

**THE CENTRAL BANK
OF THE REPUBLIC OF TURKEY**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
31 DECEMBER 2004 AND 2003

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

INDEPENDENT AUDITORS' REPORT

To The Central Bank of
The Republic of Turkey
Ankara

1. We have audited the accompanying balance sheet of the Central Bank of the Republic of Turkey A.Ş. (the "Bank") as of 31 December 2004, and the related statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of Turkish Lira as at 31 December 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at 31 December 2004 and the results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards.

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

Levent YAVEROĞLU

Zeki KURTÇU

Istanbul, 11 March 2005

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS AS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

		As Restated	Convenience Translation	Convenience Translation	
<u>ASSETS</u>	Note	2004 TL Billion	2003 TL Billion	2004 USD Million	2003 USD Million
Cash and amounts due from banks	4	1.026.886	1.862.426	765	1.388
Gold reserves	5	2.254.793	2.543.384	1.680	1.895
Placements with banks & financial institutions	6	3.859.725	3.150.121	2.876	2.347
Trading securities	7	67.645.920	82.114.634	50.403	61.184
Loans (net)	8	492.105	199.645	367	149
Available for sale investments	9	20.904	23.664	16	18
Premises & equipment (net)	10	231.582	234.316	173	175
Sundry debtors & other assets		29.731	64.915	22	47
TOTAL ASSETS		<u>75.561.646</u>	<u>90.193.105</u>	<u>56.302</u>	<u>67.203</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS AS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

		As Restated	Convenience Translation	Convenience Translation
<u>LIABILITIES</u>		2004	2003	2004
	Note	TL Billion	TL Billion	USD Million
Currency in circulation	11	13.465.237	12.153.046	10.033
Liabilities to Turkish Treasury	20	55.959	68.121	42
Due to banks & other financial institutions	12	23.755.138	25.686.027	17.700
Deposits by citizens abroad	13	26.897.221	29.807.096	20.041
Deposits by public sector		6.100.260	6.298.780	4.545
Deposits by other institutions		927.568	2.267.457	691
Liabilities for securities sold under repurchase agreements		128.189	493.662	96
Liabilities to International Monetary Fund	14	4.066.615	11.672.621	3.030
Corporate tax liability	18	-	-	-
Provisions	15	86.261	89.209	64
Sundry creditors & other liabilities		1.295.318	1.124.890	967
Deferred tax liability (net)	18	-	-	-
TOTAL LIABILITIES		76.777.766	89.660.909	57.209
<u>SHAREHOLDERS' EQUITY</u>				
Share capital	16	46.234	46.234	34
Accumulated profit/(loss)		(1.262.354)	485.962	(941)
TOTAL SHAREHOLDERS' EQUITY		(1.216.120)	532.196	(907)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		75.561.646	90.193.105	56.302
COMMITMENTS AND CONTINGENCIES	21	260.602.266	254.295.711	194.175

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

		As Restated	Convenience Translation	Convenience Translation
	2004	2003	2004	2003
Note	<u>TL Billion</u>	<u>TL Billion</u>	<u>USD Million</u>	<u>USD Million</u>
<u>INTEREST INCOME</u>				
Interest income from bank placements	64.915	88.222	48	66
Interest income from marketable securities	3.058.054	5.547.150	2.279	4.133
Interest income from loans	94.058	31.611	70	24
Other interest income	74	94	0	0
	<u>3.217.101</u>	<u>5.667.077</u>	<u>2.397</u>	<u>4.223</u>
<u>INTEREST EXPENSE</u>				
Interest expense on deposits by citizens abroad	(1748.328)	(2.044.850)	(1.303)	(1.524)
Interest expense related to banks, financial institutions and other institutions	<u>(2.175.371)</u>	<u>(4.612.208)</u>	<u>(1.621)</u>	<u>(3.437)</u>
	<u>(3.923.699)</u>	<u>(6.657.058)</u>	<u>(2.924)</u>	<u>(4.961)</u>
NET INTEREST EXPENSE	<u>(706.598)</u>	<u>(989.981)</u>	<u>(527)</u>	<u>(738)</u>
<u>NON-INTEREST INCOME</u>				
Dividend received	4.101	3.655	3	3
	<u>4.101</u>	<u>3.655</u>	<u>3</u>	<u>3</u>
<u>NON- INTEREST EXPENSE</u>				
Expense from open market operations (net)	(516.428)	(1.186.252)	(385)	(884)
Foreign exchange losses (net)	(67.847)	(1.194.868)	(51)	(890)
Commission expense (net)	(76.193)	(51.155)	(57)	(38)
Other non-interest expense	(19.496)	(32.005)	(15)	(24)
	<u>(679.964)</u>	<u>(2.464.280)</u>	<u>(508)</u>	<u>(1.836)</u>
GENERAL ADMINISTRATIVE EXPENSE	17 (396.554)	(462.441)	(295)	(345)
INCOME/(EXPENSE) BEFORE MONETARY LOSS & TAXATION	<u>(1.779.015)</u>	<u>(3.913.047)</u>	<u>(1.327)</u>	<u>(2.916)</u>
INCOME/(LOSS) ON NET MONETARY POSITION	30.580	(426.777)	23	(318)
LOSS BEFORE TAXATION	<u>(1.748.435)</u>	<u>(4.339.824)</u>	<u>(1.304)</u>	<u>(3.234)</u>
TAXATION	-	431.752	-	322
NET LOSS	<u>(1.748.435)</u>	<u>(3.908.072)</u>	<u>(1.304)</u>	<u>(2.912)</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

	Share Capital <u>TL Billion</u>	Accumulated Profit (Loss) <u>TL Billion</u>	Total <u>TL Billion</u>
At 1 January 2003-As previously reported	46.234	4.372.910	4.419.144
Restatement	-	34.988	34.988
Restated opening balance	46.234	4.407.898	4.454.132
Dividends paid	-	(13.864)	(13.864)
Loss for the year	-	(3.908.072)	(3.908.072)
At 31 December 2003	<u>46.234</u>	<u>485.962</u>	<u>532.196</u>
Dividends paid	-	-	-
Other	-	119	119
Loss for the year	-	(1.748.435)	(1.748.435)
At 31 December 2004	<u><u>46.234</u></u>	<u><u>(1.262.354)</u></u>	<u><u>(1.216.120)</u></u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

	2004	2003
		As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(1.748.435)	(3.908.072)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12.695	11.745
Provisions for loan losses	24.721	34.479
Retirement pay provision and other provisions	10.254	37.912
CHANGES IN OPERATING ASSETS/LIABILITIES		
Gold reserves	288.591	244.609
Marketable securities	14.468.714	10.374.337
Placements with banks	(709.604)	1.893.342
Loans	(292.460)	689.776
Other assets	35.184	193.759
Other liabilities	(232.968)	95.628
Currency in circularization	1.312.310	2.248.706
Due to banks	(1.930.889)	(2.053.337)
Deposits	(4.448.284)	(4.454.901)
Corporate tax	-	-
Deferred tax	-	(491.949)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	6.789.829	4.916.034
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in equity participations	2.760	(13.522)
Additions to tangible fixed assets (net)	(9.961)	(9.979)
NET CASH USED IN INVESTMENT ACTIVITIES	(7.201)	(23.501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receivables of Treasury	(12.162)	(70.662)
Liabilities to International Monetary Fund	(7.606.006)	(5.536.096)
Dividends paid	-	(13.863)
NET CASH USED IN FINANCING ACTIVITIES	(7.618.168)	(5.620.621)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(835.540)	(728.088)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1.862.426	2.590.514
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1.026.886	1.862.426

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

1. ACTIVITIES OF THE BANK

The Central Bank of the Republic of Turkey A.Ş. (the “Bank”) was incorporated in Turkey in 1931. It is established in the form of a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in Law Number 1211 of the Central Bank of the Republic of Turkey (the “Central Bank Law”). The Head Office of the Bank is located in Ankara. The Bank now operates a nationwide network of 21 branches, 4 foreign representatives and 1 liaison office abroad. The number of personnel as at 31 December 2004 is 4,715.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of Presentation of Financial Statements

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with Turkish Commercial Practice and Tax Legislation and Law Number 1211 of the Central Bank of the Republic of Turkey (the “Central Bank Law”). According to the 57th and 58th articles of the Central Bank Law, the accounting period of the Bank is the calendar year. The Bank submits to Prime Ministry, prior to the General Assembly meeting, the balance sheet and income statement along with the annual report to be prepared as of the end of each calendar year. The balance sheet is published in the Official Gazette.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention with adjustments and reclassifications for the purposes of fair presentation in accordance with International Financial Reporting Standards (“IFRS”). In the opinion of the Bank's management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the period have been made in the accompanying financial statements.

Inflation Accounting

In the accompanying financial statements, restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, as of the balance sheet date, in accordance with International Financial Reporting Standard No. 29 “Financial Reporting in Hyperinflationary Economies” (“IFRS 29”).

IFRS 29 became applicable to financial statements in 1990. One characteristic that necessitates the application of IFRS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey has been 69.72 % for the three years ended 31 December 2004, based on the wholesale price index announced by the Turkish State Institute of Statistics. Except this, although the price level has not increased according to the rates mentioned above, IAS 29 is required if there are signs such as; the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency, prices are quoted in that currency, interest rates, wages and prices are linked to a price index, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Inflation Accounting (cont'd)

The index and corresponding conversion factors for recent year ends to reach balance sheet date money values are as follows:

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2002	6.478,8	1,2971
31 December 2003	7.382,1	1,1384
31 December 2004	8.403,8	1,0000

The comparative rates of change in the exchange rate of the Turkish Lira against the US Dollar, compared with the rates of general price inflation in Turkey according to the WPI are set out below:

<u>Year:</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Currency Devaluation against US \$	(3,8)%	(14,6)%	13,5%	114,3%	24,4%
WPI Inflation	13,8%	13,9%	30,8%	88,5%	32,7%

In the accompanying financial statements figures are presented in TL Billion. At the year end exchange rate TL 1 Billion corresponds to US \$ 745.10.

The principal adjustments related with inflation accounting are as follows :

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- Non-monetary assets and liabilities and the components of shareholders' equity are restated by applying, to the initial acquisition cost and any accumulated depreciation, the relevant conversion factors reflecting the increase in the WPI from the date of acquisition or initial recording to the balance sheet date. Revaluations made on any other basis in the statutory records are eliminated.
- All items in the statements of income are restated by applying the relevant conversion factors.
- The effect of general inflation on the Bank's net monetary position is included in the statements of income as monetary gain or loss.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the accompanying financial statements are as follows:

3.1 Accounting Convention

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank maintains its accounting records and prepares its statutory accounts in accordance with Turkish legislation and the Central Bank Law. Where these regulations differ from IFRS, certain accounts have been reclassified, combined, and in some cases recomputed, in order to comply with IFRS. As a result, in the conversion of the accounts from Turkish statutory requirements to IFRS, significant adjustments have been made to the Bank's statements of operations, assets, liabilities and shareholders' equity for the purposes of these financial statements.

3.2 Income and Expense Recognition

Interest and other income and expenses are recognized on the accrual basis. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

3.3 Foreign Currency Items

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions.

Assets and liabilities denominated in foreign currencies are translated at year end exchange rates.

All exchange gains and losses arising on settlement and translation of foreign currency items are included in the income statement.

3.4 Gold Reserves

Gold is valued at the market value based on the prices quoted on the London stock-exchange as of 31 December 2004 and on the basis of the equality of 1 ounce = 31.1035 grams.

3.5 Convenience Translation of Financial Statements

For the convenience of the reader, the balance sheet and income statement of the Bank present translations of certain Turkish Lira amounts into US Dollars of the Turkish Lira bid rate announced by the Bank. Such convenience translations are not intended to comply with the provisions of IAS 21 ("The Effects of Changes in Foreign Exchange Rates") or Financial Accounting Standards Board Statement 52 ("Foreign Currency Translation") for the translation of financial statements in a highly inflationary economy.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Trading Securities

The Bank's securities portfolio primarily represents Government Bonds and Treasury Bills issued by foreign governments and international financial institutions and issued by the Turkish Treasury. The securities portfolio also includes purchases of securities under agreements of resale (reverse repo) and repurchases of securities under agreements of sale (repo).

Securities of foreign governments and other financial institutions are stated with the market value.

Turkish Government securities traded on the stock exchange are valued based upon the prices quoted on the Istanbul Stock Exchange while non-traded ones are valued based on the prices quoted in the Official Gazette.

Income on purchases of securities under agreements of resale ("reverse repo") arranged with other banks in Turkey is accrued on a straight-line basis over the period to maturity.

The carrying value of foreign currency denominated securities is translated into Turkish Lira at the exchange rates ruling at the balance sheet date.

Interest earned for holding securities are included in interest income. All gains or losses on sale of trading securities, and on investment securities if such transactions occur, are accounted for in the income statement for the period.

The Bank designates its securities portfolio in accordance with IFRS 39 as follows:

Securities held for trading:

Securities held for trading are those acquired principally for the purpose of providing intra-day liquidity to the system whenever needed. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are included in net profit or loss for the period in which they arise.

Securities available for sale:

Available-for-sale securities are participations of the Bank and are stated at cost less any provision for impairment where necessary. The cost of a participation is its original cost in foreign currency, translated at the exchange rate ruling at the balance sheet date.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Premises and Equipment

Premises and equipment are carried at restated cost less restated depreciation. Premises and equipment are depreciated on a straight-line basis using rates which write off the assets over their expected useful lives. The main amortization rates used are:

Buildings	2%
Vehicles	20%
Furniture and fittings	20%
Leasehold and leasehold improvements	lease term or 20%

3.8 Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of (i) the sales price of the asset (less any selling costs); (ii) the present value of the cash flows expected to arise from future use of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Management of the Bank believes that there is no indication of internal or external factors implying any impairment of corporate assets.

3.9 Provision for Employee Termination Benefits

Under Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. A provision is maintained for the estimated present value of the accrued obligation to employees for such payments, in respect of their service up to the balance sheet date.

International Financial Reporting Standard No. 19 (revised) "Employee Benefits" ("IFRS 19") has been applied in the accompanying financial statements, including the following:

- An expected inflation rate and an appropriate discount rate are determined, the net of these being the real discount rate. This real discount rate is used to discount future retirement obligations to their present value at the balance sheet date.
- The anticipated rate of forfeitures is considered.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Related Parties

For the purpose of the accompanying financial statements the main shareholder of the Bank, the Turkish Treasury, is referred to as a "Related Party" in this report.

3.11 Taxation and Deferred Taxes

Taxes on income for the year comprise of current tax and the change in deferred taxes. The Bank accounts for current and deferred taxation on the results for the period, in accordance with IFRS 12 (Revised).

Provision is made in the financial statements for the Bank's estimated liability to Turkish corporation tax on its results for the year. The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed.

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred income tax assets and liabilities are also offset.

3.12 Securities under Resale or Repurchase Transactions

Purchases or sales of securities under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of securities under agreements of repurchase ("Repos") are presented in the balance sheet under securities portfolio and the corresponding counterparty liabilities are presented separately in the balance sheet. The net gain or loss on repo transactions is accrued over the period till maturity date.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.13 Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

3.14 Fair Values of Financial Instruments

The term financial instrument includes both financial assets and financial liabilities. Financial instruments are fundamental to the Bank's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Bank's balance sheet.

Fair value is the amount for 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, judgment is necessarily required to interpret market data to estimate market value. Accordingly, the estimates presented herein may not necessarily be indicative of the amounts the Bank could realize in a current market exchange.

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

The following methods and assumptions were used to estimate the fair value of financial instrument for which it is practicable to estimate that value.

Placements with financial institutions: The carrying amount is a reasonable estimate of fair value.

Securities portfolio: Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

Deposits: Fair value of public sector deposits, banking sector deposits and citizens abroad deposits are considered to approximate their respective carrying values due to their short term nature.

Securities under resale and repurchase agreements: The carrying amount is a reasonable estimate of fair value.

The book values of balances denominated in foreign currencies which are translated at period end exchange rates along with the related accrued interest are estimated to be their fair values.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Risk Management

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk.

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Bank is exposed to an inevitable degree of 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.

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The Bank carries credit risk mainly for loans granted and the interbank transactions for which the Bank acts as intermediary and is liable to counter-parties. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit 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.

Market risk

Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts, will have an adverse financial impact. 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 main risks within the Bank's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Bank's balance sheet is denominated in currencies other than the Turkish Lira (principally the US dollar and Euro-zone currencies).

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.

3.16 Offsetting

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

3.17 Comparative financial statements and the restatement of prior year financial statements

In the current period, due to the changes in Tax Procedure Code, the Bank has reviewed the records related with the inflation accounting which are the basis of the financial statements in accordance with IFRS and as a result, some adjustments have been made to the fixed assets, deferred taxes and the retained earnings. The effects of such adjustments are as follows:

<u>2003</u>	<u>Restated TL Billion</u>	<u>As previously reported TL Billion</u>
Fixed assets (net)	234.316	156.948
Retained earnings	485.962	408.594

4. CASH AND AMOUNTS DUE FROM BANKS	<u>2004 TL Billion</u>	<u>2003 TL Billion</u>
Cash balances – Foreign currencies (“FC”)	427.124	1.119.120
Cash balances – Turkish Lira (“TL”) – Coins	2.932	8.399
Current accounts with banks	596.830	734.907
	<u>1.026.886</u>	<u>1.862.426</u>

5. GOLD RESERVES	<u>2004 Ons</u>	<u>2003 Ons</u>	<u>2004 TL Billion</u>	<u>2003 TL Billion</u>
Gold bullion in standard form	3.732.820	3.732.820	2.194.300	2.474.931
Gold in other forms	102.908	103.245	60.493	68.453
	<u>3.835.728</u>	<u>3.836.065</u>	<u>2.254.793</u>	<u>2.543.384</u>

2,650,284 troy ounces of gold in standard form includes gold held with correspondents.

TL 6,531 Billion of gold in other forms is kept in the Bank on behalf of the Turkish Treasury (31 December 2003: TL 7,367 Billion).

6. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS

	<u>2004 TL Billion</u>	<u>2003 TL Billion</u>
Time deposits	2.684.298	1.065.995
Interbank transactions-FC	1.144.224	2.002.194
Other deposits	30.424	80.779
Accrued interest	779	1.153
	<u>3.859.725</u>	<u>3.150.121</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

6. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS (cont'd)

Time deposits are presented below:

<u>31 December 2004</u>	<u>Maturity</u>	<u>Interest Rate</u>
623.000.000 USD	3 January 2005 – 7 January 2005	%2,11-%2,31
689.500.000 EURO	3 January 2005 – 7 January 2005	%2,08-%2,20
55.000.000 GBP	4 January 2005	%4,72
<u>31 December 2003</u>		
488.500.000 USD	2 January 2004 – 7 January 2004	%0,92 - %1,10
107.500.000 EURO	2 January 2004 – 7 January 2004	%2,07 - %2,21
27.000.000 GBP	2 January 2004	%3,61

Inter-bank transactions are placements among banks in Turkey for which the Bank acts as intermediary and is liable to counter-parties. Therefore, placements are recorded in the balance sheet as receivables from, and liabilities to, domestic banks.

7. TRADING SECURITIES

	2004	2003
	<u>TL Billion</u>	<u>TL Billion</u>
Foreign government bonds & treasury bills	43.912.510	49.472.228
Turkish Government bond & treasury bills	23.164.205	31.471.208
Securities sold with agreements to repurchase (repo)	128.000	492.928
Other marketable securities	440.805	677.056
Accrued interest	400	1.214
	<u>67.645.920</u>	<u>82.114.634</u>
Due within one month	4.866.831	6.710.781
Due within one-three months	8.122.421	12.115.411
Due within one year	21.180.987	26.563.511
Due within one-five years	24.493.530	20.707.015
Due over five years	<u>8.541.346</u>	<u>15.340.860</u>
	67.205.115	81.437.578
Other marketable securities	440.805	677.056
	<u>67.645.920</u>	<u>82.114.634</u>

Foreign government bonds & treasury bills are the reserves of the Bank held in foreign institutions. These securities can be liquidated when needed. The portfolio is held mainly to enable the Bank to provide price stability in the market.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

7. TRADING SECURITIES (cont'd)

Other marketable securities belong to the Turkish Defense Fund and recorded in the "Trading portfolio" in the asset side and in the "Deposits by public sector" in the liability side of the balance sheet.

The nominal values and maturities of the securities are presented below:

<u>Foreign Currency</u>	<u>Maturity</u>	2004	2003
		<u>Nominal Value</u>	<u>Nominal Value</u>
USD	< 1 month	1.560.600.000 USD	1.900.000.000 USD
	< 3 month	2.482.400.000 USD	3.139.900.000 USD
	< 1 year	5.637.900.000 USD	9.280.300.000 USD
	< 5 years	1.563.300.000 USD	7.000.000 USD
	> 5 years	-	48.800.000 USD
		11.244.200.000 USD	14.376.000,000 USD
EURO	< 1 month	1.061.000.000 Euro	1.611.500.000 Euro
	< 3 month	2.055.500.000 Euro	3.600.000.000 Euro
	< 1 year	6.048.750.000 Euro	5.940.650.000 Euro
	< 5 years	5.839.500.000 Euro	2.129.500.000 Euro
		15.004.750.000 Euro	13.281.650.000 Euro
GBP	< 1 month	250.000.000 GBP	-
		250.000.000 GBP	-
SDR	< 1 month	77.882.500 SDR	-
	< 3 month	500.200.000 SDR	-
	< 1 year	1.189.977.500 SDR	-
	< 5 years	-	4.080.390.000 SDR
		1.768.060.000 SDR	4.080.390.000 SDR
TL	< 5 years	TL 10.399.063 Billion	TL 5.399.063 Billion
	> 5 years	TL 8.028.024 Billion	TL 12.624.096 Billion
		TL 18.427.087 Billion	TL 18.023.159 Billion

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

8. LOANS (NET)

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Domestic loans	309.978	7.463
Foreign loans	113.274	189.370
Overdue loans	<u>1.728.114</u>	<u>2.020.633</u>
	2.151366	2.217.466
Accrued interest	<u>68.853</u>	<u>2.812</u>
Total Loans	<u>2.220.219</u>	<u>2.220.278</u>
Less: Provisions	(1.728.114)	(2.020.633)
Total loans (net)	<u><u>492.105</u></u>	<u><u>199.645</u></u>

9. AVAILABLE FOR SALE INVESTMENTS

The Bank's participations are as follows as of 31 December 2004:

<u>Investee</u>	Ownership %	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
S.W.I.F.T	0,007	25	23
Bank for International Settlements-BASEL	1,5	20.879	23.641
		<u>20.904</u>	<u>23.664</u>

10. PREMISES AND EQUIPMENT (NET)

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Land	29.977	29.977
Buildings (net)	182.352	186.159
Immovables (net)	19.253	18.180
Premises and equipment (net)	<u>231.582</u>	<u>234.316</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

11. CURRENCY IN CIRCULATION

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Balance at 1 January	12.153.046	9.904.341
Inflation effect of carrying opening balances	(1.477.518)	(1.211.931)
Banknotes issued into circulation	72.103.042	67.896.918
Banknotes withdrawn from circulation and destroyed	(69.313.333)	(64.436.282)
Balance at 31 December	<u>13.465.237</u>	<u>12.153.046</u>

12. DUE TO BANKS & OTHER FINANCIAL INSTITUTIONS

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Compulsory reserve deposits from banks and private financial institutions	11.868.739	10.818.734
Current accounts of banks	8.129.271	5.557.880
Deposits of banks	3.493.900	8.909.649
Deposits of foreign banks	41.404	97.233
Other accounts	1.210	2.325
Accrued interest	220.614	300.206
	<u>23.755.138</u>	<u>25.686.027</u>

Compulsory reserve deposits 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.

13. DEPOSITS BY CITIZENS ABROAD

Deposits by citizens abroad consist of deposits by Turkish citizens living outside of Turkey.

The breakdown of the deposits by foreign currency type is as follows:

<u>Foreign Currency Type</u>	<u>Foreign Currency Balance</u>	31 December 2004 <u>TL Billion</u>
EUR	12.673.283,155	23.151.554
USD	1.257.974.992	1.688.328
CHF	104.075.430	122.871
Other		16.142
Accrued interest		1.918.326
		<u>26.897.221</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

13. DEPOSITS BY CITIZENS ABROAD (cont'd)

<u>Foreign Currency Type</u>	<u>Foreign Currency Balance</u>	31 December 2003 <u>TL Billion</u>
EUR	12.702.448.907	25.234.610
USD	1.313.465.074	2.087.125
CHF	117.576.531	149.476
Other		19.370
Accrued interest		2.316.515
		<u>29.807.096</u>

Maturities vary between one to three years. Interest rates for USD and EURO with one year and two years maturity are for one year USD deposits 1,5%, for two year USD deposits 2,3% and for one year EURO deposits 2,5%, for two year EURO deposits 2,8%. For deposit accounts having higher balances, interest rates become 3%, 3,75% and 4,5% for USD, 3,5%, 4% and 4,8% for EURO and maturities are one, two and three years, respectively.

14. LIABILITIES TO INTERNATIONAL MONETARY FUND

The bank is designated as "the depository institution" to regulate the relations of Turkey with the IMF.

Turkey has purchases from the General Resource Account of the IMF, based on Stand By Arrangements signed as of December 1999, 2000 and 2002. Stand-by arrangements support short-term balance of payments needs within a given period, such as one to two years. General Resource Account borrowings are determined by the IMF based on the quota of the debtor country. Turkey's quota is 964.000.000 SDR, last updated in 1999.

The borrowings from the International Monetary Fund (IMF) are denominated in Special Drawing Rights (SDR), an international reserve asset created by the IMF in 1969.

<u>Borrowings from general resources of IMF</u>	31 December 2004 <u>SDR</u>	31 December 2003 <u>SDR</u>
Stand-by arrangements	1.934.347.500	4.911.827.500
Supplementary reserve facility	-	-
Credit tranche	-	-
	<u>1.934.347.500</u>	<u>4.911.827.500</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

14. LIABILITIES TO INTERNATIONAL MONETARY FUND (cont'd)

According to IMF arrangements, the TL equivalent of the granted SDR amount is recorded in the balance sheet of the Bank as a liability. As of the year end, the TL liability is adjusted for SDR currency rate changes. The liability to IMF is TL 4.066.615 Billion including interest, commission and expense accrual amounting to TL 27.891 Billion as at 31 December 2004.

<u>Borrowings from SDR department</u>	31 December 2004	31 December 2003
	SDR	SDR
Net cumulative allocation	112.307.000	112.307.000
SDR holdings	(9.016.361)	(20.462.352)
	<u>103.290.639</u>	<u>91.844.648</u>

SDR allocation is an extension to each member from the SDR department. Each member has the right to use this asset with a charge but no obligation to pay it back. This amount has not been booked, whereas accrued charges are booked.

In the year 2001, 7.584.579.154 SDR of IMF borrowings were lent to the Treasury against securities issued by the Treasury with coupon payment dates, maturities and interest rates the same as the IMF charge payments. The payable is presented in the liability side of the balance sheet as "Liabilities to International Monetary Fund" while securities are followed in the "Trading Securities" in assets. The Treasury has made payment on Government Bonds of 3.232.054.154 SDR in 2002, 272.135.000 SDR in 2003 and 2.312.330.000 SDR in 2004. As of 31 December 2004, the balance on this account is 1.768.060.000 SDR.

13.358.398 SDR (TL 27.891 Billion) charge expense and 92.578 SDR (TL 193 Billion) remuneration income have been accrued as of 31 December 2004.

15. PROVISIONS

Retirement Pay Provision:

Lump sum payments are made to all employees who retire from the Bank or whose employment is terminated for reasons other than misconduct.

Under the definitions contained in International Financial Reporting Standard No 19, "Employee Benefits" the Turkish retirement pay system is an unfunded defined benefit scheme. Consequently IFRS 19 requires that a provision be built up for employees' accrued entitlement as calculated actuarially.

In the accompanying financial statements TL 52.307 Billion provision has been made on an estimated basis in compliance with International Financial Reporting Standard No 19.

Other Provisions

Other provisions also include the provisions provided for the transportation insurance of securities such as banknotes, foreign banknotes and gold at the amount of TL 33.954 Billion.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

16. SHARE CAPITAL

<u>Shareholders</u>	2004		2003	
	<u>TL Billion</u>	%	<u>TL Billion</u>	%
Turkish Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
Other	6	26	6	26
	<u>25</u>	<u>100</u>	<u>25</u>	<u>100</u>
Effect of inflation	46.209		46.209	
	<u>46.234</u>		<u>46.234</u>	

According to 5th article of the Central Bank Law, the capital of the bank is TL 25 Billion and is divided into 250,000 shares, with a value of TL 100.000 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.

According to the Bank Assembly Resolutions No. 8527/18126 and 8595/18194 dated 11 March 2004 and 9 December 2004 respectively, prior year losses have been net off from ordinary and extraordinary reserves in the balance sheet as of 31 December 2004 that has been inflationary adjusted in accordance with the Law No. 5024. The Bank's reserves per statutory financial statements after net off of loss from previous years as of 31 December 2004 is as follows:

	31 December 2004		
	<u>Before net off</u> <u>TL Billion</u>	<u>Amount net off</u> <u>TL Billion</u>	<u>After net off</u> <u>TL Billion</u>
Ordinary and extraordinary reserves	7.493.146	(6.216.943)	1.276.203
Special reserves	6.928	-	6.928
	<u>7.500.074</u>	<u>(6.216.943)</u>	<u>1.283.131</u>

17. GENERAL ADMINISTRATIVE EXPENSE

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Payroll expense	280.060	295.277
Doubtful receivable provisions	24.721	34.479
Banknote printing expense	31.522	53.938
Depreciation expense	12.695	11.745
Other	47.556	67.002
	<u>396.554</u>	<u>462.441</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

18. TAXATION

Corporate tax payable and tax provision as of balance sheet date are as follows:

a) Balance sheet:

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Corporate tax	-	-
Prepaid taxes	(196)	(15.687)
	<u>(196)</u>	<u>(15.687)</u>
Deferred tax asset	-	-
Deferred tax liability	-	-
	<u>-</u>	<u>-</u>

b) Income statement

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Corporate tax charge	-	-
Deferred tax charge (benefit)	-	-
	<u>-</u>	<u>-</u>

The Bank is subject to corporation and income withholding taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Bank's results for the period.

Corporation tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received, other exempt income and investment incentives utilized.

The effective tax rates are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% surcharge of funds contribution on corporate tax.
- In 2003: 30% (%10 ratio of the funds contribution was abolished for 2003).
- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004).
- 2005:%30

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

18. TAXATION (cont'd)

In Turkey, prepaid taxes are calculated and accrued on a quarterly basis. The prepaid corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, and to 33% for 2004.

Prepaid taxes for corporate tax will be calculated on 30% for year 2005.

Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

In Turkey there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns till April 15th of the following year. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax:

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Income withholding tax which was calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not, has been removed in general. However, 19,8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. The unused exemption due to insufficient profit is used by restating the exemption with wholesale price index for the future years.

Inflation Adjusted Tax Calculation:

For 2003 and previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2004 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29 "Financial Reporting in Hyperinflationary Economies".

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

18. TAXATION (cont'd)

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Provision is allocated for the deferred tax assets if the utilization is not probable.

The deferred taxes on major temporary differences as at the balance sheet are as follows:

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Fixed assets indexation	(9.107)	-
Retirement pay provision	(15.692)	(16.623)
Transfer of valuation account to income statement	(609.758)	(247.082)
Prior year losses	(589.950)	(508.149)
Effect of IFRS 39 adjustments	(8.501)	26.246
Deferred tax (assets) / liabilities	<u>(1.233.008)</u>	<u>(745.608)</u>
Provision related to deferred tax	(1.233.008)	(745.608)
Net deferred tax (assets) / liabilities	<u>-</u>	<u>-</u>

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

19. MATURITY ANALYSIS OF THE BALANCE SHEET

Maturities of assets and liabilities as at 31 December 2004:

	Demand TL Billion	Up To 1 Month TL Billion	From 1 Month To 3 Months TL Billion	From 3 Months To 1 Year TL Billion	1 Year and More Than 1 Year TL Billion	Total TL Billion
ASSETS						
Cash and amounts due from banks	1.026.886	0	0	0	0	1.026.886
Gold reserves	2.254.793	0	0	0	0	2.254.793
Placements with banks & financial institutions	0	3.859.725	0	0	0	3.859.725
Trading securities	0	4.959.997	8.277.457	21.373.590	33.034.876	67.645.920
Loans (net)	0	35.462	39.542	45.948	371.153	492.105
Available for sale investments	20.904	0	0	0	0	20.904
Premises & equipment	231.582	0	0	0	0	231.582
Sundry debtors & other assets	6.136	1.678	0	1.377	20.540	29.731
Total	3.540.301	8.856.862	8.316.999	21.420.915	33.426.569	75.561.646
LIABILITIES						
Currency in circulation	13.465.237	0	0	0	0	13.465.237
Liabilities to Turkish Treasury	6.531	49.428	0	0	0	55.959
Due to banks & other financial institutions	1.210	23.753.928	0	0	0	23.755.138
Deposits by citizens abroad	0	0	0	0	26.897.221	26.897.221
Deposits by public sector	6.100.260	0	0	0	0	6.100.260
Deposits by other institutions	927.568	0	0	0	0	927.568
Liabilities for securities sold under repurchase agreements	128.189	0	0	0	0	128.189
Liabilities to International Monetary Fund	0	248.367	1.160.098	2.658.150	0	4.066.615
Provisions	86.261	0	0	0	0	86.261
Sundry creditors & other liabilities	32.434	20.269	0	0	1.242.615	1.295.318
Share capital	46.234	0	0	0	0	46.234
Accumulated profit	0	0	0	0	(1.262.354)	(1.262.354)
Total	20.793.924	24.071.992	1.160.098	2.658.150	26.877.482	75.561.646

The maturities of certain asset and liability items are estimated.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

19. MATURITY ANALYSIS OF THE BALANCE SHEET (cont'd)

Maturities of assets and liabilities as at 31 December 2003:

	Demand TL Billion	Up To 1 Month TL Billion	From 1 Month To 3 Months TL Billion	From 3 Months To 1 Year TL Billion	1 Year and More Than 1 Year TL Billion	Total TL Billion
ASSETS						
Cash and amounts due from banks	1.862.426	0	0	0	0	1.862.426
Gold reserves	2.543.384	0	0	0	0	2.543.384
Placements with banks & financial institutions	0	3.150.121	0	0	0	3.150.121
Trading securities	0	7.387.836	12.115.411	26.563.511	36.047.876	82.114.634
Loans (net)	0	0	35.096	27.632	136.917	199.645
Available for sale investments	23.664	0	0	0	0	23.664
Premises & equipment	234.316	0	0	0	0	234.316
Sundry debtors & other assets	15.419	9.367	16.941	289	22.899	64.915
Total	4.679.209	10.547.324	12.167.448	26.591.432	36.207.692	90.193.105
LIABILITIES						
Currency in circulation	12.153.046	0	0	0	0	12.153.046
Liabilities to Turkish Treasury	7.365	60.692	0	0	64	68.121
Due to banks & other financial institutions	2.325	25.683.702	0	0	0	25.686.027
Deposits by citizens abroad	0	0	0	0	29.807.096	29.807.096
Deposits by public sector	6.298.780	0	0	0	0	6.298.780
Deposits by other institutions	2.267.457	0	0	0	0	2.267.457
Liabilities for securities sold under repurchase agreements	493.662	0	0	0	0	493.662
Liabilities to International Monetary Fund	0	0	0	0	11.672.621	11.672.621
Provisions	89.209	0	0	0	0	89.209
Sundry creditors & other liabilities	47.202	14.593	0	0	1.063.095	1.124.890
Share capital	46.234	0	0	0	0	46.234
Accumulated profit	0	0	0	0	485.962	485.962
Total	21.405.280	25.758.987	0	0	43.028.838	90.193.105

The maturities of certain asset and liability items are estimated.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

20. RELATED PARTY TRANSACTIONS AND BALANCES

The accompanying financial statements include the following related party transactions and balances:

<u>Turkish Treasury</u>	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
<u>Receivables</u>		
<u>Securities portfolio</u>		
Treasury Bills	19.448.889	21.776.823
Treasury Bills indexed to foreign currency	3.715.316	9.695.228
Gold reserve	6.531	7.367
	<u>23.170.736</u>	<u>31.479.418</u>
<u>Liabilities</u>		
Gold reserve	6.531	7.367
Taxes payable	43.770	58.134
Other payables	5.658	2.621
	<u>55.959</u>	<u>68.122</u>
Prepaid temporary tax	196	15.687
Deposits by Treasury (*)	4.288.094	4.334.261
<u>Income</u>		
Income from open market operations	455.782	838.894
<u>Expenses</u>		
Special transaction tax and training support share	94	57

(*) Followed in Deposit by public sector account in the balance sheet.

21. COMMITMENTS AND CONTINGENCIES

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Securities in custody	252.680.582	248.932.314
Securities held as collateral	7.921.684	5.363.397
	<u>26.602.266</u>	<u>254.295.711</u>

The foreign currency position of the Bank can be summarized as follows:

	2004 <u>TL Billion</u>	2003 <u>TL Billion</u>
Total foreign currency assets	55.829.191	68.166.781
Total foreign currency liabilities	(52.135.469)	(62.282.425)
Net foreign currency position	<u>3.693.722</u>	<u>5.884.356</u>

Amount of the legal cases pending against the Bank as of 31 December 2004 are TL 82.815 Billion, 7.187.446 USD and 685.473 EURO. The accompanying financial statements do not include any provisions provided for those cases.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

22. SUBSEQUENT EVENTS

New Turkish Lira

The effective date of the Law on the Currency Unit of the Republic of Turkey No. 5083 has been determined as 1 January 2005 and the new currency unit of the Republic of Turkey has been defined as “New Turkish Lira” (NTL) and the subunit as “New Kuruş” (NKr). According to the second article of the related law, Turkish Lira has been converted to New Turkish Lira and by dropping six zeros from Turkish Lira, a new value has been introduced as “1 million Turkish Lira is equal to 1 New Turkish Lira (1.000.000TL= 1 NTL) ”.