. Free Deposits of Domestic Banks	18,259,052,933	20,890,224,385	2,631,171,452
b. Foreign Banks	6,896,979	7,555,706	658,727
c. Required Reserves (Central Bank Law, Art. 40)			
i. Cash	9,399,747,916	12,860,344,528	3,460,596,612
ii. Gold (Net Grams)			
d. Other	23,567	180,029	156,462
C. Miscellaneous	20,953,335,126	22,367,281,698	1,413,946,572
a. Foreign Exchange Deposits By Citizens Abroad	20,884,256,156	22,297,641,634	1,413,385,478
b. Other	69,078,970	69,640,064	561,095
D. International Institutions	5,037,438	5,802,113	764,675
E. Extra-budgetary Funds	490,860,245	961,176,678	470,316,432
a. Savings Deposit Insurance Fund	15,893,301	13,935,523	(1,957,779)
b. Other			
V. Open Market Operations	7,034,350,000	5,913,955,754	(1,120,394,244)
A. Repurchase Agreements			
a. Cash			
i. Foreign Exchange			
ii. Securities			
b. Securities	1,025,000,000	3,502,005,754	2,477,005,754
B. Other	6,009,350,000	2,411,950,000	3,597,400,000
VI. Foreign Credit	11,329,344	12,526,464	1,197,120
A. Short-Term			
B. Medium and Long-Term	11,329,344	12,526,464	1,197,120
VII. Advances, Collateral and Deposits Collected Against Letters of Credit and Import	1,537,173,657	1,584,065,299	46,891,642
A. For Letters of Credit	1,537,169,533	1,584,061,175	46,891,642
B. For Imports	4,124	4,124	
VIII. Notes and Remittances Payable	18,068,269	24,362,879	6,294,610
IX. SDR Allocation	216,438,050	238,562,529	22,124,479
X. Capital	46,233,524	46,233,524	
A. Paid-in Capital	25,000	25,000	
B. Inflation Adjustment for Paid-in Capital	46,208,524	46,208,524	
XI. Reserves	773,404,718	642,221,669	(131,183,049)
A. Ordinary and Extraordinary Reserves	419,857,244	288,418,619	(131,438,625)
B. Special Reserves (CBRT Law, Art. 59)	174,997	430,573	255,576
C. Inflation Adjustments for Reserves	353,372,477	353,372,477	
XII. Provisions	105,921,387	157,279,013	51,357,626
A. Provisions for Pension Commitments	69,064,666	73,522,973	4,458,307
B. Provision for Taxes		43,851,246	43,851,246
C. Other Provisions	36,856,721	39,904,794	3,048,073
XIII. Revaluation Account			
XIV. Accrued Interest and Expenses	1,548,341,228	1,468,425,721	(79,915,507)
XV. Miscellaneous Payables	77,840,636	47,416,227	(30,424,409)
XVI. Other Liabilities	88,412,013	54,652,081	(33,759,932)
XVII. Profit of the Period		3,102,457,140	3,102,457,140
TOTAL	94,812,130,994	116,829,050,863	22,016,919,869
REGULATING ACCOUNTS	573,982,394,113	578,630,387,893	4,647,993,780

4.1.2. Comparative Profit and Loss Statements

	01.01.2005 - 31.12.2005 (YTL)	01.01.2006 - 31.12.2006 (YTL)	CHANGE (YTL)
Interest Income	3,034,502,034	4,565,432,415	1,530,930,381
Non-Interest Income	924,033,148	4,824,167,260	3,900,134,112
Share Participations	3,225,635	4,757,438	1,531,803
TOTAL INCOME	3,961,760,817	9,394,357,113	5,432,596,296
Interest Expenses	2,598,342,399	3,629,211,536	1,030,869,137
Non-Interest Expenses	1,127,359,479	2,241,360,459	1,114,000,980
Personnel Expenses	263,186,746	270,054,915	6,868,169
Other Expenses	104,310,818	107,421,817	3,110,999
TOTAL EXPENSES	4,093,199,442	6,248,048,727	2,154,849,285
NET PROFIT/(LOSS)	(131,438,625)	3,146,308,386	3,277,747,011

4.2. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2006, AND THE PROFIT AND LOSS STATEMENT FOR 01.01.2006- 31.12.2006 PERIOD

4.2.1. CBRT Accounting Principles and Policies

4.2.1.a. Fundamental Principles for Accounting Practices

Social responsibility, entity, going concern, periodic reporting, monetary unit, historic cost, neutrality and documentation, consistency, full disclosure, prudence, substance over form, and materiality principles, which are the underlying assumptions of accounting, are also the basis of accounting practices of the Central Bank of the Republic of Turkey (the Bank).

4.2.1.b. Accounting Policies

The Basis for Recognition

The Bank prepares its statutory financial statements in accordance with the Turkish Commercial Code and Tax Legislation and the Law of the Central Bank of the Republic of Turkey (the Bank's Law) No 1211. According to Articles 57 and 58 of the Bank's Law, the accounting period is defined as the calendar year.

Acquisition costs are used in bookkeeping entries. Securities, gold reserves and foreign currency assets and liabilities are recorded at their fair value. Transactions are recorded on their value date.

Since inflation adjustment conditions have been realized as of December 31, 2003 and as of December 31, 2004, non-monetary items on the financial statements of the Bank were restated. As the conditions for inflation adjustment have disappeared, the adjustment was not executed for the years 2005 and 2006.

Gold and Foreign Currency Transactions

Gold reserves are revalued quarterly using the average of gold prices quoted at 11.00 and at 14.00 on the London Exchange by taking 1 ounce of gold as 31.1035 grams. Assets and liabilities denominated in foreign currency are valued at the foreign currency purchase rate of the Bank on the balance sheet date. The differences arising from currency revaluation of assets and liabilities denominated in foreign currency as well as the differences arising from price and currency revaluation of gold are recorded as unrealized gains and losses in the "Revaluation Account" as per Article 61 of the Bank's Law.

Within the framework of the process of compliance to the European Union Acquis, the gain or loss arising from the purchase and sale of foreign exchange is calculated, beginning from January 1, 2006, according to the "average cost" method as described in the "Guidelines of the European Central Bank on the Legal Framework For Accounting and Financial Reporting in the European System of Central Banks" and started to be reflected in financial statements.

Securities

The securities portfolio consists of government securities purchased directly and under repurchase agreements in order to regulate the money supply and liquidity in the economy in line with the monetary policy targets pursuant to Article 52 of the Bank's Law.

Turkish currency denominated securities, which are purchased by the Bank on its own account, and under repurchase agreements, are recognized initially at acquisition cost and revalued to their month-end fair value. The accrued interest on securities purchased under repurchase agreements, calculated as the difference between the acquisition cost and sale price on the settlement date, is reflected in the income statement. The fair value is calculated using the prices of securities listed on a stock exchange or other organized markets. In absence of these prices, the prices of related securities published in the Official Gazette by the Bank on a daily basis are used for the fair value calculation. The differences between the acquisition cost and fair value are reflected in the income statement.

Securities denominated in foreign currency are shown in “Correspondent Accounts” under the “Foreign Exchange” item, at fair value calculated using closing prices in the related international markets at the end of each month. The differences between the acquisition cost and fair value are reflected in the income statement.

Income Recognition

All incomes and expenses are recognized on an accrual basis. Accrued incomes and expenses are calculated for interests of undue receivables and payables, with regard to the periodic reporting principle, at the end of each month.

According to Article 61 of the Bank’s Law, the unrealized revaluation gains and losses, arising from the revaluation of gold, foreign exchange and foreign exchange indexed items due to a change in the value of the Turkish currency, are monitored in a temporary account named “Revaluation Account”. The realized exchange differences are reflected on the income statement on the date of occurrence.

Repurchase and Reverse Repurchase Transactions of the Securities

In repurchase transactions; securities are bought with a commitment to sell the security back at a later date at a price specified on the value date based on a contract made on the transaction date. The securities purchased under repurchase agreement are included in the securities portfolio. The cash receivables resulted from the purchase of the securities are shown in the assets under “VII. Open Market Operations / A. Repurchase Agreements / a. Cash / ii. Securities” item and securities payable are shown under in the liabilities under “V. Open Market Operations / A. Repurchase Agreements / b. Securities” item. On the value date, the difference between the resale price and purchase price of securities is reflected in the income statement.

In reverse repurchase transactions; securities are sold with a commitment to buy the security back at a later date at a price specified on the value date, based on a contract made on the transaction date. The securities sold under repurchase agreement are removed from the securities portfolio and are shown in the assets under “VII. Open Market Operations / A. Repurchase Agreements / b. Securities” item. The cash debts at due date are shown in the liabilities under “V. Open Market Operations / A. Repurchase Agreements / a. Cash / i. Securities” item. The difference between the cost and sale price is reflected in the income statement on the value date.

The valuation differences of securities in repurchase transactions are accounted on an accrual basis, based on the interest rate on the contracts on the balance sheet date, and reflected in the income statement.

Fixed Assets

Fixed assets (land, property and equipment) are recognized at their acquisition costs: while land is shown on the balance sheet at cost, property and equipment is shown at its net value by deducting accumulated depreciation on costs.

Provisions

According to Article 59 of the Bank's Law, provisions in amounts deemed appropriate by the Board may be provided for over the gross annual profit of the Bank in order to meet losses that may arise in future years. As of year-end, provisions are set for employee termination benefits and internal insurance funds.

Employee Termination Benefits

The Bank has maintained provisions, to be completed in five years, for retirement pay and employee termination benefits, which it is obliged to pay for its employees in the coming years as of the end of 2001. Moreover, for the current obligations of the year 2002 and the following years, provisions have been maintained in respect of services of employees up to the balance sheet date.

In accordance with the Pension Fund Law and Social Insurance Law, retirement pay and employee termination benefits are paid on the retirement of employees or in the case of layoff. Based on the said Laws, the amount payable is calculated according to the title and tenure of the personnel.

Taxation

The Bank, established as a "joint stock company", as per Article 1 of the Bank's Law, is a corporate taxpayer. Moreover, the Bank is responsible for withholding tax, as per Article 94 of the Individual Income Tax Law on wages, outsourcing payments, interest on deposits, etc. and as per Article 24 of the Corporate Income Tax Law on the payments made to firms subject to limited tax liability except for commercial, agricultural and other earnings; and on payments made for the transfer or sale of intangible rights.

The Bank is a taxpayer of Banking and Insurance Transactions Tax but not of Value Added Tax. Although the Bank is not responsible for Value Added Tax, as per Article 3065 of the Value Added Tax Law, it is responsible to withhold Value Added Tax on payments for purchases of imported commodities and services. The Bank is also a Stamp Tax payer for documents except for those mentioned as exemptions in Article 64 of the Bank's Law.

Participations

As per Article 3 of the Bank's Law, the Bank has participation shares in the Bank for International Settlements (BIS) and the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The values of these participations are translated into New Turkish lira using the end-year buying exchange rates. As dividends and the changes in the values of shares go directly to the profit and loss statement, unrealized gains and losses due to the changes in exchange rates are recognized in the balance sheet as per Article 61 of the Bank's Law.

LIABILITIES	AMOUNT IN TURKISH CURRENCY ACCOUNTS YTL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL IN TURKISH CURRENCY ACCOUNTS YTL	TOTAL IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL YTL
I. Currency Issued			26,815,150,603		26,815,150,603
II. Liabilities to Treasury					
A. Gold (Net Gram) 345,574.68			9,927,654	239,556,655	
B. Reserve Tranche Means			28,829,053	42,100	278,355,462
C. Other (Net)					
III. Foreign Correspondents				1,017,618	1,017,618
A. Convertible					
B. Non-Convertible					
IV. Deposits					
A. Public Sector					
a. Treasury, General and Special Budget Administrations	1,614,614,764	17,558,995,436			
b. Public Economic Institutions	12,104				
c. State Economic Enterprises	888,380	74,223,352			
d. Other	101,069,707		1,716,584,955	17,633,218,788	
B. Banking Sector					
a. Free Deposits of Domestic Banks	14,412,134,316	6,478,090,069			
b. Foreign Banks	7,555,706				
c. Required Reserves (Central Bank Law, Art. 40)					
i. Cash		12,860,344,528			
ii. Gold (Net Grams)					
d. Other	180,029		14,419,870,051	19,338,434,597	
C. Miscellaneous					
a. Foreign Exchange Deposits By Citizens Abroad		22,297,641,634			
b. Other	1,175,759	68,464,305	1,175,759	22,366,105,939	
5,802,113					
D. International Institutions					
E. Extra-budgetary Funds					
a. Savings Deposit Insurance Fund	13,422	13,922,101			
b. Other	55,384,709	891,856,446	55,398,131	905,778,547	76,442,368,880
V. Open Market Operations					
A. Repurchase Agreements					
a. Cash					
i. Foreign Exchange					
ii. Securities	2,005,753				
b. Securities	3,500,000,001	3,502,005,754			
2,411,950,000					
B. Other					5,913,955,754
VI. Foreign Credit					
A. Short-Term			12,526,464		12,526,464
B. Medium and Long-Term					
VII. Advances, Collateral and Deposit Collected Against Letters of Credit and Imports			1,584,061,175		1,584,065,299
A. For Letters of Credit		4,124			
B. For Imports					
VIII. Notes and Remittances Payable			24,362,879		24,362,879
IX. SDR Allocation			238,562,529		238,562,529
X. Capital					
A. Paid-in Capital		25,000			
B. Inflation Adjustment for Paid-in Capital		46,208,524			46,233,524
XI. Reserves					
A. Ordinary and Extraordinary Reserves		288,418,619			
B. Special Reserves (Central Bank Law, Art. 59)		430,573			
C. Inflation Adjustment for Reserves		353,372,477			642,221,669
XII. Provisions					
A. Provisions for Pension Commitments		73,522,973			
B. Provisions for Taxes		43,851,246			
C. Other Provisions		39,904,794			157,279,013
XIII. Revaluation Account					
XIV. Accrued Interest and Expenses		1,468,425,721			1,468,425,721
XV. Miscellaneous Payables		1,577,739	45,838,488		47,416,227
XVI. Other Liabilities		15,647,466	39,004,615		54,652,081
XVII. Profit of the Period		3,102,457,140			3,102,457,140
TOTAL		54,400,540,469	64,428,510,394		116,829,050,863
REGULATING ACCOUNTS					578,630,387,893

4.2.3. Explanations Related To The Balance Sheet Dated 31.12.2006

ASSETS

1. Gold

Gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is YTL 3,427,102,716 in total, equivalent to 119,295,049.88 net grams. The gold holdings on the balance sheet are valued using 1 net gram of gold = YTL 28.7279541 calculated as 1 ounce of gold = USD 635.70, based on prices quoted on the London stock exchange as of December 29, 2006.

	Net Grams	YTL
International Standard	116,103,752.76	3,335,423,279
Non-International Standard	3,191,297.12	91,679,437
TOTAL	119,295,049.88	3,427,102,716

While the value of the gold holdings of international standards was YTL 2,569,461,698 equivalent to 116,103,752.76 net grams in 2005, it reached YTL 3,335,423,279. YTL 122,172,944 of this increase is due to the depreciation of the New Turkish lira against the USD, whereas the remaining YTL 643,788,637 is accounted for by an increase in the price of 1 ounce of gold from USD 513.00 in 2005 to USD 635.70 in 2006.

Of the gold holdings of international standards owned by the Bank, 33,670,645.06 net grams are stored in the vaults of the Head Office, whereas 82,433,107.70 net grams are held with foreign correspondents.

The gold holdings of non-international standards, which was equal to YTL 70,836,002 and 3,200,797.12 net grams in 2005, increased by YTL 20,843,435 reaching YTL 91,679,437 due to the increase in the price of 1 ounce of gold on the one hand, and the depreciation of New Turkish lira on the other hand, despite a decrease of 9.5 kg due to the mint of service medals to be distributed to the Bank personnel having completed their 20th year of service.

2. Foreign Exchange

This item consists of the accounts opened by the Central Bank with foreign correspondents against convertible and non-convertible foreign exchange, the Reserve Tranche Position held with the IMF, as well as the foreign currencies available in the Bank's vaults. The balance of this account, evaluated at year-end buying rates, amounted to YTL 85,618,500,266 of which YTL 85,618,499,360 and YTL 906 were the convertible and non-convertible amounts, respectively.

A) Convertible

This item includes the convertible foreign exchange accounts with the Foreign Correspondents amounting to YTL 85,009,416,123 the Reserve Tranche Position amounting to YTL 239,556,655 and the foreign currencies in the vaults of the Central Bank's branches amounting to YTL 369,526,582 as of the end of the year.

B) Non-Convertible

While the Foreign Correspondents Accounts that were opened in accordance with bilateral agreements have no balance, the non-convertible foreign currencies available in the vaults of the Central Bank's branches amounted to YTL 906 as of the end of the year.

3. Coins

This item consists of the coins available in the Central Bank's vaults, which totaled YTL 68,450,275 at the end of the year.

4. Domestic Correspondents

This item, which consists of both the Correspondents Accounts that were opened in accordance with the domestic correspondence agreement, and the foreign exchange deposit operations held in Foreign Exchange Market, has no balance at the end of the year.

5. Securities Portfolio

Government Debt Securities, which were equal to YTL 20,495,029,120 as of the end of 2005, include government securities bought from public banks and the banks under the Savings Deposit Insurance Fund in 2001, which were later exchanged for long term securities in October of the same year, as well as the securities bought in the secondary market under repurchase agreements. While there was a redemption of YTL 1,120,513,400 a sale of YTL 2,000,000 under reverse repurchase agreements and repurchase of YTL 1,025,000 under repurchase agreements; the Securities item increase by YTL 1,814,843,430 amounting to YTL 22,309,872,550 due to a purchase of YTL 3,500,000,001 under repurchase agreements as well as an increase in the portfolio cost of the securities of amount YTL 462,356,829 due to repurchases under reverse repurchase agreements.

Due to the repurchase operations between the Central Bank and other banks, increases and decreases in this item must be evaluated along with the securities in the "V. Open Market Operations / A. Repurchase Agreements / b. Securities" item on the liabilities side of the balance sheet.

6. Domestic Credit

This item, which includes the credit extended to the Banking Sector and the Savings Deposit Insurance Fund, amounted to YTL 755,447 as of the end of 2006.

	YTL
A) Banking Sector	755,447
a) Rediscount Credit	755,447
b) As per Art. 40/c of Law No 1211	-
c) Other	-
B) Credit to Savings Deposit Insurance Fund	-
TOTAL	755,447

The year-end balance of rediscounted credits extended against FX securities was YTL 755,447 equivalent to USD 537,455.

As the total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities on 2004 was redeemed early on May 9, 2005, this item had no balance as of the end of 2006.

7. Open Market Operations

This item, which was equal to YTL 3,514,337,947 at the end of the year with an increase of YTL 2,488,032,083 over the previous year, represents the cash debt of the banks due to repurchase agreements and the securities debt of the banks due to reverse repurchase agreements.

8. Foreign Credit

This item consists of the credit extended in accordance with the Banking Agreement between the Central Bank of the Republic of Turkey and the Central Bank of Sudan and the credit extended in accordance with the Banking Agreement concerning claims on non-performing loans due to the Banking Regulation terminated on December 31, 1990 between the Central Bank of the Republic of Turkey and the Central Bank of Albania. The balance of this item decreased to YTL 43,350,368 equivalent of USD 30,841,183.58 in 2006 from YTL 45,168,842 equivalent of USD 33,662,872.62 in 2005, as a principal installment of USD 2,821,688.61 was received from the Central Bank of Sudan, and the remainder of USD 0.43 from the principal was received from the Central Bank of Albania.

9. Share Participations

The balance of this account was YTL 21,279,622 at the end of the year. In accordance with Article 3 of Central Bank Law No 1211, this item consists of the Central Bank's accounts of 10,000,000 SDR in the Bank for International Settlements in Basel and 20,320 Euro held with SWIFT. The value of these participations is calculated at the rate of 1 SDR = YTL 2.12420 and 1 Euro = YTL 1.85150.

10. Fixed Assets

This item, which had a balance of YTL 282,550,193 as of the year end, consists of the net values of buildings, plots, furniture and fixtures owned by the Central Bank adjusted for inflation less their allowance for depreciation as well as the value of the land adjusted for inflation.

The net value of the real estate is YTL 268,031,020 after deducting the accumulated depreciation of buildings totaling YTL 45,957,955 from the value of the real estate totaling YTL 313,988,975. The value of the real estate adjusted for inflation, which was YTL 313,056,679 in the previous year, reached YTL 313,988,975 after the additions of YTL 932,296 in this year.

The net value of furniture and fixtures is YTL 14,519,173 after deducting the accumulated depreciation totaling YTL 63,588,126 from the value of furniture and fixtures, totaling YTL 78,107,299. The value of furniture and fixtures increased by YTL 4,915,251 compared to the previous year.

11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was 1,831,848,745 YTL (equivalent of USD 1,303,250,387.53) as well as the claims arising from credit amounting to YTL 130,122,683 (equivalent of USD 92,574,475.48), which was extended against bills bought by the Central Bank from the Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of YTL 1,961,971,427 was set for these claims as an offsetting item, this account has no balance as of the end of the year.

12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 112,307,000 (equivalent to YTL 238,562,529), which was allocated by the IMF to Turkey and used by the Treasury. It is recorded reciprocally with the "SDR Allocation" on the liability side.

13. Revaluation Account

This item consists of unrealized losses arising from the revaluation of gold and foreign exchange in both assets and liabilities. The year-end balance of this account is YTL 1,243,948,118.

14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2006 is YTL 12,508,294.

15. Miscellaneous Receivables

This item, which shows a balance amounting to YTL 28,399,972 at the end of the year, consists of YTL 26,511,609 in Turkish currency and YTL 1,888,363 in foreign currencies, the breakdown of which is as follows:

	YTL
- Advances and Deposits	527,485
- Income Tax to be Deducted From The Corporation Tax Payable	3,656,259
- Letters of Credit of the Banknote Printing Plant	679,886
- YTL Deposits Accounts with National Banks Abroad	21,171,337
- Banknotes Sent Abroad for the Test of Cash Counter Machines to be Imported	64,595
- Revaluation differences of Salary Payment collected from General and Special Budget Administrations	363,611
- Other	48,436
TOTAL	26,511,609

16. Other Assets

This item shows various claims of the Bank, amounting to a balance of YTL 19,432,566 at year-end and consists of YTL 18,379,412 in Turkish currency and YTL 1,053,154 in foreign currencies.

LIABILITIES:

1. Currency Issued

The year-end balance of currency in circulation, issued in accordance with Article 36 of Central Bank Law No 1211, amounted to YTL 26,815,150,603 increasing by YTL 7,203,131,800 compared to last year.

2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounted to YTL 278,355,462 increasing by YTL 18,790,595 compared to last year.

A- Gold

The gold claims of the Treasury, which amounted to 345,574.68 net grams worth YTL 9,927,654 increased by YTL 2,279,831 over the previous year, due to the revaluation of US dollar against the New Turkish lira and the increase in the value of 1 ounce of gold against the US dollar.

B- Reserve Tranche Means

Due to the portion of Turkey's IMF quota of SDR 1,191,3 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000 presented reciprocally with a "Reserve Tranche Position" in the assets; the year-end balance of this item is YTL 239,556,655.

C- Other

This item, which shows the net liabilities to the Treasury due to various transactions, amounted to YTL 28,871,153 at the end of 2006.

3. Foreign Correspondents

This account denotes the Central Bank's debt to correspondents abroad and shows a balance of YTL 1,017,618 in convertible foreign exchange.

A- Convertible

Convertible foreign exchange liabilities amounted to YTL 1,017,618 increasing by YTL 55,562 compared to 2005, and consists of foreign correspondents accounts and accounts of foreign central banks with the Central Bank.

B- Non-Convertible

This item consists of the accounts opened in accordance with bilateral agreements and has no balance as of the end of 2006.

4. Deposits

The year-end balance of this account is YTL 76,442,368,880 the breakdown of which is as follows:

	Turkish Currency	Foreign Currency
	YTL	YTL
A) Public Sector	1,716,584,954	17,633,218,788
a) Treasury, General and Special Budget Administrations	1,614,614,764	17,558,995,436
i) Treasury	1,149,770,488	16,152,439,287
ii) General Budget Administrations	448,286,095	1,406,556,149
iii) Special Budget Administrations	16,558,181	-
b) Public Economic Institutions	12,104	-
c) State Economic Enterprises	883,380	74,223,352
d) Other	101,069,707	-
B) Banking Sector	14,419,870,051	19,338,434,597
a) Free Deposits of Domestic Banks	14,412,134,316	6,478,090,069
b) Foreign Banks	7,555,706	-
c) Required Reserves (Article 40 of the Central Bank Law)		12,860,344,528
i) Cash		12,860,344,528
ii) Gold (Net grams)	-	-
d) Other	180,029	-
C) Miscellaneous	1,175,759	22,366,105,939
a) Foreign Exchange Deposits by Citizens Abroad	-	22,297,641,634
b) Other	1,175,759	68,464,305
D) International Institutions	5,802,113	-
E) Extra-budgetary Funds	55,398,131	905,778,547
a) Savings Deposit Insurance Fund	13,422	13,922,101
b) Other	55,384,709	891,856,446
Total	16,198,831,009	60,243,537,871

5. Open Market Operations

The balance of this item reached YTL 5,913,955,754 at the end of the year. YTL 3,500,000,001 represents the debts in securities and YTL 2,005,753 represents the debt in cash arising from Open Market Operations, and YTL 2,411,950,000 represents the cash claims of the banks due to Interbank Money Market Operations.

6. Foreign Credit

This account shows the non-guaranteed trade arrears, which were transferred to the Central Bank's liabilities. It amounted to YTL 12,526,464 equivalent of USD 8,913,004.58 at the end of 2006.

7. Advances, Collateral and Deposits Collected against Letters of Credit and Import

The balance of this item was YTL 1,584,065,299 at the end of the year. Of this total, YTL 1,584,061,175 represent the credit transactions of foreign exchange sales and YTL 4,124 represent the goods, equivalents and guarantees deposited at the Bank pursuant to import regulations.

8. Notes and Remittances Payable

The year-end balance of this account amounted to YTL 24,362,879 consists of payment orders to be made to beneficiaries.

9. SDR Allocation

This account, presented reciprocally with the "Treasury's Liabilities due to SDR Allocation" in the assets, shows the liability to the IMF amounting to YTL 238,562,529 the equivalent of SDR 112,307,000 allocated to Turkey by the IMF and used by the Treasury.

10. Capital

Capital is composed of paid-in capital of YTL 25,000, which consists of 250,000 shares, each with a nominal value of YTL 0,10, pursuant to Article 5 of Central Bank Law No 1211; and an inflation adjustment difference of paid-in capital, of YTL 46,208,524, as per the decrees of Law No 5024.

The composition of shares according to their classes is presented below:

Category	Number of Shares	% of Total	(YTL)
A	136,800	54,72	13,680
B	64,039	25,62	6,403
C	625	0,25	63
D (*)	48,536	19,41	4,854
Paid-in capital	250,000	100,00	25,000
Inflation adjustment for paid-in capital			46,208,524
TOTAL			46,233,524

(*) 53 shares, transferred to the Treasury due to the Civil Law, are in category D.

11. Reserves

This item includes both reserve funds retained in accordance with Articles No 59 and 60 of the Central Bank Law No 1211, and inflation adjustment differences as per Law No 5024, which came into effect after being published in Official Gazette No 25332 on December 30, 2003. The year-end balance of this item was YTL 642,221,669.

The year-end balance of Ordinary Reserves, which amounted to YTL 419,857,244 in 2005, decreased to YTL 288,418,619 at the end of 2006 due to the offset of the loss of 2005 amounting to YTL 131,438,625.

	YTL
A. Ordinary and Extraordinary Reserves (Article 60 of Law No 1211)	288,418,619
B. Special Reserves (Article 59 of Law No 1211)	430,573
C. Inflation Adjustment Difference for Reserves	353,372,477
TOTAL	642,221,669

12. Provisions

The year-end balance of this item was YTL 157,279,013, Pursuant to Article 59 of Central Bank Law No 1211, provisions are retained out of the Bank's gross profit to meet various risks, for transport insurance of

valuables, for pension commitments and for tax provisions retained from the profit.

	YTL
A. Provisions for Pension Commitments	73,522,973
B. Tax Provisions	43,851,246
C. Other Provisions	39,904,794
TOTAL	157,279,013

13. Revaluation Account

This item consists of unrealized gains arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides. As exchange differences are on the asset side as of the end of 2006, this item shows no balance.

14. Interest and Expense Accruals

The year-end balance of this item was YTL 1,468,425,721 mainly comprising interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

15. Miscellaneous Payables

This account amounted to YTL 47,416,227 at the end of the year and consists of the Central Bank's debts of YTL 1,577,739 in Turkish currency and YTL 45,838,488 in foreign currencies.

16. Other Liabilities

This item amounted to YTL 54,652,081 at the end of the year, consisting of the Central Bank's debts of YTL 15,647,466 in Turkish currency and YTL 39,004,615 in foreign currencies.

4.2.4. Detailed Profit And Loss Account For 01.01.2006- 31.12.2006 Period

PROFIT AND LOSS ACCOUNT OF THE CENTRAL BANK	01.01.2006-31.12.2006 (YTL)
I- NET PROFIT / (LOSS) FROM YTL TRANSACTIONS	(1,467,473,818)
1- Net Profit / (Loss) from YTL Securities Portfolio	1,215,957,086
2- Net Profit / (Loss) from Open Market Operations and Interbank Money Market Operations	(816,597,433)
a- Net Profit / (Loss) from Open Market Operations	136,244,813
b- Net Profit / (Loss) from Interbank Money Market Operations	(952,842,246)
3- Interest Paid to YTL Required Reserves	(1,289,952,048)
4- Other	(576,881,421)
a – Interest received from Domestic Credits	-
b – Provision for Past-Due Receivables	(182,388,563)
c– Expenses	(377,476,732)
d– Other	(17,016,126)
II- NET PROFIT/(LOSS) FROM FX TRANSACTIONS	4,613,782,204
1- Net Profit/(Loss) from FX Reserves	4,622,484,705
a- FX Portfolio and Deposit Revenues	2,322,371,489
b- Interest paid to FX Deposits by Citizens Abroad	(1,058,419,391)
c- Interest Paid to FX Deposit and Required Reserves	(258,901,967)
d- Gold and FX Net Profit	3,617,434,574
2- IMF Use of Fund Credit and Charges	(8,702,501)
III- NET PROFIT/(LOSS) (I + II)	3,146,308,386

The distribution of the Bank's net profit, pursuant to Article 60 of Central Bank Law No 1211 and Article 469 of Turkish Commercial Code, is specified as follows.

		(YTL)
Net Profit of 2006		3,146,308,386
1. Reserves		2,180,966,198
Ordinary Reserves (Article 60 of Law No 1211)	629,261,677	
Extraordinary Reserves	1,551,704,521	
- Article 60 of Law No 1211	251,704,521	
- Article 469 of TCC	1,300,000,000	
2. Shareholders		3,000
First Dividends	1,500	
Second Dividends	1,500	
3. Bonus to Personnel		156,000
4. Tax Provisions		43,851,246
Corporation Tax	43,851,246	
Remainder		921,331,942

4.2.5. Explanations On Profit And Loss Account For The Period 01.01.2006-31.12.2006

The net loss of the Central Bank from YTL transactions was YTL 1,467,473,818 as of year-end. As of the end of 2006, the Central Bank gained an interest income of YTL 1,215,957,086 from its New Turkish lira government domestic borrowing securities portfolio. The net profit from open market operations was 136,244,813 and the net loss from money market operations was YTL 952,842,246 and an interest of amount YTL 1,289,952,048 was paid to the New Turkish lira required reserves.

The Central Bank gained a net profit of YTL 4,613,782,204 from foreign currency operations. While a revenue of YTL 2,322,371,489 was gained from foreign currency portfolio and deposit accounts and YTL 3,617,434,574 from gold and foreign exchange operations; interest of YTL 1,058,419,391 was incurred for foreign exchange deposits by citizens abroad, YTL 258,901,967 for foreign currency deposits and required reserves and YTL 8,702,501 for resources from the IMF.

The distribution of general expenses, occurring among New Turkish lira transactions, incurred for the operational activities of the Bank in the last two years is shown below on the basis of expenditure items at 2003 prices:

				(YTL)
At 2003 prices,	2005	2006	% change	
I- Personnel Expenses	223,992,952	209,740,525	-6	
II- Other Expenses	37,867,271	34,263,566	-10	
III-Banknote Printing Expenses	50,909,570	49,166,533	-3	
TOTAL	312,769,793	293,170,624	-6	

In 2006, a decrease was observed in personnel and other expenses, and in banknote printing expenses, compared to 2005.

Personnel expenses cover salaries, fringe benefits, social security, health and education expenses and travel allowances.

Within the framework of the policy of decreasing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing up-to-date technology, the number of personnel decreased by 34.5% from 7,019 in 1995 to 4,598 in 2006.

As compared to the previous year, there was a decrease of 6% in personnel expenses, and 5% in salaries and fringe benefits. In 2006, the amount of gross salaries paid to the members of the Board, Executive Committee and Auditing Committee of the Bank was YTL 2,014,433. This amount accounted for 0.8% of the total salaries and fringe benefits paid to personnel in 2006.

Other expenses decreased by 10% in 2006 as compared to the previous year. This decrease resulted in the decrease of moveable estate rent and maintenance expenditures as compared to the year 2005 and the decrease of high tax expenditure in 2006 due to paid stamp tax for the agreement signed with The World Bank in 2005.

There were no significant changes in other expenditure items.

Banknote printing expenses: the 3% decrease in banknote printing expenses in 2006, as compared to the previous year, was due to the decrease in the amount of semi-finished products that were transferred from previous years and became finished products in 2006.

The Central Bank prepares its budget with due diligence to maximize savings in general and investment expenditures, in light of the duties assigned by its Law; such as issuing banknotes, determining monetary policy, maintaining price stability and managing the foreign exchange reserves of the country, as well as not lagging behind improvements in technology.

4.3. FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

ASSETS	Notes	2006 thousand YTL	2005 thousand YTL	2006 million US\$ (*)	2005 million US\$ (*)
Cash and gold reserves	6	3,865,080	3,008,521	2,750	2,140
Due from banks	7	8,610,821	6,328,670	6,126	4,502
Financial assets at fair value through profit or loss	8	98,266,146	80,936,749	69,910	57,582
Loans and advances to customers	9	44,209	46,624	31	33
Investment securities:					
-Available-for-sale	10	259,822	225,268	185	160
-Held-to-maturity	10	434,011	436,486	309	311
Property and equipment	11	235,971	243,130	168	173
Intangible assets	12	3,405	3,305	2	2
Other assets	13	27,635	34,707	20	25
Total assets		111,747,100	91,263,460	79,501	64,928
LIABILITIES					
Currency in circulation	14	26,815,151	19,612,019	19,077	13,953
Due to banks	15	34,219,288	27,937,406	24,345	19,876
Other deposits	16	43,654,859	37,016,098	31,058	26,335
Due to International Monetary Fund ("IMF")	17	7,389	6,748	5	5
Other borrowed funds	18	2,417,470	6,013,857	1,720	4,278
Other liabilities	19	1,765,227	1,690,692	1,255	1,202
Retirement benefit obligations	21	60,205	53,989	43	38
Total liabilities		108,939,589	92,330,809	77,503	65,687
SHAREHOLDERS' EQUITY					
Paid-in share capital		47,464	47,464	34	34
Retained earnings/(accumulated deficit)		2,521,505	(1,320,778)	1,794	(940)
Other reserves	10	238,542	205,965	170	147
Total shareholders' equity		2,807,511	(1,067,349)	1,998	(759)
Total liabilities and shareholders' equity		111,747,100	91,263,460	79,501	64,928
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 2006, and therefore do not form part of these financial statements (Note 2.c.).

The notes on pages 78 to 111 are an integral part of these financial statements.

	Notes	2006 thousand YTL	2005 thousand YTL	2006 Million US\$ (*)	2005 Million US\$ (*)
Interest and similar income	22	4,154,374	3,034,846	2,955	2,159
Interest expense and similar charges	22	(4,033,817)	(2,648,051)	(2,870)	(1,884)
Net interest income		120,557	386,795	85	275
Fee and commission income	23	39,896	35,166	28	25
Fee and commission expense	23	(153,995)	(121,087)	(110)	(86)
Net fee and commission expense		(114,099)	(85,921)	(82)	(61)
Dividend income	24	4,757	3,249	3	2
Net trading income		34,823	120,659	25	86
Foreign exchange gains/(losses), net	25	4,403,175	(111,344)	3,133	(79)
Other operating income		7,699	2,997	5	2
Impairment losses on loans and advances	9	(182,389)	(51,140)	(130)	(36)
Other operating expenses	26	(388,645)	(343,191)	(276)	(245)
Operating profit/(loss)		3,885,878	(77,896)	2,763	(56)
Monetary gain		-	53,043	-	38
Profit/(loss) before income tax		3,885,878	(24,853)	2,763	(18)
Income tax expense	20	(43,851)	-	(31)	-
Profit/(loss) for the year		3,842,027	(24,853)	2,732	(18)

(*) 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 2006, and therefore do not form part of these financial statements
The notes on pages 78 to 111 are an integral part of these financial statements.

Share capital						
	Share capital	Adjustment to share capital	Total paid-in share capital	Other reserves	Retained earnings/ (accumulated deficit)	Total
Balance at 1 January 2005	25	47,439	47,464	-	(1,295,925)	(1,248,461)
Available-for-sale securities 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)
Balance at 1 January 2006	25	47,439	47,464	205,965	(1,320,778)	(1,067,349)
Available-for-sale securities fair value gains (Note 10)	-	-	-	32,577	-	32,577
Gains on demonetized banknotes (Note 14)	-	-	-	-	256	256
Net profit for the year	-	-	-	-	3,842,027	3,842,027
Balance at 31 December 2006	25	47,439	47,464	238,542	2,521,505	2,807,511

The notes on pages 78 to 111 are an integral part of these financial statements.

	Note	2006	2005
Cash flows from operating activities			
Net profit/(loss) for the year		3,842,027	(24,853)
Adjustment for:			
Depreciation of property and equipment	11	13,668	12,009
Amortisation of intangible assets	12	942	985
Impairment losses on loans and advances	9	182,389	51,140
Foreign exchange (gains)/losses on equity participation		(1,978)	1,601
Retirement benefit obligations	21	11,821	8,329
Interest income, net	22	(120,557)	(386,795)
Interest received		4,065,499	3,045,745
Interest paid		(4,217,979)	(3,315,613)
Dividend income	24	(4,757)	(3,249)
Commission expense, net	23	114,099	85,921
Commission received		39,896	35,166
Commission paid		(141,491)	(121,435)
Increase in reserves due to demonetized banknotes	14	256	-
Income tax expense	20	43,851	-
Inflation effect on non-operating activities		-	(47,014)
Cash flows from operating profits before changes in operating assets and liabilities		3,827,686	(658,063)
Changes in operating assets and liabilities:			
Net increase in financial assets at fair value through profit or loss		(17,329,397)	(11,944,437)
Net decrease in loans and advances to customers		2,415	389,798
Net decrease/(increase) in other assets		1,211	(2,017)
Net increase in currency in circulation		7,203,510	5,788,694
Net increase in due to banks		6,093,569	7,129,006
Net increase in other deposits		6,917,212	2,887,996
Net increase in other liabilities		12,577	251,452
Inflation effect on operating activities		-	173,471
Net cash from operating activities		6,728,783	4,015,900
Cash flows from investing activities			
Purchase of property, equipment and intangible assets, net	11,12	(7,551)	(18,986)
Redemption of securities		2,475	16,042
Dividends received		4,343	3,492
Inflation effect on investing activities		-	(110,791)
Net cash used in investing activities		(733)	(110,243)
Cash flows from financing activities			
Repayments of borrowed funds and due to IMF		(3,594,720)	(1,850,656)
Inflation effect on financing activities		-	191,019
Net cash from financing activities		(3,594,720)	(1,659,637)
Net increase in cash and cash equivalents		3,133,330	2,246,020
Inflation effect on cash and equivalents		-	(207,014)
Cash and cash equivalents at beginning of year	30	9,336,226	7,297,220
Cash and cash equivalents at the end of year	30	12,469,556	9,336,226

The notes on pages 78 to 111 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was 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 No. 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, four foreign representatives and one liaison office abroad. As at 31 December 2006, the Bank employed 4,598 people (2005: 4,660).

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 purchases and sales 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 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.

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 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 2006, the Bank adopted the following revised IFRS, which are relevant to its operations. The 2005 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) has 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 the opening retained earnings at 1 January 2006 and 2005 from the adoption of any of the above-mentioned standards.

(b) Accounting for the effect of hyperinflation

Prior to 1 January 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of the New Turkish Lira in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of Turkey indicate that hyperinflation has ceased, effective from 1 January 2006, the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2005 are treated as the basis for the carrying amounts in these financial statements.

Corresponding figures, as at and for the year ended 31 December 2005, were restated for the changes in the general purchasing power of YTL at 31 December 2005. The restatement was calculated using the conversion factors derived from the Turkish nationwide Producer Price Index (“PPI”) published by the Turkish Statistical Institute (TURKSTAT). The indices used to restate these financial statements as of 31 December 2005 and the respective conversion factors, are:

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 2006 of YTL1.4056 = 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.

	2006	2005
US\$	1.4056	1.3418
EUR	1.8515	1.5875
CHF	1.1503	1.0188
GBP	2.7569	2.3121
SDR (*)	2.1242	1.9272

(*) 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.

The Bank did not have any derivative financial instruments as at 31 December 2006 and 2005.

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 other 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).

(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 3.8% (2005: 3.7%) 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 2006 was YTL894 per troy ounce (2005: YTL688 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 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.

(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 the 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.

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 a time frame established by a 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 the income statement when banknotes are transferred to reserve funds of the Bank. Expenses for money issuance include the depreciation of machinery, staff costs, other production costs and costs for transportation of banknotes.

(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 the 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 life (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.

(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 favor of the holder. The liability for currency in circulation is recorded at face value in these financial statements.

Through the enactment of the Law No. 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 six 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 be considered to have been made to YTL at the conversion rate indicated above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in keeping and presenting of 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 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 1 January 2006 to the closure of working hours on 31 December 2015 which is the end of the 10-year 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 Bank has recorded gain under equity reserves in the amount of YTL 256 thousand since the legal redemption period of the banknotes in the same amount has been expired as of 31 December 2006.

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) Retirement benefit obligations

Retirement benefit obligations 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).

(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 31).

(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 30).

(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 to changes in presentation in the current year.

NOTE 4 - FINANCIAL RISK MANAGEMENT

(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.

(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 2006	Total assets	%	Total liabilities	%	Commitments and contingent liabilities	%
Turkey	24,070,384	21	84,004,961	77	281,957,487	94
Other European countries	50,952,984	46	23,757,836	22	1,124,488	-
Canada and US	35,470,610	32	1,175,124	1	16,287,001	6
South-East Asia	1,214,570	1	455	-	-	-
Other countries	38,552	-	1,213	-	-	-
Total	111,747,100	100	108,939,589	100	299,368,976	100

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

(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 for taking the 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 are furnished to the Board.

The table below summarises the Bank's net foreign currency position at 31 December 2006 and 2005. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

31 December 2006									
	Foreign currency							YTL	Total
	US\$	EUR	CHF	GBP	SDR	Other	Total		
Cash and gold reserves	3,578,127	187,548	7,853	21,298	-	1,804	3,796,630	68,450	3,865,080
Due from banks	936,927	2,627,205	124,359	157,556	17,260	1,221,055	5,084,362	3,526,459	8,610,821
Financial assets at fair value through profit or loss	33,056,675	44,407,320	-	1,990,278	-	-	79,454,273	18,811,873	98,266,146
Loans and advances to customers	43,805	404	-	-	-	-	44,209	-	44,209
Investment securities:									
-Available-for-sale	-	38	-	-	259,784	-	259,822	-	259,822
-Held-to-maturity	434,011	-	-	-	-	-	434,011	-	434,011
Property and equipment	-	-	-	-	-	-	-	235,971	235,971
Intangible assets	-	-	-	-	-	-	-	3,405	3,405
Other assets	49	1,331	-	69	3,557	439	5,445	22,190	27,635
Total assets	38,049,594	47,223,846	132,212	2,169,201	280,601	1,223,298	89,078,752	22,668,348	111,747,100
Currency in circulation	-	-	-	-	-	-	-	26,815,151	26,815,151
Due to banks	3,384,717	15,773,703	-	257,771	-	2	19,416,193	14,803,095	34,219,288
Other deposits	8,639,423	33,130,622	97,061	14,525	-	69	41,881,700	1,773,159	43,654,859
Due to IMF	-	-	-	-	7,389	-	7,389	-	7,389
Other borrowed funds	-	-	-	-	-	-	-	2,417,470	2,417,470
Other liabilities	1,198,805	447,587	909	15,177	-	5,557	1,668,035	97,192	1,765,227
Retirement benefit obligations	-	-	-	-	-	-	-	60,205	60,205
Shareholders' equity	-	-	-	-	-	-	-	2,807,511	2,807,511
Total liabilities and shareholders' equity	13,222,945	49,351,912	97,970	287,473	7,389	5,628	62,973,317	48,773,783	111,747,100
Net balance sheet position	24,826,649	(2,128,066)	34,242	1,881,728	273,212	1,217,670	26,105,435	(26,105,435)	-

Due from banks in other currencies include JPY placements in an amount of JPY102,619,081,722 (New Turkish Lira equivalent YTL1,210,905 thousand).

31 December 2005									
	Foreign currency							YTL	Total
	US\$	EUR	CHF	GBP	SDR	Other	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
Retirement benefit obligations	-	-	-	-	-	-	-	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 in an amount of JPY92,130,987,875 (New Turkish Lira equivalent YTL1,050,521 thousand).

(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 2006 and 2005. 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 2006							
	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	-	-	-	-	-	3,865,080	3,865,080
Due from banks	6,746,873	-	-	-	-	1,863,948	8,610,821
Financial assets at fair value through profit or loss	5,220,200	13,622,315	17,921,026	61,115,505	387,100	-	98,266,146
Loans and advances to customers	-	2,849	2,496	17,944	20,920	-	44,209
Investment securities:							
- Available-for-sale	-	-	-	-	-	259,822	259,822
- Held-to-maturity	-	-	-	-	-	434,011	434,011
Property and equipment	-	-	-	-	-	235,971	235,971
Intangible assets	-	-	-	-	-	3,405	3,405
Other assets	-	-	-	-	-	27,635	27,635
Total assets	11,967,073	13,625,164	17,923,522	61,133,449	408,020	6,689,872	111,747,100
Currency in circulation	-	-	-	-	-	26,815,151	26,815,151
Due to banks	34,211,552	-	-	-	-	7,736	34,219,288
Other deposits	1,056,773	1,430,447	8,970,598	11,806,542	-	20,390,499	43,654,859
Due to IMF	-	-	-	-	-	7,389	7,389
Other borrowed funds	2,417,470	-	-	-	-	-	2,417,470
Other liabilities	-	-	-	-	-	1,765,227	1,765,227
Retirement benefit obligations	-	-	-	-	-	60,205	60,205
Shareholders' equity	-	-	-	-	-	2,807,511	2,807,511
Total liabilities and shareholders' equity	37,685,795	1,430,447	8,970,598	11,806,542	-	51,853,718	111,747,100
Net repricing gap	(25,718,722)	12,194,717	8,952,924	49,326,907	408,020	(45,163,846)	-

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 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
Retirement benefit obligations	-	-	-	-	-	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)	-

The tables below summarise the range for effective average interest rates by major currencies for monetary financial instruments at 31 December 2006 and 2005:

31 December 2006			
	US\$ (%)	EUR (%)	YTL (%)
Assets			
Due from banks	5.28	3.61	18.37
Financial assets at fair value through profit or loss	4.86	3.27	9.65
Loans and advances to customers	5.17	3.61	-
Investment securities	5.14	-	-
Liabilities			
Due to banks	2.52	1.73	13.12
Other deposits	3.93	3.57	-
Other borrowed funds	-	-	14.78

31 December 2005			
	US\$ (%)	EUR (%)	YTL (%)
Assets			
Due from banks	4.14	2.28	15.50
Financial assets at fair value through profit or loss	4.28	2.55	7.72
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

(f) Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibits 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 the balance sheet date to the contractual maturity dates.

31 December 2006								
	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	3,865,080	-	-	-	-	-	-	3,865,080
Due from banks	1,841,723	6,746,873	-	-	-	-	22,225	8,610,821
Financial assets at fair value through profit or loss	-	5,220,200	13,622,315	17,921,026	61,115,505	387,100	-	98,266,146
Loans and advances to customers	-	-	2,849	2,496	17,944	20,920	-	44,209
Investment securities:								
-Available-for-sale	259,822	-	-	-	-	-	-	259,822
-Held-to-maturity	-	95,879	111,726	226,406	-	-	-	434,011
Property and equipment	-	-	-	-	-	-	235,971	235,971
Intangible assets	-	-	-	-	-	-	3,405	3,405
Other assets	-	8,124	457	3,437	-	-	15,617	27,635
Total assets	5,966,625	12,071,076	13,737,347	18,153,365	61,133,449	408,020	277,218	111,747,100
Currency in circulation	-	-	-	-	-	-	26,815,151	26,815,151
Due to banks	7,566	34,211,552	-	-	-	-	180	34,219,288
Other deposits	20,390,499	1,056,773	1,430,447	8,970,598	11,806,542	-	-	43,654,859
Due to IMF	-	-	-	-	-	-	7,389	7,389
Other borrowed funds	-	2,417,470	-	-	-	-	-	2,417,470
Other liabilities	7,420	63,590	-	1,589,835	-	-	104,382	1,765,227
Retirement benefit obligations	-	-	-	-	-	-	60,205	60,205
Shareholders' equity	-	-	-	-	-	-	2,807,511	2,807,511
Total liabilities and shareholders' equity	20,405,475	37,749,385	1,430,447	10,560,433	11,806,542	-	29,794,818	111,747,100
Net liquidity gap	(14,438,850)	(25,678,309)	12,306,900	7,592,932	49,326,907	408,020	(29,517,600)	-

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 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	14,934,706	970,442	1,378,026	9,283,146	10,449,778	-	-	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
Retirement benefit obligations	-	-	-	-	-	-	53,989	53,989
Shareholders' equity	-	-	-	-	-	-	(1,067,349)	(1,067,349)
Total liabilities and shareholders' equity	14,955,157	34,936,268	1,378,026	10,860,316	10,449,778	-	18,683,915	91,263,460
Net liquidity gap	(9,628,138)	(25,093,173)	7,197,042	17,034,588	28,624,010	258,651	(18,392,980)	-

(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 internal 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.

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	
	2006	2005	2006	2005
Financial assets				
Cash and gold reserves	3,865,080	3,008,521	3,865,080	3,008,521
Due from banks	8,610,821	6,328,670	8,610,821	6,328,670
Loans and advances to customers	44,209	46,624	38,172	38,201
Investment securities (held-to-maturity)	434,011	436,486	440,011	440,323
Financial liabilities				
Due to banks	34,219,288	27,937,406	34,219,288	27,937,406
Other deposits	43,654,859	37,016,098	43,441,337	37,329,882
Other borrowed funds	2,417,470	6,013,857	2,417,470	6,013,857

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. The 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 the Federal Reserve Bank of New York.

(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 a 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.

NOTE 6 - CASH AND GOLD RESERVES

	2006	2005
Gold vaults	3,335,423	2,569,462
Cash in hand	437,978	368,223
Gold bullion in non-international standards	89,409	70,117
Gold coins	2,270	719
	3,865,080	3,008,521

Gold coins and bullion in the amount of YTL9,928 thousand (2005: YTL7,648 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury.

NOTE 7 - DUE FROM BANKS

	2006	2005
Funds lent under reverse repurchase transactions	3,505,288	1,025,000
Time deposits	3,241,585	3,210,440
Demand deposits	1,863,948	2,093,230
	8,610,821	6,328,670

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

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

	2006		2005	
	Cost	Carrying value	Cost	Carrying value
Turkish government bonds and treasury bills	18,561,493	18,811,873	19,160,779	19,470,029
Foreign government bonds and treasury bills	79,139,157	79,268,162	59,280,219	59,244,198
Foreign corporate bonds	184,940	186,111	2,219,112	2,222,522
	97,885,590	98,266,146	80,660,110	80,936,749

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 2006:

Country of origin	2006
United States	33,240,801
France	12,969,202
Germany	21,210,043
The Netherlands	3,194,302
Spain	2,302,525
Other	6,537,400
	79,454,273

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	2006	2005
Loans to corporate entities:		
Foreign country loans	2,005,426	1,824,835
Domestic loans	755	1,372
Total loans and advances to customers	2,006,181	1,826,207
Less: Allowance for loan losses	(1,961,972)	(1,779,583)
Net loans and advances to customers	44,209	46,624

Movement in the allowance for loan losses is as follows:

	2006	2005
Balance at 1 January	1,779,583	1,774,071
Impairment losses on loans and advances	97,773	51,819
Monetary gain	-	(45,628)
Foreign exchange loss/(gain)	84,616	(679)
At 31 December	1,961,972	1,779,583

NOTE 10 - INVESTMENT SECURITIES

	2006	2005
Securities available-for-sale		
Equity shares - unlisted	259,822	225,268
Total securities available-for-sale	259,822	225,268
Securities held-to-maturity		
Government bonds	434,011	436,486
Total securities held-to-maturity	434,011	436,486
Total investment securities	693,833	661,754

Securities held-to-maturity consist of bonds issued by the US Treasury and kept under the custody of the Federal Reserve Bank of New York in the name of the 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 the decision of the BIS Board and is disclosed under contingencies and commitments (Note 27).

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

Name	Nature of business	Ownership (%)		Amount	
		2006	2005	2006	2005
BIS	Banking Supervision	1.5	1.5	259,784	225,237
S.W.I.F.T.	Electronic Fund Transfer Services	0.007	0.007	38	31
				259,822	225,268

The movement in investment securities is as follows:

	Available-for-sale	Held-to-maturity	Total
At 1 January 2006	225,268	436,486	661,754
Purchases	1	1,003,243	1,003,244
Fair value changes	11,523	-	11,523
Redemptions	-	(1,027,908)	(1,027,908)
Foreign exchange gain	23,030	22,190	45,220
At 31 December 2006	259,822	434,011	693,833

NOTE 11 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and vehicles	Construction in progress	Total
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
Year ended 31 December 2006				
Opening net book amount	217,362	22,528	3,240	243,130
Additions	1,442	4,477	686	6,605
Disposals (net)	(74)	(22)	-	(96)
Depreciation charge (Note 26)	(6,732)	(6,936)	-	(13,668)
Closing net book amount	211,998	20,047	3,926	235,971
At 31 December 2006				
Cost	322,312	40,383	3,926	366,621
Accumulated depreciation	(110,314)	(20,336)	-	(130,650)
Net book amount	211,998	20,047	3,926	235,971

NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
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
Opening balance at 1 January 2006	7,242	(3,937)	3,305
Additions	1,042	(942)	100
Balance at 31 December 2006	8,284	(4,879)	3,405

NOTE 13 - OTHER ASSETS

	2006	2005
Raw material and work in progress	10,741	11,337
Accrued income	5,959	10,824
Tax receivable	3,656	5,535
Prepaid expenses	546	624
Other	6,733	6,387
	27,635	34,707

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

	2006	2005
Balance at 1 January	19,612,019	13,823,325
Inflation effect of carrying opening balances	-	(256,083)
Banknotes issued into circulation	13,190,133	24,759,732
Banknotes withdrawn from circulation and destroyed	(5,986,745)	(18,714,955)
Demonetized banknotes	(256)	-
Balance at 31 December	26,815,151	19,612,019

NOTE 15 - DUE TO BANKS

	2006	2005
Deposits for reserve requirement obligations	27,711,560	22,547,493
Current accounts of banks	6,507,728	5,389,913
	34,219,288	27,937,406

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.

NOTE 16 - OTHER DEPOSITS

	2006	2005
Deposits by citizens abroad	23,264,310	22,081,393
Deposits of Undersecretariat of Treasury	19,183,538	14,228,360
Deposits of state owned entities	176,194	146,406
Deposits of state owned funds	1,030,817	559,939
	43,654,859	37,016,098

Deposits by citizens abroad are time deposits with maturities varying from one to three years; other deposits held by government related institutions are interest-free deposits except for the amount YTL68,562 thousand (2005:YTL68,251 thousand).

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

	2006		2005	
	Interest* (%)	YTL amount	Interest (%)	YTL amount
US\$	0.25-3.75	1,390,780	2.25-4.50	1,574,123
EUR	0.25-4.50	21,766,014	2.50-4.00	20,399,511
CHF	0.25-0.75	93,654	0.81-0.90	94,418
GBP	0.25-4.00	13,862	4.15-4.43	13,341
		23,264,310		22,081,393

(*) The Bank has two different deposit product types named super deposit accounts and deposits accounts with a credit letter attached. On 6 March 2006 the Bank ceased the application of deposit accounts of one year maturity with a credit letter attached. Accounts denominated in EUR, US\$, GBP and CHF which were opened prior to this date, are rolled over, unless there is a customer request to the contrary, at the rate of 0.25%. Minimum interest rates of the deposit accounts other than the ones that have ceased to be applied are 2.25%, 3.00%, 0.75% and 4.00% for EUR, US\$, CHF and GBP respectively.

NOTE 17 - DUE TO IMF

Due to IMF is denominated in SDR. Due to IMF includes borrowings related to Turkey's IMF quota for the year ending 31 December 2006 and 2005. As of 31 December 2006 and 2005, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

As of 1 November 2006, the country quota of Turkey increased by SDR 227,300,000 reaching SDR 1,191,300,000. 25% of the quota increase in the amount of SDR 56,825,000 has been paid in cash denominated in reserve money and the rest of the increase in the amount of SDR 170,475,000 has been paid in securities issued by the Turkish Treasury denominated in YTL.

NOTE 18 - OTHER BORROWED FUNDS

	2006	2005
Interbank money market	2,415,470	6,013,857
Funds borrowed from repurchase agreements	2,000	-
	2,417,470	6,013,857

Interbank money market transactions and funds borrowed from repurchase agreements are undertaken as a part of the open market operations of the Bank.

NOTE 19 - OTHER LIABILITIES

	2006	2005
Import transfer orders and deposits	1,584,065	1,538,136
Blocked accounts for pending court cases	30,353	53,022
Taxes and withholdings payable	53,234	52,645
Expense accruals	19,785	8,535
Amount pending due to late application of beneficiary	13,668	13,847
Creditors of foreign currencies that were deposited as trust	2,247	2,287
Other	61,875	22,220
	1,765,227	1,690,692

NOTE 20 - TAXATION

	2006	2005
Income taxes currently payable	43,851	-
Income taxes payable	43,851	-

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated 21 June 2006, corporation tax is payable at the rate of 20% (31 December 2005: 30%) effective from 1 January 2006 on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and investment and other allowances in accordance with the new tax legislation and the Central Bank Law No.1211. 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 15%. An increase in capital via the issuing of 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 20% on their corporate income. Advance tax is payable by the 17th 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.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital in accordance with the New Corporate Tax Law or are recorded under a specific fund account for five years.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The reconciliation between the expected and the actual taxation charge is stated below:

	2006
Profit before tax	3,885,878
Tax calculated at a tax rate of 20%	777,176
Income exempt from taxation	(333,921)
Expenses not deductible for tax purposes	14,576
Utilisation of brought forward tax losses	(413,980)
Income tax expense	43,851

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 2006 under the liability method using a principal tax rate of 20%.

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 return, 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)	
	2006	2005	2006	2005
Retirement benefit obligations	60,205	53,989	-	-
Difference between carrying value and tax base of property and equipment	47,100	49,035	-	-
Transfer of valuation account to income statement	1,243,948	2,029,328	-	-
Accumulated tax losses	-	1,966,500	-	-
Total Assets	1,351,253	4,098,852	-	-
Effect of IAS 39 adjustment	15,880	50,856	-	-
Total Liabilities	15,880	50,856	-	-
Net	1,335,373	4,047,996	-	-

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

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 YTL1,857.44 (31 December 2005: YTL1,727.15) for each year of service.

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

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:

	2006	2005
Discount rate (%)	5.71	5.49
Turnover rate to estimate the probability of retirement (%)	99.00	99.00

Additionally, the principal actuarial assumption is that the maximum liability of YTL1,960.69 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 YTL1,960.69 effective from 1 January 2007 (1 January 2006: YTL1,727.15), has been taken into consideration in calculating the reserve for the retirement benefit obligation of the Bank.

Movement in the liability recognised in the balance sheet:

	2006	2005
At 1 January	53,989	53,698
Current year charge	11,821	8,329
Monetary gain	-	(1,405)
Paid during the year	(5,605)	(6,633)
At 31 December	60,205	53,989

NOTE 22 - NET INTEREST INCOME

	2006	2005
Interest income:		
Financial assets at fair value through profit or loss	3,958,419	2,893,042
Due from banks	106,522	73,058
Loans and advances to customers	89,433	68,746
	4,154,374	3,034,846
Interest expense:		
Due to banks	1,548,863	1,068,131
Other deposits	1,106,402	876,539
Other borrowed funds	1,369,779	650,072
Due to IMF	8,703	53,207
Other	70	102
	4,033,817	2,648,051
Net interest income	120,557	386,795

NOTE 23 - NET FEE AND COMMISSION EXPENSE

	2006	2005
Fee and commission income:		
Electronic fund transfer ("EFT")	33,058	26,958
Other fund transfer fees	648	2,317
Open market operations	3,157	2,192
Other	3,033	3,699
	39,896	35,166
Fee and commission expense:		
Correspondent bank accounts	149,885	117,641
Other	4,110	3,446
	153,995	121,087
Net fee and commission expense	(114,099)	(85,921)

NOTE 24 - DIVIDEND INCOME

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

	2006	2005
Available-for-sale securities	4,757	3,249
	4,757	3,249

NOTE 25 - FOREIGN EXCHANGE GAINS/(LOSSES), NET

	2006	2005
Foreign exchange gains/(losses),net		
- translation gains/(losses),net	785,380	(382,810)
- transaction gains,net	3,617,795	271,466
	4,403,175	(111,344)

NOTE 26 - OTHER OPERATING EXPENSES

	2006	2005
Wages and salaries	273,668	252,979
Administrative expenses	75,827	49,550
Social security costs	24,128	26,879
Depreciation (Note 11 and 12)	14,610	12,994
Other	412	789
	388,645	343,191

The average number of persons employed by the Bank during the year 2006 was 4,676 (2005: 4,847).

NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

	2006	2005
Guarantees taken	9,873,508	11,796,736
Uncalled BIS shares (Note 10)	63,726	57,816
	9,937,234	11,854,552

As of 31 December 2006, there are a number of legal proceedings outstanding against the Bank amounting to YTL 80,548 thousand, US\$ 397,357 and EUR 800,867 (2005: YTL 83,577 thousand, US\$ 7,242,351, EUR 831,096). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

NOTE 28 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2006 and 2005 is as follows:

	31 December 2006		31 December 2005	
	thousand YTL	Share %	thousand 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.

NOTE 29 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution in accordance with the Central Bank Law to the employees, Turkish Treasury and other shareholders, subject to the legal reserve requirement referred to below.

The appropriation of the profit after tax 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 (Note 32).

NOTE 30 - CASH AND CASH EQUIVALENTS

	2006	2005
Cash and gold reserves	3,865,080	3,008,521
Due from banks (excluding accrued interest)	8,604,476	6,327,705
Total	12,469,556	9,336,226

NOTE 31 - RELATED PARTY BALANCES AND TRANSACTIONS

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

(i) Balances with related parties	2006	2005
Assets:		
Financial assets at fair value through profit or loss issued by the Turkish Treasury	18,811,875	19,470,029
Funds lent under reverse repurchase transactions	-	1,000,000
Due from banks	72,167	639,998
Liabilities:		
Due to banks	25,581,117	16,376,935
Other deposits	20,390,549	14,934,705
(ii) Transactions with related parties		
Salaries and other short-term benefits to key management	2,134	2,265
Interest income	1,744,606	1,475,366
Interest expense	893,854	613,405
Fee and commission income	16,679	12,859
Fee and commission expense	147,190	114,435

NOTE 32 - SUBSEQUENT EVENT

With the Board of Directors' decision dated 1 March 2007, the appropriation of the statutory net income as of 31 December 2006 amounting to YTL3,102,457 thousand in accordance with the Central Bank Law will be as follows: YTL3 thousand as shareholders share, YTL156 thousand as dividend to the employees, YTL2,180,966 thousand as legal reserves and YTL921,332 thousand as dividend to the Turkish Treasury. The decision regarding the profit appropriation will be presented to the General Assembly for approval on 6 April 2007.

4.4. AUDIT AT THE BANK AND AUDITS REPORTS

4.4.1 Audit At The Bank

The activities of the Bank, which operates as a joint stock company, are audited by both the internal and external auditors as compliance with the regulations the Bank Law No 1211.

Audit conducted by the internal organs of the bank

In accordance with Article No 15 of the Bank Law, the General Assembly examines the annual report submitted by the board of the Bank, the report of Auditing Committee, the Bank's balance sheet and profit and loss accounts and approves them. Every year, the General Assembly monitors the annual activities of the Bank by doing so and releasing the members of the Board and the Auditing Committee.

In accordance with Article No 24 of the Bank Law, the Auditing Committee supervises all the operations and accounts of the Bank and submits to General Assembly a report to be drawn up on the operations and accounts of the Bank. Furthermore, the General Assembly submits its opinions in writing, in addition to the annual report, to the Auditing Committee and the Office of the Prime Minister, when deemed necessary.

The duty and power of auditing the Bank's usual transactions are entrusted with the Internal Audit Department and Inspection Unit in accordance with Articles No 63 and 121 of the Main Regulations on Organization and Duties of the Central Bank. These Units carry out their auditing duty in compliance with their own regulations.

The Inspection Unit is entitled to inspect all transactions of the Head Office Units and Branches of the Bank pursuant to Article No 2 of the Regulations of the Inspection Unit.

The Internal Audit Department, which was established at the end of 2002 with the aim of restructuring the Bank's internal auditing functions in line with internationally acceptable standards and best practices. The principal is to perform an independent, objective assurance and consulting activity designed to add value and improve the operations of the Bank as well as help the Bank achieve its goals by developing a systematic and disciplined approach to evaluate and enhance the efficiency and productivity of risk management, internal control and governance process.

Training and certification programs continued with the aim of having auditors in international standard in 2006, 10 auditors received the Certified Internal Auditor (CIA) certificate, 4 received the Certified Information Systems Auditor (CISA) certificate and 3 received Certification in Control Self-Assessment Program (CCSA) certificate, Consequently, the Internal Audit Department has been one of the leaders about certification among EU central banks.

Controllers, who have been employed temporarily in Internal Audit Department since 2003, performed joint custody and control activities pursuant to the Regulations of Control Activities, which govern the working principles of controllers.

Audit conducted by External Auditors

Article 42 of the Bank Law constitutes the legal basis of external auditing within the Bank. Accordingly, the Prime Minister may request the audit of the Bank's transactions and accounts.

In accordance with the 2nd paragraph of the same Article, the Bank may assign independent audit institutions to audit the balance sheet and profit and loss statement. Independent external audit practices, which are deemed one of the most effective tools of implementing transparency and accountability -vital elements of central banks operating on international standards- started in 2000. Independent audit reports, which are drawn up following independent auditing conducted every year, are announced to the general public via the Bank's website.

4.4.2. Report Of The Auditing Committee For 2006

THE SEVENTY FIVE-ACCOUNTING YEAR OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditing Committee has thoroughly examined the activities and the resulting statements of the 2006 Accounting Year of the Central Bank of the Republic of Turkey, within the framework of the provisions of the related legislation, and concluded that:

1. The cash, gold holdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were inspected at random, are in conformity with the records as well as the legal books and these values are kept and administered in accordance with the regulations;
2. The legal books and the books relating to the Bank's accounts that are subject to declaration are in good order and in conformity with the Central Bank Law and the Articles of Associations, Furthermore, the domestic loans extended by the Bank, either directly or indirectly, are within the limits set forth;
3. "The Balance Sheet" designed as of December 31,2006 and "the Profit and Loss Statement" created for the period between 01/01/2006 and 31/12/2006 are in compliance with the systematic principles of accounting and the rules of assessment stipulated by the Turkish Commercial Code, the Central Bank Law and Tax Laws;
4. Financial Tables are drawn up so as to present the financial situation of the Central Bank of the Republic of Turkey as of 31 December 2006 and the activity result relating to the year that has ended on the same date is in accurate, correct and clear manner pursuant to the Legislation in force in Turkey and the Central Bank Law;
5. A Lawsuit regarding the legal liability, which was filed by the Bank, has not concluded yet.

In conclusion, we hereby submit the Balance Sheet and the Profit and Loss Statement drawn up in compliance with the principles and procedures, upon which we have mutually agreed with the Board of the Bank, for the approval of the General Assembly.

Auditing Committee Member
Mustafa Saim Uysal

Auditing Committee Member
Bilal San

Auditing Committee Member
Abdullah Yalçın

Auditing Committee Member
Mehmet Tüfekçi

4.4.3. Independent Audit Report Drawn Up In Compliance With The Central Bank Law And Related Legislation

To the Central Bank of the Republic of Turkey

1. We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the “Bank”) which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Central Bank of the Republic of Turkey (the “Central bank law”) and related legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Republic of Turkey as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the Central Bank Law and related legislation.

Without qualifying our opinion, we draw attention to the following matter:

5. As explained in Note I.B.3, effects of differences between accounting principles and standards set out by the related legislation in Turkey and the Central Bank Law, and accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Haluk Yalçın, SMMM

Istanbul, 2 March 2007

4.4.4. Independent Audit Report Drawn Up In Compliance With The IFRS

To the Central Bank of the Republic of Turkey

6. We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the “Bank”) which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

7. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

8. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

9. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

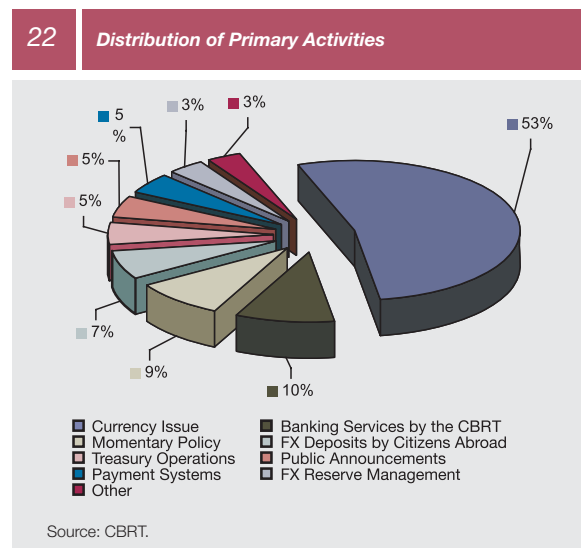
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a member of
PricewaterhouseCoopers

Haluk Yalçın, SMMM

Istanbul, 9 March 2007

4.5. ACTIVITY BASED COST ACCOUNTING AT CBRT

By analyzing the Bank's expenditures in 2006 according to activity based cost accounting data, it can be seen that currency issue activity, at 53%, ranked first among the share of 12 primary activities in the total general cost. The share of the other activities are as follows: banking services supplied by the Central Bank 10%, monetary policy 9%, FX deposits by citizens abroad 7%, payment systems, public announcements and treasury operations 5% and management of foreign exchange reserves 3%.



4.6. TURKEY-IMF MONETARY RELATIONS

Turkey has been a member of the IMF since 1947. The Undersecretariat of the Treasury has been designated as the fiscal agent and the Central Bank of Turkey as the depository institution as regards the IMF.

Within this framework, the Treasury, as a fiscal agent, has the authority to carry out -on behalf of Turkey- all operations and transactions such as the purchase and repurchase of SDR, as well as payments of charges and other payments payable to the IMF. As a depository, it is the Central Bank's responsibility to ensure that these transactions are properly reflected in YTL-denominated No 1 and No 2 Accounts and the Securities Account of the IMF with the Central Bank.

Turkey's quota in the IMF represents its capital subscription and amounts to SDR 1,191.3 million as at December 31, 2006 with the increase of SDR 227.3 million on November 1, 2006. This increase of SDR 56,825 million, which is equivalent to 25% of the increase of the quota, is paid in terms of reserve foreign exchanges, and the rest of SDR 170,475 million is paid in terms of New Turkish liras to the Security Account of IMF with the Bank. SDR 112 million of the quota is Turkey's reserve tranche position, which is paid in cash as foreign exchange.

The Central Bank's liability to the IMF has no balance as of December 31, 2005. While the direct use of credit by the Treasury from the IMF was SDR 10,247 million as of the end of 2005, it decreased to SDR 7,154 million as of the end of 2006, due to the redemption of SDR 5,092 million, despite the new use of credit amounting to SDR 1,999 million in 2006. The details of the resources provided by the Fund in 2005 and 2006 are presented below:

	2005	2006
Use of Credit	10,247,335,000	7,153,697,000
Direct use of credit by the Treasury	10,247,335,000	7,153,697,000

As at December 31, 2006, the IMF's holdings of New Turkish lira amount to YTL 16,018 million; equivalent of SDR 8,232 million.

	YTL	SDR
Number 1 account	5,795,006	2,978,250
Number 2 account	6,510	3,346
Securities account	16,012,257,895	8,229,243,750
Total	16,018,059,411	8,232,225,346

The No 1 and No 2 accounts of the IMF are presented in Deposits as International Institutions in the liabilities of the Bank balance sheet. The securities account is kept on the off-balance sheet and includes non-negotiable, non-interest bearing securities issued by the Treasury in favor of the IMF, which are payable on demand. These securities are issued for that portion of the quota liability paid in domestic currency, for purchases of SDR, for budget financing purposes, and for the revaluations made by the IMF every year as of April 30. Based on the Memorandum of Understanding signed between the Bank and the Treasury on May 6, 2002, in order to clarify the relationships between Turkey and the IMF, the revaluation differences arising from the changes in the YTL/SDR parity are reflected by the Bank on the Fund's No 1 and No 2, accounts at the end of each month, by transferring from or to the Revaluation Account, which shows the revaluation differences in accordance with Bank Law Article No 61.

Within the framework of the relations between Turkey and the IMF on a quarterly basis,

- Turkey incurs charges on outstanding purchases.
- The IMF pays remuneration, after the close of each of the IMF's financial quarters, on Turkey's remunerated reserve tranche position.
- Turkey incurs charges on the difference between the SDR holdings and the SDR allocation.

In submitting this report to the General Assembly, we ask for your consent that the dividend amount is paid to shareholders and to employees by 7 April 2007.

5. FURTHER INFORMATION

5.1. STATISTICAL DATA ADDRESS

CBRT implemented a distinguished application among central banks by developing a dynamic and interactive Electronic Data Delivery System (EDDS), which enables the online dispatch of data gathered and/or produced within. Therefore, considering the diversity and easy-accessibility of the related data sets in this system, the maintenance of statistical tables in annual reports has lost efficiency.

These tables are accessible through the CBRT web address:

<http://evds.tcmb.gov.tr/yeni/cbt-uk.html>

