TÜRK EXIMBANK

EXPORT CREDIT BANK OF TURKEY

"Turkey has been the crossroad of foreign trade for so many centuries..."

Annual Report 2005

Contents

Cover: İstanbul Port, 1929

Mustafa Kemal Atatürk, the founder of the Republic of Turkey, in Ergani Copper Mine, 1937

Corporate Profile

Turkey's official export credit agency, Türk Eximbank, acts as the Turkish government's major export incentive vehicle in Turkey's sustainable export strategy.

Export Credit Bank of Turkey (Türk Eximbank), which was established in 1987, is the sole official export credit agency in Turkey. The Bank is a fully state-owned bank acting as the Turkish government's major export incentive vehicle in Turkey's sustainable export strategy. As Turkey's official export credit agency, Türk Eximbank has been mandated to support foreign trade and Turkish contractors/investors operating overseas.

Most developed countries have an export credit agency like Türk Eximbank to promote exports. Türk Eximbank is making rapid progress towards fulfilling its mission and taking its place amongst outstanding export credit agencies in the world. The Bank currently supports Turkish exporters, contractors and investors through various credit, guarantee and insurance programs similar to Western export credit agencies. However, it is different in that, it is one of the few export credit agencies in the world, which engages in direct lending activities as well as implementing insurance and guarantee schemes within the same institution.

Currently Türk Eximbank offers a total of 25 different programs, 18 of which are credit and 7 are insurance/guarantee programs. Türk Eximbank provides financial support for approximately 10-15% of total Turkish exports annually.

The Bank does not compete, but works closely with commercial banks, encouraging them to increase their support for the export sector. As well as providing direct lending, the Bank also provides insurance and guarantees to Turkish commercial banks to encourage them to finance export transactions backed by sales made on deferred payment terms. In this way, Türk Eximbank channels some portion of commercial banks' funds into export financing.

Türk Eximbank has introduced export credit insurance to Turkish exporters for the first time in 1989. Currently, Türk Eximbank provides cover for Turkish exporters, against commercial and political risks by offering a variety of insurance programs, for their exports to 176 countries.

Apart from its Head Office in Ankara, Türk Eximbank has two branches, one in İstanbul and the other in İzmir, and three liaison offices in Denizli, Kayseri and Gaziantep. Opened in 1994 and 1995 respectively, the İstanbul and İzmir branches aim at providing better service to the dynamic export sector and to carrying out the transactions of the Foreign Trade Companies Short-Term TL and Foreign Currency Export Credit Programs, Pre-Export TL and Foreign Currency Credit Programs and the International Transportation Marketing Credit Program. These branches also provide information to exporters regarding the Bank's other programs, find solutions to problems on the spot and convey their suggestions to the Headquarters.

Türk Eximbank has opened liaison offices in Kayseri and Denizli in 2004 and Gaziantep in 2005; three of the industrialized provinces with high export potential. These offices help exporters by giving information about Türk Eximbank's programs, and directing their credit applications.

Türk Eximbank is committed to confirming to the internationally accepted rules and regulations, such as the OECD Consensus and GATT/WTO. The Bank is also a full member of the Berne Union since April 1994 and represents Turkey at the Group on Export Credits and Credit Guarantees (a subsidiary body of the OECD Trade Committee). Türk Eximbank makes efforts to improve its international relations with export credit agencies and always seeks opportunities for co-operation to provide financing for projects undertaken with Turkish and foreign partners in third countries.

Turkish Grand National Assembly building in Ankara, 1924

Financial Highlights

YTL 2,892,562 thousand
Loans

YTL 1,961,751 thousand
Shareholders' Equity

YTL 327,744 thousand
Net Income

Major Balance Sheet Accounts (YTL thousand)	**2005**
Loans	2,892,562
Total Assets	3,422,588
Loans Borrowed	937,438
Shareholders' Equity	1,961,751
Total Paid-in Share Capital	1,470,382

Major Income Statement Accounts (YTL thousand)

Interest Income	380,056
Interest Income on Loans	274,897
Interest Expenses	(74,077)
Net Interest Income	305,979
Other Operating Income	136,789
Provisions for Loans and Other Claims	(84,597)
Other Operating Expenses	(87,081)
Net Income	327,744

Financial highlights for the 2003-2005 period are given on page 44.

The former building of
the Ministry of Commercial
Affairs in Ankara

Operational Highlights

USD 7,711 million
Total Credits/ Insurance/Guarantees (USD million)

YTL 4,743,877 thousand
Total Short-Term Credits (YTL thousand)

USD 4,173 million
Short-Term Export Credit Insurance (USD million)

Credit Activities	2005	2004
Short-Term Credit Activities (YTL thousand)		
Total Short-Term Credits	4,743,877	4,746,981
Short-Term TL Export Credits	3,063,957	2,648,426
Short-Term FX Export Credits	1,679,920	2,098,555
Medium and Long-Term Credit Activities (USD million)		
Medium and Long-Term Credits	8.0	41.2

Insurance Activities

Short-Term Export Credit Insurance (USD million)		
Total Covered Shipments	4,173	3,553
Total Buyer Limit Approvals	4,553	2,977
Claims Paid	6.6	3.5

İstanbul Branch of Türk Eximbank, the former Naile Sultan Mansion

Tuncer KAYALAR
Chairman

Türk Eximbank will support exporters by giving priority to medium and long-term financing needs of high-tech companies that export semi-capital and capital goods and that produce high value-added goods.

The Turkish economy has grown continuously during the 2002-2005 period, thanks to the policy mix, based on tight fiscal and monetary policies, and a flexible exchange-rate regime, pursued after the 2001 economic crisis. This policy mix also allowed inflation to fall sharply to its lowest level in 35 years. That is, consumer prices declined from 68.5% at the end of 2001 to 7.7% in 2005. Furthermore, interest rates decreased, public debt stock reduced, and fiscal discipline was achieved.

Exports, one of the main driving forces behind Turkey's economic growth, increased more than a 100% in the last three years. This growth rate was one of the highest achieved in the world. However, several setbacks hindered the growth of the export sector in 2005. The growth of the world trade volume slowed; imports of the EU-15, the biggest export market of Turkey, decreased; exports of iron and steel declined in line with unfavorable world market conditions; and competition in textiles and ready-to-wear sector, which accounts for more than a quarter of Turkey's exports, intensified as trade quotas were eliminated. Thus, Turkey's export growth rate, which was 30% both in 2003 and 2004, declined to 16% in 2005 and Turkey's exports reached USD 73 billion as of end-2005.

As exports grow, Turkey faces the challenge of accomplishing structural changes necessary for sustainable growth. The share of high-tech, capital-intensive and high value-added products in Turkey's total exports continues to increase. The traditional and labor-intensive export sectors, such as agriculture and textiles and ready-to-wear, are superseded by automotive, electronics, machinery and chemical sectors that have a high content of imported intermediary goods. Hence, measures to boost the real economy and thus establish a healthy investment-production-export chain will encourage exporters to shift to such sectors.

In addition, providing financial support to exporters has become vital for a sustainable export growth. Türk Eximbank, as the sole official export credit agency in Turkey, largely meets this need. The Bank is in the vanguard of Turkey's trade promotion efforts and supports exporters, overseas investors and contractors, international transportation companies and tourism agencies with a wide range of programs including export credits, export credit insurance and guarantees. Türk Eximbank's total financial support to the export sector in terms of lending and provision of insurance and guarantee coverage reached USD 7.7 billion in 2005. During the year, parallel to the decline in inflation and market rates, the Bank continued to decrease its interest rates, thus more favorable financing facilities were provided to exporters. Furthermore, maturities of loans were extended to 18 months; therefore different maturities are offered in order to meet the needs of different clientele.

Apart from exports, another significant source of foreign exchange is the earnings of the Turkish contractors operating abroad. Turkish contractors have successfully completed almost 3000 projects in 63 countries in the last three decades by using the most advanced technologies and their overseas business volume reached around USD 70 billion. Turkish contractors are mostly undertaking major infrastructure and building projects. Their fields of experience cover a large variety of projects, including motorways, tunnels, bridges, dams, ports, airports, refineries, pipelines and all kinds of prestige buildings. Although the 2001 crisis has adversely affected the overseas contracting sector and overseas business volume receded below USD 1 billion, business began to recover starting from 2004 and reached USD 9.3 billion in 2005. The overseas contracting sector's 2006 target is USD 12 billion. Türk Eximbank, in line with its mission, always supports Turkish contractors' overseas business with its Buyers' Credit and Guarantee Programs. Projects are financed through credit and/or guarantee mechanisms under these Programs. Furthermore, preparations on implementing a new program, namely the Political Risk Insurance Program for Overseas Contracting Services, aiming to provide insurance support to Turkish contractors operating in countries with high political risk, will continue in 2006.

It can be said that the main factor behind the business volume accomplished today by Turkish exporters and overseas contractors is the harmonized efforts of exporters, contractors and related government institutions. The ground for these efforts is the "Strategic Plan for Exports", a road map to all the parties involved in exports. The Plan delineates a vision for the future, classifies the structural problems of Turkish exports and identifies the long-term solutions to these problems with the aim of building up an export structure conducive towards sustainable export increase. Türk Eximbank has taken an active role in this Plan and works in cooperation with all export related institutions to generate long-term solutions for export growth.

Turkey targets export volumes of USD 79 billion in 2006, USD 100 billion in 2010 and USD 500 billion in 2023. These targets can be achieved through sustained export growth, which in turn can be accomplished by diversifying export products and markets. As it is known, 60% of Turkey's exports are directed to EU countries. In an increasingly competitive environment, it is very important for Turkey to maintain this share however; to ensure export growth exporters should also seek market diversification. For this purpose, the strategy of increasing trade relations with neighboring and peripheral countries started to be implemented by the Undersecretariat of Foreign Trade in 2000 and extended to African countries in 2003, Asia-Pacific countries in 2005, and Latin and North American countries in 2006. In the context of these strategies, Türk Eximbank gives importance to market and product diversification thus, tries to enlarge the instruments of trade and project finance in order to meet the new challenges of an increasingly integrated world economy. To this end, Türk Eximbank has introduced a wide range of innovative measures and facilities to improve its services, and implements new programs when necessary.

The world economic outlook for 2006 is more favorable, and the growth rate is expected to exceed the previous estimate of 4.3%. However, high oil prices, increasing global imbalances and rising protectionism are threats to world economic growth. Turkish exporters on one hand will try to cope with these global uncertainties and on the other hand will work hard to compete and survive in a fiercely competitive market, where competition is escalated by China and India. Therefore, Turkish exporters will have to produce high value-added products, establish Turkish brand names and set up flexible production mechanisms in the forthcoming period, in order to meet the changing market trends and to climb to upper levels in the international trade league.

Türk Eximbank will support exporters in this process by giving priority to medium and long-term financing needs of high-tech companies that export semi-capital and capital goods and that produce high value-added goods. Furthermore, the Bank will continue to provide programs that best suit the needs of exporters for the establishment of the "Turquality" concept, which aims to upgrade the international image of Turkish-made products, in international markets.

Turkey's path to becoming one of the developed nations relies on export-led growth. Thus, in the forthcoming period, Turkey shall get a higher share from global trade through the collaboration of all related parties of the export sector. Türk Eximbank will continue to support Turkish exporters and overseas contractors and targets to provide a total of USD 8.6 billion in the form of export credits, insurance and guarantees in 2006. Furthermore, a more stable economic environment will enable Türk Eximbank to shift to medium and long-term programs in the coming years, and meet the medium and long-term financing needs of the exporters.

Tuncer KAYALAR
Chairman

Board of Directors and Audit Committee


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Supreme Economic Assembly Meeting with the participation of the Prime Minister, Ministers and bureaucrats in the 1930s

1- TUNCER KAYALAR
Chairman
Born in 1952 in Ankara. Mr. Kayalar is a graduate of Ankara Academy of Economic and Commercial Sciences. For many years he held positions in the Undersecretariat of Foreign Trade, such as Assistant Counselor of Trade in the Turkish Embassy in Moscow and Counselor of Economy and Trade in the Consulate General in New York. He is currently the Undersecretary of Foreign Trade and has been serving as Chairman of the Board of Directors in Türk Eximbank since December 25, 2002.

2- H. AHMET KILIÇOĞLU
Vice Chairman / Chief Executive Officer
Born in 1956 in Tirebolu. Mr. Kılıçoğlu holds a BA in Economics and an MA in Economics and International Trade from the University of Essex, England. He joined the Bank in 1987 and has worked as a Specialist, Manager, Head of the Export Credit Insurance Division and Assistant General Manager in charge of insurance and guarantee programs. Mr. Kılıçoğlu has been the Chief Executive Officer of Türk Eximbank since February 1998 and Vice Chairman of the Board of Directors since December 2002.

He was appointed as the President of the Berne Union (International Union of Credit and Investment Insurers) in 2000-2001. Mr. Kılıçoğlu is currently a member of the Berne Union "Guiding Principles Working Group" and Advisory Committee member of the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC), an affiliate of the Islamic Development Bank.

3- CAVİT DAĞDAŞ
Member of the Board
Born in 1955 in Siirt. Mr. Dağdaş holds a BS in Mathematics, Boğaziçi University, an MSc in Statistics, Gazi University and an MA in Economics, Michigan University, USA. For many years he held positions in the public sector including those of an Acting General Manager to the State Planning Organization and Counselor at the Central Bank of the Republic of Turkey. Mr. Dağdaş is currently the Deputy Undersecretary of Treasury and has been a member of the Board of Directors in Türk Eximbank since January 2005.

4- M. NURHAN GÜVEN
Member of the Board
Born in 1946 in Adana. Mr. Güven is a graduate in Law, University of Ankara. He has been a lawyer and legal consultant since 1977. From 1992 to 1997, he has served as a member of the Audit Committee of Türk Eximbank. Mr. Güven has been a member of the Board of Directors of Türk Eximbank since February 1999. He is currently the Chairman of the Executive Risk Committee and the Board Member responsible for Internal Control, Audit and Risk Management System.

5- OĞUZ SATICI
Member of the Board
Born in 1965 in İstanbul. Mr. Satıcı holds a BS in Management, Washington Int. University. He has been a Board Member of the Economic Development Foundation (İKV), the Export Promotion Center, the İstanbul Chamber of Commerce and various Exporters' Associations. He is currently the President of the Turkish Exporters' Assembly (TİM) and Chairman of the Board of Directors of two private companies. Mr. Satıcı has been a member of the Board of Directors of Türk Eximbank since March 2002.

6- MEHMET BÜYÜKEKŞİ
Member of the Board
Born in 1961 in Gaziantep. Mr. Büyükekşi graduated from the Faculty of Architecture, Yıldız Technical University. He is currently the Vice President of the Turkish Exporters' Assembly (TİM), a Board Member in the İstanbul Chamber of Industry and the Turkish Airlines, and has been a member of the Board of Directors in Türk Eximbank since October 2002.

7- ADNAN ERSOY ULUBAŞ
Member of the Board
Born in 1966 in Afyon. Mr. Ulubaş graduated from the Faculty of Economics, Anadolu University. He is the founder, Board Member and Chairman of several private companies. He is currently a Member of Assembly of the Kayseri Chamber of Industry, the Vice President of the Turkish Exporters' Assembly (TİM) and Chairman of the Board of Directors of the Ferrous and Non-Ferrous Metals Exporters' Association under the Mediterranean Exporters Union. Mr. Ulubaş has been a member of the Board of Directors in Türk Eximbank since February 2003.

8- GÜNER GÜCÜK
Member of the Audit Committee
Born in 1947 in Çorum. Mr. Gücük holds a BS in Management and an MSc in City and Regional Planning from the Middle East Technical University. He started his career at the General Directorate of Highways and worked in various public organizations and private sector companies as manager. He gives management consultancy services to many domestic and foreign firms, public and private sector industrial and commercial institutions and banks. Mr. Gücük has been a member of the Audit Committee in Türk Eximbank since August 1997.

9- PROF. DR. ARİF ESİN
Member of the Audit Committee
Born in 1956 in İstanbul. Prof. Dr. Esin graduated from the Faculty of Law and Political Sciences at the Paris University and received his masters and Ph.D. degree on EU Economic Law from the same university. He gave lectures on EU Law and Turkish Competition Law at the İstanbul University and was a lecturer at various European universities. He specializes in areas such as law, state aid, anti-trust, public procurement and privatization and has provided consultancy to the Economic Development Foundation (İKV). He has represented the private sector in the Customs Union negotiations and has worked on the preparation of Turkish Competition Law and Anti-trust Legislation. He has advised the Turkish Competition Authority during its establishment stage. Mr. Esin has been a member of the Audit Committee in Türk Eximbank since October 2002.

Chief Executive Officer's Message

H. Ahmet KILIÇOĞLU
Chief Executive Officer
Vice Chairman

Türk Eximbank provided USD 7.7 billion support to the export sector in 2005. USD 3.5 billion of this amount was in the form of export credits and USD 4.2 billion in export credit insurance/guarantees. In 2006, we are planning to increase our support to USD 8.6 billion.

In the year 2005, great success was achieved, in general, in attaining macroeconomic targets. It was the fourth successive year in which high growth rates were realized as a result of the structural reform program launched after the 2001 economic crisis, whereas inflation and budget deficit improved considerably.

Another important milestone of the year was the official opening of the EU accession negotiations on October 3, 2005. In line with the improvement in fiscal performance, easing in inflation and the government's commitment to continue the reforms required by the EU, investor confidence was triggered and foreign direct investment inflows reached record levels. IMF's release of two credit tranches worth a total of USD 1.6 billion in early December 2005, Moody's upgrade of Turkey's rating and Fitch's changing of Turkey's outlook to positive were also good signs for the prospects of the Turkish economy.

Exports have been growing impressively, reflecting factors such as the stable domestic environment, high productivity gains, and strong demand from export markets outside Western Europe together with the extraordinary efforts of exporters. As a result, exports exceeded the program target and reached USD 73.1 billion, despite increased competition in the international arena and the continued real appreciation of the Turkish Lira. The monthly average exports reached USD 6.1 billion in 2005, compared to USD 5.3 billion in the previous year. Turkey was ranked as the 22nd largest exporting country in 2005.

The strong Lira was one of the major setbacks for Turkish exporters throughout 2005. Therefore, providing financial support to exporters with optimum conditions has become vital. By providing a total of USD 7.7 billion to the export sector; of which USD 3.5 billion was in the form of export credits and USD 4.2 billion in export credit insurance/guarantees, Türk Eximbank, as the main export credit agency in Turkey, increased its support to the export sector by 11% in 2005. The Bank's total support in terms of financing and pure cover accounted for 11% of Turkey's exports for the year 2005. On the other hand, in the past three years, our total support reached USD 21 billion.

Regarding the significance of SMEs in the Turkish economy, these firms were given priority in their credit applications to enable them to export their goods. In this framework, we extended 33% (USD 1.2 billion) of our total short-term credits to SMEs. When compared to the average of 5% of the total credits extended to SMEs by the whole Turkish banking sector, the magnitude of support given by Türk Eximbank can be seen clearly.

On the other hand, the demand for our export credit insurance programs, which enables exporters to operate in a risk-free environment, is very strong, reflecting the increase in exports in recent years. USD 4.2 billion worth of shipments was insured in 2005, indicating a 17% increase over the previous year. The insurance volume exceeded the credit volume for the first time owing partly to the improvements in the financial markets. With our insurance programs that provide cover for political and commercial risks, insured exporters are able to access new markets and sustain their shares in traditional markets.

Türk Eximbank directs almost all of its resources to the financing of exporters, to provide continuous support to them. As such, sustaining a sound financial structure is vital for the Bank to borrow regularly from international markets. Türk Eximbank provides 19% of the export credits extended by the whole Turkish banking sector and has the highest loans-to-assets ratio of 84.5%. The Bank can borrow from the international financial markets with favorable rates reflecting its sound financial structure. Also, its long-term foreign currency ratings, which are the same as the Turkish Treasury, enable it to considerably increase the funds available to exporters. Recently, the Bank raised a USD 300 million syndicated loan with one-year maturity from an international consortium consisting of 50 banks from various countries. This indicates the trust given to Türk Eximbank's strong financial position.

I would like to express that, although profit making is not the first aim of our Bank, while expanding the business volume we try to sustain a sound financial structure. As a result of this, we generated a profit in the last three consecutive years. The Bank's 2005 inflation adjusted profit was YTL 328 million.

Expectations for 2006

I am hoping for a much better economic environment in 2006. The high rate of capital investments in foreign direct investments is likely to increase the production capacity in the short-term. Also, in 2006, the main challenge is to implement policies that achieve the goals of sustained growth, low inflation and a manageable current account deficit. If tight monetary policy is implemented successfully, the decline in inflation will be reflected in the interest rates, which in turn will cause a reduction in the funding costs of exporters and thereby increases the international competitiveness of exporters by partly offsetting the negative impacts of the strong Lira. Taking into account these factors, we expect exports to exceed USD 80 billion, above the 2006 target of USD 79 billion.

However, there are certain risks for 2006. The uncertainty over oil prices and the possibility of tighter global liquidity, leading to pressure on the Lira, are the major concerns. Although market confidence is increased due to capital inflows and economic stability, particularly in the light of the EU decision to start accession talks with Turkey, the problems to be encountered in the negotiations may cause fluctuations in the markets. Another risk lies with US interest rates. If the rates in the US are increased rapidly, this will have a negative impact on the capital inflows to emerging economies.

In this economic outlook, Türk Eximbank's support to exports and foreign currency generating services will become even more important for Turkey to take its place among the main exporting countries in the world. In 2006, we are planning to increase our support to the export sector to USD 8.6 billion, of which USD 4 billion will be in the form of export credits and USD 4.6 billion in export credit insurance and guarantees.

With a growing and robust Turkish banking sector and the ability of exporters to obtain funds from international markets more easily, Türk Eximbank has more scope for sustained cooperation and development and implementation of medium and long-term programs to aid the export sector. In this framework, our strategy is to place more emphasis on guarantee and insurance programs and medium and long-term trade and project finance.

However, it should be noted that, although Türk Eximbank is moving towards increased provision of insurance and guarantee facilities instead of direct credit extension where possible, given the continuing evolution of the Turkish economy and the banking sector, short-term export credit operations will continue to be a significant portion of the Bank's operations. At the tiller of Turkey's export drive, we are determined to channel our 18 years of experience to exporters and promote Turkey's exports by performing an overhaul of the existing programs and implementing updated facilities in compliance with the end users' genuine requirements.

H. Ahmet KILIÇOĞLU
Chief Executive Officer
Vice Chairman

Senior Management

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Uşak Sugar Factory

1- OSMAN ASLAN

Assistant General Manager in charge of Export Credits

Born in 1954 in Antalya. Mr. Aslan holds a degree in Economics and Statistics from the Middle East Technical University and an MA in Financial Economics and Banking from the University of Wales, England. From 1978 to 1984, Mr. Aslan was an Economist at the Central Bank of the Republic of Turkey and from 1984 to 1988 he was Economic Advisor to the Deputy Prime Minister. He joined Türk Eximbank in August 1988 and is currently the Assistant General Manager in charge of Export Credits.

2- ALEV ARKAN

Assistant General Manager in charge of Buyers' Credits and Export Credit Insurance/Guarantees

Born in 1952 in Trabzon. Ms. Arkan is a graduate in Law, University of Ankara. Following the completion of her lawyers practice program, she started her professional career in the Ministry of Energy and Natural Resources and worked as a lawyer in the Social Security Institution (SSK). She joined the State Investment Bank in 1987 and took part in its transformation to Türk Eximbank. Ms. Arkan worked in various positions in Türk Eximbank and has served as the Assistant General Manager in charge of Buyers' Credits and Export Credit Insurance/Guarantees since March 1998. She is presently the Vice Chairman of the Berne Union Short-Term Export Credit Insurance Committee.

3- ERTAN TANRIYAKUL

Assistant General Manager in charge of Treasury and Funding

Born in 1962 in İstanbul. Mr. Tanrıyakul holds a degree in Economics from the Middle East Technical University. He started his professional career in the Project Evaluation Department of the State Investment Bank as an Assistant Specialist and worked in various posts in different departments after the transformation of the Bank to Türk Eximbank. Mr. Tanrıyakul has served as the Assistant General Manager in charge of Treasury and Funding since March 1998.

4- NECATİ YENİARAS

Assistant General Manager in charge of Accounting, IT, Research and Coordination

Born in 1962 in Kars. Mr. Yeniaras holds a BA in Foreign Trade and International Operations and an MA in Economics from the Gazi University. He started his professional career in the accounting department of a private company. He served in different posts in the Development Bank of Turkey. He was an Economic Advisor to the State Minister in charge of Economy and in the Turkish Iron and Steel Works. Mr. Yeniaras has served as the Assistant General Manager in charge of Accounting, IT, Research and Coordination in Türk Eximbank since October 1997.

History

T.C.

Resmî Gazete

Kuruluş Tarihi : (7 Teşrinievvel 1336) — 7 Ekim 1920

Yönetim ve yazı işleri için Başbakanlık Mevzuatı Geliştirme ve Yayın Genel Müdürlüğüne başvurulur.	21 Ağustos 1987 CUMA	Sayı : 19551

YÜRÜTME VE İDARE BÖLÜMÜ

Bakanlar Kurulu Kararları

Karar Sayısı : 87/11914

Devlet Yatırım Bankası'nın "Türkiye İhracat Kredi Bankası A.Ş." adıyla yeniden düzenlenmesine dair ekli "Esaslar"ın yürürlüğe konulması; Devlet Bakanı ve Başbakan Yardımcılığı'nın 4/6/1987 tarihli ve 52311 sayılı yazısı üzerine, 25/3/1987 tarihli ve 3332 sayılı Kanunun 2 nci maddesine göre, Bakanlar Kurulu'nca 17/6/1987 tarihinde kararlaştırılmıştır.

Kenan EVREN
Cumhurbaşkanı

T. ÖZAL
Başbakan

Council of Ministers' Decree for establishing Türk Eximbank, published in the Official Gazette

Türk Eximbank was established in 1987 as the sole official export credit agency in Turkey.

In the early 1980s, the composition of Turkish exports shifted from predominantly agricultural goods to industrial goods. This created increased financing needs for exporters, which in turn resulted in increased pressure on commercial banks in Turkey. For these reasons, the decision was taken to establish an official export credit agency, in accordance with general practices in most of the developed world. As a result, Türk Eximbank was established in 1987 as the sole official export credit agency in Turkey.

Türk Eximbank was chartered by the Cabinet on August 21, 1987 by Decree no. 87/11914, following the order of Law No. 3332 (March 1987) by maintaining the juridical and legal personality of the State Investment Bank. In effect, according to the charter, Türk Eximbank took over the set up, legal entity, capital and assets of the State Investment Bank, but at the same time was transformed into a joint stock company subject to the provisions of Private Law. The Articles of Association were proclaimed in Trade Register Newspaper on August 11, 1987.

The Bank's main objectives are;

- increasing the volume of Turkish exports,
- diversification of export goods and services,
- developing new export markets,
- increasing the share of Turkish exporters in international trade,
- providing support and risk free environment for Turkish exporters, investors and overseas contractors.

As a means of aiding export development, Türk Eximbank offers specialized financial services to exporters, export-oriented manufacturers and overseas investors and contractors through a variety of short, medium and long-term cash and non-cash credit, insurance and guarantee programs.

Türk Eximbank has a crucial and expanding role in the implementation of export-led growth strategy, which was adopted by the State and successive governments since 1980, and its operations reflect Turkish government policies. The strategy of Türk Eximbank is set in its annual programs and is formulated in accordance with current Turkish economic policies.

Losses incurred by Türk Eximbank in its credit, insurance and guarantee transactions as a result of political risks are covered by the Turkish Treasury.

Türk Eximbank has played a crucial role in securing the stable export growth experienced in late 1980s following Turkey's agreement to eliminate export subsidies in accordance with GATT/WTO provisions and the subsequent elimination of all direct incentives to exports. After the establishment of a Customs Union between Turkey and the EU in 1996, Turkey made arrangements to harmonize its legislation with that of the EU in related fields, including officially supported export credits with 2 years and more (93/112/EEC). Among Türk Eximbank's programs, buyers' credit, guarantee and insurance programs are subject to this legislation.

With the actual start-up of the membership negotiations with the EU on October 3, 2005, Türk Eximbank has also taken an active role in the screening stage and has been reviewing its activities according to the legislation of state aid under Chapter 8: “Competition Policy” of the Acquis.

Türk Eximbank regularly presents its annual programs to the **Supreme Advisory and Credit Guidance Committee** chaired by the State Minister in charge of the Bank's activities. The Committee approves Türk Eximbank's annual programs, including country limit ceilings for the credit, insurance and guarantee programs as well as Türk Eximbank's general strategy, targeted annual volumes and key objectives of Türk Eximbank's short and medium-term credit programs for the year. The Committee meets at least once a year and the Board of Directors of Türk Eximbank is obliged to observe the limits it has set. The Committee includes as members:

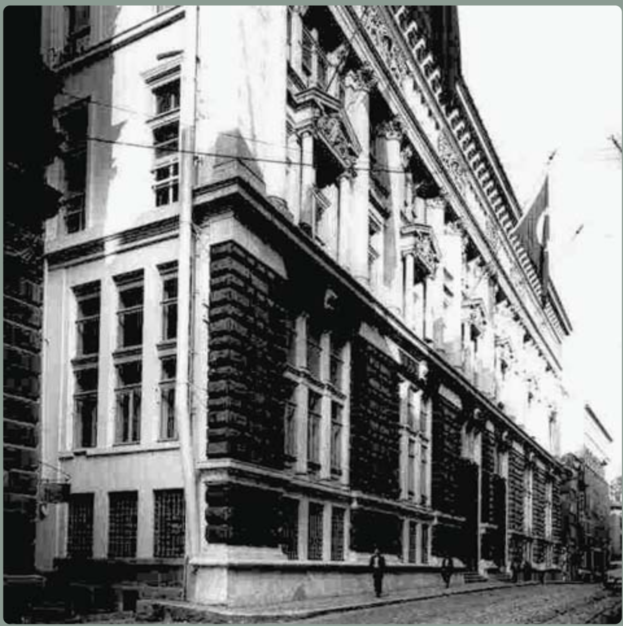
- Undersecretary of the State Planning Organization,
- Undersecretary of Treasury,
- Undersecretary of Foreign Trade,
- Undersecretary of the Ministry of Finance,
- Undersecretary of the Ministry of Industry and Commerce,
- Governor of the Central Bank of the Republic of Turkey,
- The Chairman and Deputy Chairman of the Board of Directors and Chief Executive Officer of Türk Eximbank.

Structure of the Bank's Capital

Türk Eximbank's shares are composed of two groups as (A) and (B). (A) group shares, representing not less than 51% of the capital, are held by the Turkish Treasury. (B) group shares, representing 49% of the capital, may be transferred by the Turkish Treasury to public and private banks, similar financial institutions and insurance companies and other real and legal entities.

Currently the Turkish Treasury holds 100% of the Bank's shares.

Türk Eximbank's Position within the Turkish Banking Sector



Ottoman Bank in Karaköy, 1950
(The Ottoman Bank was given the privileges of a central bank till the early 1930s)

The more developed and stable the banking system, the more scope Türk Eximbank has to expand the size and scope of its current product base with the aid of commercial banks' involvement, thereby providing further impetus to the expansion of Turkey's export market.

As the sole officially supported export credit agency in Turkey, Türk Eximbank aims to increase the competitiveness of Turkish exporters and contractors working abroad and to create opportunities for them in new markets. Since its establishment, Türk Eximbank has supported Turkish exports through various export credit, guarantee and insurance programs.

Türk Eximbank, besides its Law of Establishment (Law No. 3332), also operates in line with the Banking Law No.5411. According to the Banking Law, Türk Eximbank is classified under the “development and investment banking group” and represents this group in the Turkish Banking Associations Board. The Bank also conforms to internationally accepted rules and regulations set by the World Trade Organization and the OECD. Furthermore, after the establishment of a customs union between Turkey and the EU in 1996, Turkey made the necessary arrangements to harmonize its legislation with that of the EU in related fields, including officially supported export credits. Türk Eximbank is a full member of the Berne Union and represents Turkey at the Group on Export Credits and Credit Guarantees (a subsidiary body of the OECD Trade Committee). In this respect, the Bank differs from commercial and other development and investment banks in the sector.

Turkish banks and banking system are small compared with the international counterparts in terms of asset and capital sizes. This can be seen in the assets-to-GDP and loans-to-GDP ratios, which are under the EU averages. Although this shows that there is a potential for the sector to grow, it also reveals that the banking sector is insufficient in channeling funds to the real sector.

The recent recovery in the economic performance has had a positive effect on the financial sector's intermediation role. As a result, loans-to-assets ratio of the banking sector has increased to 38%, as of end-2005. On the other hand, Türk Eximbank allocates almost all of its funds to export finance and with a loans-to-assets ratio of 84.5%, the Bank holds the first place in the banking sector. Furthermore, Türk Eximbank provides 19% of the banking sector's export loans on its own. The share of net non-performing loans in total loans is 1.7% in Türk Eximbank, well below the 5.7% of the banking sector's average.

Although Türk Eximbank is not a profit-oriented institution, it has always operated profitably, as this is important to sustain its sound financial structure. Therefore, Türk Eximbank generated a net profit of YTL 328 million in 2005.

The structure, size and development of the Turkish banking system have important implications for the operations and future growth of Türk Eximbank. The more developed and stable the banking system, the more scope Türk Eximbank has to expand the size and scope of its current product base with the aid of commercial banks' involvement, thereby providing further impetus to the expansion of Turkey's export market.

The Central Bank of the Republic of Turkey, 1930

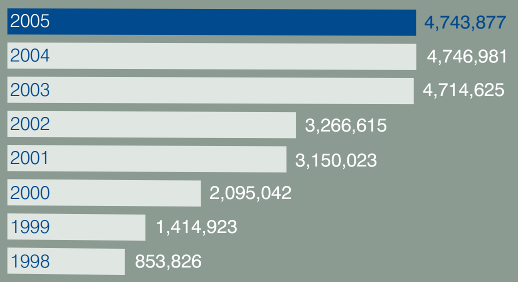
Türk Eximbank in 2005

Giresun Port, 1942

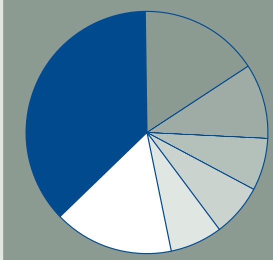
Türk Eximbank supports exporters, export-oriented manufacturers, overseas contractors and investors with short, medium and long-term credit, insurance and guarantee programs.

Credits

YTL 4,743,877 thousand
Short-Term Credits (YTL thousand)



Sectoral Distribution of Short-Term Credits



General Overview

Türk Eximbank supports exporters, export-oriented manufacturers, overseas investors and companies engaged in foreign currency earning services with short, medium and long-term cash and non-cash credit programs. Moreover, export receivables are discounted in order to increase the export volume and to ease access into new and target markets through the promotion of sales on deferred payment conditions.

The total amount of short-term Turkish Lira (TL) and foreign currency credits provided by Türk Eximbank has reached YTL 4,744 million (USD 3.5 billion) in 2005, showing a 6% increase on US dollar basis over the previous year.

In 2005, Türk Eximbank has financially supported 4.8% of Turkey's exports by its short-term credits.

65% of total credits was provided in TL and 35% in foreign currency.

60% of total credits was disbursed via intermediary commercial banks.

In 2005, 2,478 companies benefited from Türk Eximbank's short-term credits.

Companies in priority development regions and small and medium scale enterprises (SMEs) have been given priority in all credit applications. As a result of this policy, SMEs have attained a 33% share in short-term export credits and the amount of credits provided to SMEs reached YTL 1,573 million (USD 1.2 billion). Additionally, 69% of the total companies that benefited from Türk Eximbank's short-term credit programs were SMEs. The support directed to encourage the Sectoral Foreign Trade Companies model, formed by SMEs has continued within the framework of various credit programs.

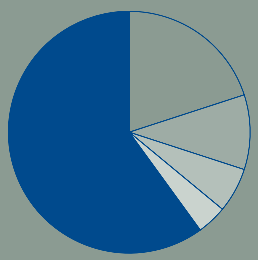
Textiles/ready-to-wear/leather industries had the largest share in the sectoral distribution of short-term credits with 37% in 2005.

European Union countries were foremost in the regional distribution of the credits with a share of 60% in 2005.

Türk Eximbank has continued to provide a reduction on current interest rates charged for short-term export credits extended to short-term export credit insurance policyholders. This reduction, which was 2 points until June 2005, is now 1 point for short-term export credits in TL and which was 0.5 points until September 2005, is now 0.25 points for the short-term export credits in foreign currency.

Goods and Tariff Classification, 1946

Regional Distribution of Short-Term Credits



New Arrangements and Amendments

In 2005, several arrangements have been made in relation to the short-term export credit implementations in order to meet the demands of exporters on the basis of economic and political developments in the world and Turkey.

The positive improvements in foreign borrowing opportunities and borrowing rates brought on by the progress of the Turkish economy has allowed Türk Eximbank to provide financing to exporters on better terms and conditions. In this framework, interest rates charged for short-term export credits have gradually been reduced during 2005 considering the diminishing funding costs and market interest rates. Hence, up to a 7-point decrease has been made in the short-term TL export credits and the interest rates ranged between 9% and 13%. Likewise, interest rates charged for short-term foreign currency export credits have been reduced by up to 2.25 points and ranged between Libor+0.25 - Libor+1.50.

In September 2005, maximum maturities of short-term export credits were extended to 540 days from 360 days. In order to meet the differing needs of exporters, an option of a repayment period of 120 days was also introduced during the year.

Short-Term Export Credits

Türk Eximbank extends short-term export credits to exporters and export-oriented manufacturers to meet their financing needs especially at the pre-shipment stage. These credits are extended in Turkish Lira or in foreign currency either directly by Türk Eximbank or via intermediation of selected Turkish commercial banks.

1. Credits Extended via Commercial Banks

The *Pre-Shipment Export Credits* are short-term credit facilities covering all sectors and providing financial support to exporters starting from the early stages of production. Credits are extended either in TL for a maximum of 360 days or in foreign currency with a maturity of 540 days under this program.

Through the *Pre-Shipment Turkish Lira Export Credits (PSEC-TL)*, YTL 1,779 million (USD 1,326 million) worth of credits was disbursed in 2005. This indicates a 14% increase on US dollar basis over the previous year.

Under the *PSEC-Priority Development Areas Export Credit Program,* which is a sub-program of the PSEC-TL program and is extended to companies located in the 51 provinces

Galata Port in İstanbul, 1920

regarded as priority development areas, YTL 165.3 million (USD 123.1 million) was disbursed in 2005. The reduction applied on interest rates for the credit demands up to USD 500,000 has also continued throughout 2005.

Under the *Pre-Shipment Foreign Currency Export Credit Program,* USD 799.4 million (YTL 1,076 million) was disbursed in 2005.

Intermediary banks are obliged to extend at least 30% of their limits allocated by Türk Eximbank, to SMEs. Within this framework, YTL 1,430 million (USD 1,065 million) was disbursed to SMEs through the Pre-Shipment Export Credits in 2005.

2. Credits Extended Directly by Türk Eximbank

Within the *Foreign Trade Companies Short-Term Export Credits Program,* credits are extended to foreign trade corporate companies and sectoral foreign trade companies that are granted these titles by the Undersecretariat of Foreign Trade. Under this program, a total of YTL 1,315.5 million (USD 976.1 million) was disbursed in 2005, of which, YTL 988.4 million (USD 733.1 million) was disbursed in "TL" and USD 243 million (YTL 327.1 million) in "foreign currency".

Under the *Pre-Export Foreign Currency Credit Program,* USD 155.2 million (YTL 208.5 million), and under the *Pre-Export Turkish Lira Credit Program*, YTL 285.2 million (USD 212.5 million) was disbursed in 2005.

Under the *Pre-Export Credit Program for SMEs,* YTL 14.7 million (USD 11 million) was disbursed, of which, YTL 7.5 million (USD 5.6 million) was disbursed under the *Pre-Export Turkish Lira Credit for SMEs* and USD 5.4 million (YTL 7.2 million) was disbursed under the *Pre-Export Foreign Currency Credit for SMEs*.

3. Credits funded by the Central Bank of Turkey

The *Short-Term Export Credit Discount Program*, is a post-shipment finance facility, aiming at increasing the competitiveness of Turkish exporters in international markets by enabling them to sell Turkish goods on deferred payment terms and eliminating overseas risks thereby encouraging them to enter into new and target markets.

The *Short-Term Pre-Shipment Rediscount Program*, which requires an export commitment, aims at providing support to exporters with maturity up to 360 days, in the pre-shipment stage.

Under these two programs, USD 30.8 million was disbursed in 2005, of which, USD 13 million was in the form of pre-shipment and USD 17.8 million in post-shipment finance.

A textile plant

Türk Eximbank helps establish and promote Turkish brands in overseas markets.

Medium-Term Export Credits (Project Credits)

Medium-term export credits are specific credit programs, available for export transactions that cannot be covered under the standard credit and guarantee programs.

The *Overseas Chain Stores Investment Credit Program* supports overseas investments of Turkish entrepreneurs for the establishment of shopping malls and chain stores in order to help establish and promote Turkish brands in overseas markets.

The *Ship-Building Finance and Guarantee Program* supports Turkish dockyards to increase their share in international markets. Under this program, guarantees are provided for the Turkish companies involved in ship-building and/or the export of ships in order to obtain pre-financing either in advance payment or in installments from the buyer. Cash loans are also provided under this program. In 2005, USD 11.4 million was provided through this program.

The *Specific Export Credit Program* is a medium-term pre-shipment financing facility provided to the foreign currency generating projects of manufacturer/exporters and overseas contractors that cannot be subject to the standard credit programs of Türk Eximbank.

The *Letter of Guarantee Program for Overseas Contractors' Services*, which is a non-cash facility, aims to enable Turkish contractors to sustain their current share in international markets and thus encourage them to enter into new markets. Within this program, Turkish overseas contractors who participate in tenders abroad are provided letters of guarantee by Türk Eximbank under the counter-guarantee of Turkish commercial banks.

Credits for Foreign Currency Earning Services

The *Tourism Marketing Credit Program* provides finance to travel agencies and private airlines for their promotion and marketing activities abroad and thus contributes to Turkey's balance of payments via increasing tourism revenues. A total of USD 4.4 million was disbursed within the year.

The *International Transportation Marketing Credit Program*, which is extended directly by Türk Eximbank, provides finance to international transportation companies in order to reduce the transportation cost of exporting companies. Within this program, YTL 1.9 million (USD 1.4 million) was disbursed in 2005.

The *Credit Program for Foreign Currency Earning Services* contributes to Turkey's foreign exchange earnings through financing the companies residing in Turkey for both their foreign currency earning services abroad and export of services like software projects, consultancy services, etc.

Mersin Port

Islamic Development Bank Backed Credits

Türk Eximbank acts as an intermediary agency for the *Export Financing Scheme* of the Islamic Development Bank (IDB), in accordance with the agreement signed in 1988 between the two parties. This program entails financing on buyer credit basis. The IDB has the credit approval authorization and the buyer's risk for the transactions mediated by Türk Eximbank is borne by the IDB. In 2005, 4 credit applications of four companies worth a total of USD 13.6 million were forwarded to the IDB and tentative confirmation was received.

Additionally, within this scheme, a USD 20 million limit was provided. Under this limit, Türk Eximbank has the credit approval authorization and bears the buyer's risk.

Turkish exporters' imports of raw materials, semi-capital and capital goods to be used in the production of export goods were financed through the IDB's *Import Trade Financing Operations (ITFO line)* financing scheme. In 2005, USD 1.6 million non-cash credit was extended under this scheme.

Negotiations were completed with the IDB and the evaluation process is underway for the allocation of a USD 80 million limit to Türk Eximbank for the other medium-term financing programs provided by the IDB.

Risk Evaluation and Monitoring of Intermediary Banks

Türk Eximbank allocates limits for treasury operations and short-term cash (TL and FX) and non-cash (FX) credit limits to intermediary banks and Special Finance Institutions (SFI) through a detailed risk evaluation process. This process includes an in-depth financial analysis of each bank through the application of internationally accepted financial analysis approaches and periodical reviews of other factors such as ownership structure, field of activities, management quality, strategies and future outlooks. In addition, developments in financial markets and bank activities are constantly monitored and reported.

Considering financial soundness as a key principle in allocating limits, the effective utilization of Türk Eximbank credit limits, high shares of export credits in total credits portfolio and high proportions of export credits financed through the banks' and SFI's own resources are also regarded as important determinants of future increases in credit limits.

Eskişehir Sugar Factory, 1933

Türk Eximbank's Buyers' Credit and Guarantee Programs aim at creating opportunities for and boosting the competitive strength of Turkish exporters and overseas contractors in newly emerging markets by enabling foreign buyers to purchase Turkish goods and services on deferred payment conditions.

The objective of the Buyers' Credit and Guarantee Programs is to strengthen the competitiveness of Turkish exporters and contractors in international markets and to provide a risk-free environment for their activities in the markets pertaining high political and commercial risks.

Within the framework of the Buyers' Credit and Guarantee Programs, the Bank provides support for projects to be realized in Central and Southern Asia, Central and Eastern Europe, Africa, Caucasus, and the Balkans by Turkish contractors and for the export of capital goods. Under this program, the projects having priority for the borrower's country, providing mutual benefit, and contributing to economic relations between the two countries, are supported.

In order to guarantee the principal and interest payments, the Bank requires sovereign guarantee as a prerequisite. However, other guarantee mechanisms, including guarantees from banks that are deemed trustworthy by Türk Eximbank, are also evaluated considering the facts such as the borrower's country, terms and conditions of the facility and the specifics of the project.

Under this program, a total of USD 2.2 billion worth of credits has been disbursed to Turkish contracting firms/exporters operating in 22 countries since 1989. The amount disbursed was utilized for the exports of goods such as food, medicine, medical equipment, textile products, automotive products, machinery and equipment, and other industrial goods and the projects such as medical centers, industrial plants, telecommunication, energy, petrochemicals and construction and renovation of hotels and business centers.

Bursa Silk Factory at the beginning of the 1900s

Within the framework of the Buyers' Credit and Guarantee Programs, USD 8 million was disbursed in 2005. Throughout the year, USD 114.3 million was collected from the credits extended to Albania, Algeria, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Pakistan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan. Thus, the total amount collected reached over USD 2 billion, as of today.

In 2005, Türk Eximbank issued 12 "letters of intent" for the projects to be undertaken by Turkish firms in Albania, Azerbaijan, Iran, Kazakhstan, Pakistan, Sudan, Syria and Uzbekistan. Also, the validity of letters of intent issued for projects in Ghana, Syria and Uzbekistan were extended.

The Loan Agreement signed on March 30, 2005 - in the framework of the insurance agreement between Türk Eximbank and Banco Nacional de Cuba with a limit of EUR 15 million for short-term transactions - allocating EUR 10 million for a trade (export) facility of one-year maturity under the state guarantee of the Cuban government, became effective as of September 8, 2005.

Parallel to the Agreements it signed with the members of the Paris Club, Algeria paid its debt to Türk Eximbank on November 30, 2005, prior to its maturity, within the framework of the debt rescheduling agreement signed on March 18, 1996.

Debt rescheduling agreements with Azerbaijan and Kyrgyzstan were signed and became effective in 2005. Within the framework of the Agreed Minutes signed with the members of the Paris Club in 2004, a new debt rescheduling agreement was signed with Georgia on October 5, 2005 and will become effective after Georgia meets its liabilities.

Türk Eximbank continued to be in close co-operation with other export credit agencies and international financial institutions during the year, in order to extend its financial support to Turkish overseas companies.

Türk Eximbank Buyers' Credit/Guarantee Programs (USD million)

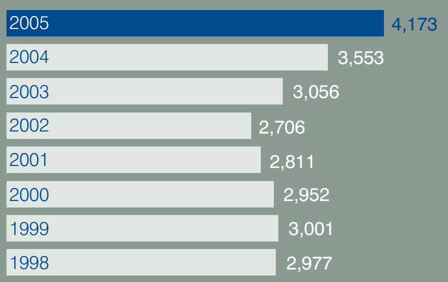
COUNTRIES	CREDIT LIMIT	TOTAL DISBURSEMENTS (as of 31.12.2005)
ALBANIA	15	13.9
Export Credit	15	13.9
ALGERIA	100	99.5
Export Credit	100	99.5
AZERBAIJAN	250	91.7
Export Credit	100	59.6
Project Credit	150	32.1
BELARUS	20	18.5
Project Credit	20	18.5
BULGARIA	50	20.9
Export Credit	50	20.9
CUBA	10	0
Export Credit	10	0
GEORGIA	50	41.5
Export Credit	50	41.5
HUNGARY	10	0.1
Export Credit	10	0.1
KAZAKHSTAN	240	213.1
Export Credit	55.7	40
Project Credit	184.3	173.1
KYRGYZSTAN	75	48.1
Export Credit	37.5	35.7
Project Credit	37.5	12.4
LIBYA	100	128.7
Project Credit	100	128.7
MOLDOVA	35	15
Project Credit	35	15
NAKHICHEVAN	20	19.6
Export Credit	20	19.6
PAKISTAN	100	58.3
Project Credit	100	58.3
ROMANIA	50	45.7
Export Credit	50	45.7
RUSSIAN FEDERATION	1,150	820.9
Export Credit	800	599.4
Project Credit	350	221.5
SYRIA	15	7
Export Credit	15	7
TAJIKISTAN	50	28
Export Credit (*)	50	28
TUNISIA	40	1.9
Export Credit	40	1.9
TURKISH REP. OF NORTHERN CYPRUS	3.7	3.7
Project Credit	3.7	3.7
TURKMENISTAN	163.3	133
Export Credit	75	75
Project Credit	88.3	58
UZBEKISTAN	410.2	369.1
Export Credit	125	124.6
Project Credit (*)	285.2	244.5
TOTAL	2,957.2	2,178.2

(*): IDB transactions are included.

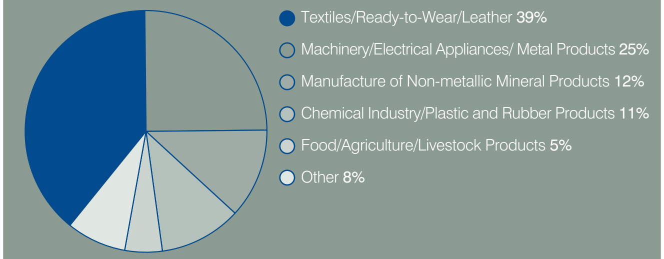
İstanbul Trade Port, 1890

Export Credit Insurance

USD 4,173 million
Exports insured under Short-Term Export Credit Insurance Program (USD million)



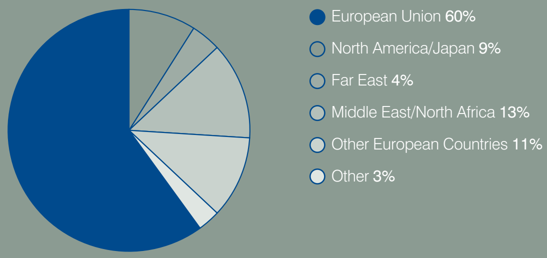
Sectoral distribution of exports insured under Short-Term Export Credit Insurance Program



Türk Eximbank's Export Credit Insurance Programs aim at providing cover for Turkish exporters and overseas contractors against commercial and political risks, and creating a risk-free environment for them.

Paşabahçe Glass Factory, 1945

Regional distribution of exports insured under Short-Term Export Credit Insurance Program



Export receivables are insured against commercial and political risks within certain limits by means of export credit insurance programs, which is one of Türk Eximbank's main areas of activity. The additional advantage of the Programs stands as enabling exporters to obtain funding from financial institutions at favorable terms via the insurance policies issued by Türk Eximbank as collateral.

Short-Term Export Credit Insurance

Within the scope of the *Short-Term Export Credit Insurance Program,* all shipments to be made by an exporter in the duration of a one-year policy period and with payments deferred up to 360 days are insured against commercial and political risks. To promote the Program, policyholders are offered a discount on the interest rates of Türk Eximbank's short-term export credits since 1997.

This Program provided cover for 176 countries and a total of USD 4.2 billion worth of shipments was insured in 2005. Premium amounting to USD 18.5 million was collected throughout the year.

In 2005, textiles/ready-to-wear/leather products were foremost in the sectoral distribution of exports insured, with a share of 39% and the European Union countries were the leading market with regard to the regional distribution, with a share of 60%.

In the framework of the Short-Term Export Credit Insurance Program, 10,193 new buyers have been registered during the year in the underwriting archives raising the total number of the records to 103,765 by the end of the year.

Under the Program, USD 6.6 million worth of claims was paid out in 2005 arising from the shipments to various countries. Of this amount, USD 75 thousand worth of claims was paid out due to political losses and USD 6.5 million due to commercial losses.

In 2005, Türk Eximbank recovered USD 583 thousand of the former claims paid whereof the significant portion was related to commercial risk losses.

The former building of the Ministry of Customs and Monopoly

In order to increase the competitiveness of SMEs in international markets, Türk Eximbank puts great effort to increase the utilization of the Short-Term Export Credit Insurance Program by SMEs.

The "premium discount", introduced in 2002 to maintain the demand for this Program and to mitigate insurance costs of exporters, was applied to firms found eligible by the "exporter appraisal model". This model takes into account past performances of firms that have their shipments covered for at least one year and that have met certain criteria such as reasonable loss ratio, portfolio quality, company size and prudence etc. As of end-2005, 392 firms were found eligible for a premium discount and the discount rate has been 9% on average.

Since January 1, 2004, pre-shipment cover has also been provided for the insured firms within the framework of the Short-Term Export Credit Insurance Program.

The duration of short-term buyer's limits (allocated to exporters) has prolonged from one to two years upon the completion of necessary "risk appraisal" and "technical infrastructure" studies.

In order to increase the competitiveness of SMEs in international markets, Türk Eximbank has joined the meetings of the "Working Group for Finance", which is conducted by the Turkish Union of Chambers and Stock Exchanges with the proposal of the SMEs Working Group, a sub-group of the "Co-ordination Council for the Improvement of the Investment Environment". Within the framework of these meetings, information has been exchanged with private market insurers and future opportunities for cooperation to increase the utilization of the Short-Term Export Credit Insurance Program were emphasized.

Türk Eximbank has continued to cede 70% of the commercial and political risks borne under the Short-Term Export Credit Insurance Program to domestic and overseas reinsurance firms during 2005.

Türk Eximbank aims to create a risk free environment for the banking sector to encourage them to engage directly in export financing by offering guarantee schemes to commercial banks. In line with this objective, also included in Türk

Eminönü Square
in the 1930s

Eximbank's 2006 Annual Program regarding Export Credits Insurance Programs, negotiations with a commercial bank has continued for a cooperation agreement, which is projected to be signed soon.

Medium and Long-Term Export Credit Insurance

The *Specific Export Credit Insurance Program* covers receivables arising from exports of capital and semi-capital goods with a maximum maturity of five-years, under a single sales contract. The Program provides cover against political and commercial risks both for the pre- and post-shipment stages.

In 2005, receivables regarding the claims paid against the losses arising from the shipments to Algeria termed until 2010 were recovered in full upon the proposal of the Algerian Government to pay the outstanding balance, which was restructured by a Debt Rescheduling Agreement signed between Türk Eximbank and Algeria in 1996. Under this agreement, all receivables from this country have been cleared and a total of USD 43.9 million has been recovered.

During 2005, the Bank continued to offer Turkish exporters the *Specific Export Credit Insurance Post-Shipment Political Risk Program* that provides cover against political risks only for the post-shipment stage of medium and long-term exports.

Another version of the medium and long-term export credit insurance facilities of Türk Eximbank, introduced for the post-shipment stage is the *Specific Export Credit Insurance Post-Shipment Comprehensive Risk Program*, in which cover is provided for commercial risks as well as political risks.

These two programs are offered especially for Turkish exporters who are exporting to Central and Western Asian countries. Moreover, in order to pave the way for exporters to have their export receivables discounted, letters of guarantee can be issued in favor of the commercial banks within the scope of these programs.

Other

Studies for improving and diversifying the insurance programs have been continued during the year in compliance with the Institutional Strengthening Project backed by the World Bank.

Under the Short-Term Export Credit Insurance Program, close cooperation has been maintained with the export credit/insurance agencies of various countries during 2005, in order to enlarge the support given to Turkish exporters and entrepreneurs.

The loading of export goods

Türk Eximbank operates in domestic and international financial markets and manages funds with complementary and integrated principles of “maintaining a sound financial structure” and “minimizing risk”.

Capital

The latest increase in the nominal capital of the Bank was in May 2001, when it was increased to YTL 750 million. The share capital remained at the previous year's level of YTL 657.8 million as of December 31, 2005.

The Bank's BIS capital adequacy ratio, which was 56% in 2004, increased to 69% as of end-2005.

Indemnification of Political Risk Losses

During 2005, the Turkish Treasury indemnified YTL 147.5 million (approximately USD 107 million), of which YTL 20 million (approximately USD 15 million) was in cash, for the losses incurred by Türk Eximbank in its credit, insurance and guarantee transactions, according to the authorization given by Law no. 5234 to the Minister in charge of the Turkish Treasury and the Finance Minister.

Debt Management

With the strong performance of the Turkish economy in recent years, investor confidence has increased and the cost of foreign borrowing has decreased considerably. Accordingly, Türk Eximbank has pursued an effective debt management strategy to comply with this trend. In this framework, Türk Eximbank redeemed both the Eurobonds issued in 2000 and the loans borrowed from a public bank on a 6-month roll-over-basis. Instead of these two main sources, Türk Eximbank has raised new funds from euro-syndication market and foreign banks at lower costs.

Funding from Domestic Markets

During 2005, the short-term Turkish Lira denominated credit portfolio was funded entirely through the Bank's capital and internal financial sources, i.e. principal and interest repayments.

On the other hand, in 2005, almost all of Türk Eximbank's short-term foreign currency denominated credit portfolio was funded through short-term borrowings.

A total of USD 10 million, one-year loan was also raised from a domestic commercial bank.

Borrowings from International Markets through Syndicated Loans

The one-year, USD 200 million euro-syndicated loan raised in 2004 was rolled over for another year, by using the one-year extension option, in June 2005. Besides, the one-year “club-loan” of USD 200 million raised in January 2005 was paid in December 2005. Towards the end of the year, Türk Eximbank mandated a group of international banks to raise a syndicated loan of USD 300 million in early 2006.

Foreign Exchange Bourse, 1929

Borrowings from International Markets through Bilateral Loans

A total of USD 76 million short-term loans were raised from two international banks in 2005.

On the other hand, the USD 23 million loan, raised from the Black Sea Trade and Development Bank, was rolled over in 2005. The loan was extended to finance the exports directed to the member countries of the Black Sea Economic Cooperation (BSEC).

Project Finance

Within the framework of the Second Credit Agreement signed with the Japanese Bank for International Cooperation (JBIC) in 1999, approximately USD 10 million medium-term funds were borrowed to finance projects abroad, in 2005.

Debt Servicing

During the year, USD 1,161 million debt servicing was fulfilled. Of this amount, USD 370 million was the redemption of the interest and principal amount of the USD 350 million Eurobonds issued in 2000. On the other hand, the approximately EUR 260 million loan, borrowed from a state bank in tranches, was re-paid on their due dates in the second half of 2005.

Liquidity Management

The Bank's liquidity was successfully managed with the effective use of all money and capital market instruments.

Türk Eximbank, taking into account its cash flows and the prevailing conditions in money and foreign exchange markets, placed its TL and foreign currency excess liquidity in domestic and international money markets during 2005.

The securities portfolio, which consists of liquid securities with high-yields, such as YTL Treasury bills, state bonds and Eurobonds, were partly used as collateral in the Central Bank for the interbank market operations.

Risk Management

During 2005, the Bank continued to implement the strategy of matching its assets and liabilities in terms of currency, maturity and interest basis.

Short-term foreign currency swap transactions worth of USD 1.3 billion were carried out during the year in order to meet exporters' foreign exchange loan demand and to manage the Bank's foreign currency risk. TL/foreign exchange and spot foreign exchange transactions were carried out for managing foreign exchange risk to keep the foreign exchange position square.

On the other hand, “USD denominated fixed to floating interest rate swap” transactions worth of USD 31 million were carried out during 2005.

İzmir Gümrük Street, 1967

Türk Eximbank maintains close cooperation with other export credit and insurance agencies and international financial institutions.

Close relations with the International Union of Credit and Investment Insurers (Berne Union) continued in 2005. The Bank was represented in the technical sub-committees of the Union dealing with short, medium and long-term transactions.

In the past years, co-operation agreements were signed with other export credit and insurance agencies and international financial institutions such as, US Eximbank/USA, EDC/Canada, COFACE/France, Hermes/Germany, OND/Belgium, IFTRIC/Israel, Eximbank of China/PRC, MECIB/Malaysia, NEXI/Japan, SEC/Slovenia, Eximbanka S.R./Slovak Republic, KUKE/Poland, EGFI/Iran, ECGE/Egypt, Eximbank of Romania/Romania, Eximbank of Russia/Russia, Vnesheconombank/Russia, HBOR/Croatia, KEIC/South Korea, EKF/Denmark, MIGA, ADB and EBRD. During the year, close cooperation was maintained with these agencies and institutions.

As a member since April 1998, the Bank's relations with the OECD Working Party on Export Credits and Credit Guarantees (ECG) continued in 2005.

Türk Eximbank participated in the annual meetings of the World Bank, IMF, OECD, EBRD and Berne Union and maintained close contacts with institutions concerning Türk Eximbank's foreign credit and international loan activities during the year.

The Bank's relations with the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC), an affiliate of the IDB, also continued in 2005.

Close cooperation has been maintained with other export credit agencies to finance joint venture projects in third countries within the framework of the Bank's credit/guarantee and insurance programs.

Besides strengthening its relations with foreign commercial and investment banks in treasury and funding operations, Türk Eximbank maintained close relations with the World Bank, JBIC, EDC and the Black Sea Trade and Development Bank.

İzmir International Fair

Arrangements Initiated in Accordance with International Rules and Regulations

A Road Map for Türk Eximbank's Compliance with Basel II

As regards the measurement and assessment of capital adequacies of banks, the Basel Committee on Banking Supervision (BCBS) has issued the "International Convergence of Capital Measurement and Capital Standards" (Basel II) on June 2004. Accordingly, the Banking Regulation and Supervision Agency of Turkey (BRSA) announced the Road Map on the Integration Process of Banks to Basel II on May 30, 2005. The Board of Directors of Türk Eximbank approved the "Road Map for Türk Eximbank's Compliance with Basel II" in October 2005. The Road Map is subject to a dynamic assessment and updating process and it can be modified with the consent of the Board of Directors.

Türk Eximbank differs from other banks in Turkey, in terms of its mission of promoting exports and the risks it incurs, so the Bank has to be in close cooperation with the BRSA. The risk management department carries out the Basel II compliance activities of Türk Eximbank within the framework of the Bank's Road Map.

Export Credits and Environmental Guidelines

In 2001, the OECD Working Party on Export Credits and Credit Guarantees (ECG) reached a consensus on "OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits" to mitigate the negative environmental impacts of projects supported by official export credit agencies. Most ECG members, on a unilateral and voluntary basis, have implemented these common approaches since the beginning of 2002. In 2004, the Recommendation on common approaches was revised. Türk Eximbank started to implement the "Environmental Guidelines" in accordance with the latest version of the OECD Recommendation in 2004.

Environmental Guidelines apply to any project or export of capital goods and services related to any project, for which Türk Eximbank has been requested to provide support of over SDR 10 million through its export credit, insurance and guarantee programs with repayment term of two years or more. Sovereign rights of the buyer countries are also taken into account in the evaluation process.

Export Credits and Combating Bribery

In 1997, 30 OECD members (including Turkey) and Argentina, Brazil, Bulgaria, Chile and Slovakia signed the "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions" in Paris and the Convention became effective in 1999. Turkey has enacted her own law in line with the Convention in 2003.

ECG members are also taking measures to deter bribery in the export deals they support, in accordance with the Convention and their own legislation. In this framework, firms applying for any credit, guarantee or insurance facilities of Türk Eximbank, have been asked to sign a declaration relating to combating bribery in international business transactions, since 2004.

Frenk Street, the center of the foreign trade in İzmir in the 1900s

Information Services

The Information Department provides information reports used by the Insurance Department on buyers for the evaluation of buyer risks and the establishment of buyer limits. In 2005, 20,195 credit information reports on foreign buyers were procured via on-line connections and e-mail. Continuous developments in information technologies are enriching the content of information reports as well as shortening delivery times and decreasing costs. To reflect the cost reductions brought on by technological developments, the Information Department has conducted intensive negotiations with foreign information agencies and a 10% reduction was obtained in the prices of information reports bought in 2005.

Also, information gathering and analysis of the financial situations of exporters and contracting companies that applied to Türk Eximbank for their overseas projects under the Buyers' Credit and Guarantee Programs, Medium-Term Export Credits (Project Credits) and Credits for Foreign Currency Earning Services, and for the Specific Export Credit Insurance Program have continued during 2005. Within the framework of the credit risk assessment process, the Information Department tracks and analyses sectors, regions, countries and developments in foreign markets in which these companies operate.
By doing so, the risks arising beyond companies' control are tracked and monitored.

The Information Department continued to provide foreign export credit insurance agencies with credit information reports on Turkish companies. Through these reports the Information Department aims to help Turkish companies to benefit from the programs of foreign export credit insurance agencies, without paying unnecessary risk premiums due to lack of comprehensive, reliable and prompt credit information reports.

İzmir Port

Information Technologies

Türk Eximbank acts with the principle of "maximum utilization of information systems in all work processes". In this scope, automation studies have accelerated. The level attained in computer and communication infrastructure via comprehensive investments in the past years, enables a 95% computer support for the Bank's application departments' real-time work processes, based on integrated data structure. The existing Management Information System (MIS), is being improved. Considering the satisfaction (CRM) of all enterprises/institutions that are related to the Bank, every new credit program is being launched with computer support, and so standardization and consistency of applications have been achieved. The establishment of both a Decision Support System (DSS), which is vital for being an "e-institution", and the "Data Warehouse", which is required for the efficiency of the DSS, is being carried on.

Türk Eximbank's Intranet System project has reached the final stage and is ready to be launched. The communication infrastructure of TIC-ESTS (Turkish Interbank Clearing - Electronic Security Transfer and Settlement System) has been revised in coordination with the Central Bank of Turkey.

In order to secure the Bank's systems from possible attacks from the Internet, the firewall system has been moved to a more secure platform.

Especially in recent years, studies on the electronic government project executed in the public sector have accelerated and considerable success has been achieved in terms of competition, speed and productivity. Türk Eximbank's banking applications running in the web environment is also an important part of the electronic government project. In this framework, training, analysis, design and counseling studies on new software projects have continued.

The Electronic Fax System has become widespread throughout the Bank. Studies for the implementation of the Document Management System in the credit and insurance departments have continued. In 2006, studies will be accelerated for Türk Eximbank to take its place in the e-banking system through the transformation of archives of the credit and insurance departments into the electronic environment. Within the framework of the Electronic Data Exchange Project, studies to develop an interactive web page have continued. Also, with the utilization of the electronic certificates, a more effective web environment will be presented to the users.

Human Resources and Training

The specialized nature of Türk Eximbank's operations requires highly qualified and professional staff. As a result, the contribution of the Bank's very few, but competent and exceptionally skilled personnel are very important. As of end-2005, Türk Eximbank employs a total of 369 personnel; 25 in the İstanbul and 8 in the İzmir branches, and one in each of the liaison offices in Denizli, Kayseri and Gaziantep. 4 personnel have a Ph.D. degree, 50 have a post-graduate degree, and 203 have a graduate degree. The number of personnel who can speak at least one foreign language is 148.

Türk Eximbank provides its employees with extensive training to enhance employee skills and to ensure that they keep abreast of the developments in their field. Training activities are held under two categories:

- In-house training
- Training received through outside professional institutions

In 2005, 129 participants attended 104 training programs. 4 of these were in-house trainings and 85 participants attended these programs. 95 participants attended 80 of the training facilities including seasonal and daily seminars and conferences held by the Banks Association of Turkey. While 29 participants attended 15 programs held by other local organizations, 6 participants attended 5 training programs abroad.

Türk Eximbank also offers training to exporters located across all regions of Turkey. In these seminars, all credit and insurance programs that are available for exporters are explained and the problems faced by exporters are discussed. Such feedback helps the Bank to modify its programs.

During 2005, within the framework of the "Foreign Trade Training Program", 28 personnel presented Türk Eximbank's Credit and Insurance Programs in the 36 seminars held by various foreign trade institutions in different provinces across Turkey.

Türk Eximbank also provides on-the-job training to university students. In 2005, 67 students were accepted as trainees to these programs at the Head Office, İstanbul and İzmir branches.

Çukurova Weaving Factory in the 1930s

Targets and Activities of Türk Eximbank in the Forthcoming Period

İHRACATIN SERBESTİSİ HAKKINDA KARARNAME

20 Şaban 1338 ve 10 Mayıs 1336- No 4

1- İhracatın bilâ kaydü şart serbestisi ve Heyeti İcraiyeden maada hiç bir makamın bu serbestiyi ihlâl ve takyide salâhiyettar olamıyacağı takarrür etmiştir.
2- Bu kararın icrasına Dahiliye Vekâleti memurdur.

B.M.M. Reisi M.KEMAL | Umuru Şer'iye V. FEHMİ | Hariciye V. Dr.Rıza NUR

Dahiliye V. CAMİ | Erkânı Harbiyei Umumiye Reisi İSMET | Müdafaai Milliye V. FEVZİ

Adliye V. CELALETTİN ARİF | Maliye V. HAKKI BEHİÇ | Nafia V. İSMAİL FAZIL

Sıhhiye V. Dr. ADNAN | Umuru İktisadiye V. HAKKI BEHİÇ | Maarif V. Dr. RIZA NUR

* Orijinal metnin tercümesi Düstur'dan aynen alınmıştır.

Decree no.4 on the liberalization of exports

Türk Eximbank intends to place more emphasis on guarantee and insurance programs, and medium and long-term trade and project finance in the forthcoming period.

Targets for the Forthcoming Period

Emphasis on Medium and Long-Term Export Credits and Export Credit Insurance/Guarantee Programs

Given the current improvements in the economic environment, brought on by the implementation of firm macroeconomic policies, the role of Türk Eximbank in export finance has been reviewed. Thus, it has become a necessity for the Bank to shift its policy of inevitably concentrating on short-term financing to medium and long-term financing. This was also confirmed with the current economic conjuncture and the ability of the banking sector to increasingly direct short-term funds to the real sector. Therefore, Türk Eximbank will place more emphasis on guarantee and insurance programs and medium and long-term trade and project finance, similar to other export credit agencies. On the other hand, short-term export credit and export credit insurance operations will continue to be a significant portion of the Bank's operations in order to finance the pre-shipment financing needs of Turkish exporters and therefore increase their competitiveness in international markets.

Increased Focus on SMEs

Türk Eximbank aims to increase the focus of its programs on helping SMEs; as such enterprises play an important role in the economy. SMEs usually experience difficulties in passing the rigid qualification tests for loans, even if they are fully capable of complying with the terms of their export contracts. The Bank, therefore, has placed special importance on SMEs in its strategy. In this respect, studies will be conducted to establish cooperation with the "Credit Guarantee Fund" and "Small and Medium Industry Development Organization (KOSGEB)" which is an establishment under the body of the Ministry of Industry and Trade.

Support for Turkish-made Goods

In order to move up in the export league, more importance will be given to meet the medium and long-term financing needs of companies especially producing semi-capital and capital goods, and hi-tech and high value-added goods. Besides, exports that contribute to the positive image of Turkish-made goods with Turkish brand names in international markets will be supported. Also, in addition to the standard programs, new programs will be launched for different needs of exporters.

Entering New Markets via Buyers' Credits

Since 1989, Türk Eximbank has been one of the first export credit agencies giving support to its exporters and overseas contractors operating in the Russian Federation and Central and Western Asian countries. This support has enabled Turkish exporters and contractors to gain a good reputation and a remarkable market share in these markets, where many export credit agencies were reluctant to operate. Today, the volume of the overseas contracting services of Turkish contractors has reached USD 64 billion and the credits provided by Türk Eximbank has had an important role in this achievement.

Türk Eximbank's goal in the forthcoming period is to provide Buyers' Credit and Guarantee programs to Turkish exporters and overseas contractors in their efforts to enter into new markets in line with the strategies designated and implemented by the Undersecretariat of Foreign Trade. Within this framework, Türk Eximbank will increase its focus on the countries designated by the Undersecretariat of Foreign Trade under its "Strategy for the Development of Trade with the Neighboring and Peripheral Countries" and the "Strategy for the Development of Trade with the African and Asia-Pacific Countries".

The Political Risk Insurance Program for Overseas Contracting Services

In 2006, the Bank plans to complete the studies on launching the "Political Risk Insurance Program for Overseas Contracting Services" for Turkish contractors operating especially in foreign countries with high political risk.

Organizational Development

Organizational Structure

Similar to other export credit agencies around the world, Türk Eximbank does not have a multi-branch structure. However, the Bank has two branches in İstanbul and İzmir, the cities that have an important role in Turkey's exports. These branches extend direct export credits and provide information to exporters regarding the Bank's other programs and find solutions to problems on the spot. Also, in 2004 and 2005, Türk Eximbank has opened liaison offices in Kayseri, Denizli and Gaziantep; three of the industrialized regions with high export potential. In 2006, Türk Eximbank plans to open new liaison offices in various cities in line with the objective of providing better service to the dynamic export sector.

Legislation

Türk Eximbank continued the studies on making the necessary changes in its legislation, to comply with international rules and regulations, maintain its sound financial structure and become a more transparent and flexible institution that supports other financial institutions' activities in export financing. The new Türk Eximbank law, which takes into account the Bank's expanding role and international relations, will enable the Bank to operate more efficiently in the rapidly changing international environment. This law, also stated in the Government's "Urgent Action Plan", is expected to be ratified in the parliament in 2006.

The former İzmir Bourse Building

Risk Management and Committees in Türk Eximbank

Risk Management, Internal Control and Audit System at Türk Eximbank

Haydarpaşa Port, İstanbul

Risk Management and Committees in Türk Eximbank

Executive Risk Committee

Chairman: M. Nurhan GÜVEN (Member of the Board of Directors responsible for Internal Control, Audit and Risk Management System)

Member: H. Ahmet KILIÇOĞLU (Chief Executive Officer; as Chairman of the Credits Committee and Executive Committee)

Member: Cenan AYKUT (Head of the Risk Management Department as the Chairman of the Bank's Risk Committee)

The Executive Risk Committee, which was established by the Board of Directors Decree dated October 10, 2002, meets at least quarterly to review the Bank's risk management policies. The Committee which met 5 times with full member participation in 2005, reviewed and submitted the risk appraisal report consisting of the Bank's portfolio distribution, capital adequacy, credit risk, market risk, foreign exchange risk, interest rate risk, liquidity risk, non-performing loans, concentration, operational risk, profitability analysis and risk assessment matrix to the Board of Directors.

Executive Committee

Chairman: H. Ahmet KILIÇOĞLU (Chief Executive Officer)

Member: Osman ASLAN (Assistant General Manager in charge of Export Credits)

Member: Alev ARKAN (Assistant General Manager in charge of Buyers' Credits and Export Credit Insurance/Guarantees)

Member: Ertan TANRIYAKUL (Assistant General Manager in charge of Treasury and Funding)

Member: Necati YENİARAS (Assistant General Manager in charge of Accounting, IT, Research and Coordination)

The Executive Committee, which was established by the Board of Directors Decree no. 97/17-70, dated August 06, 1997, meets at least bi weekly. The main function of the Committee is to negotiate the issues to be submitted to the Board of Directors for approval. Also, the Committee analyzes/evaluates the draft arrangements on the credit principles and technical and administrative issues. The main responsibilities of this Committee are; asset/liability management; to evaluate credit applications of both domestic and overseas projects and submit eligible ones to the Board of Directors for approval; to accomplish duties assigned by the Board of Directors. Reports on the balance sheet, income statement, financial structure, placement and funding activities are submitted to the Board of Directors at least quarterly.

Credits Committee

Chairman: H. Ahmet KILIÇOĞLU (Chief Executive Officer)

Member: Osman ASLAN (Assistant General Manager in charge of Export Credits)

Member: Ertan TANRIYAKUL (Assistant General Manager in charge of Treasury and Funding)

The Credits Committee, which meets at least once a week, is responsible for the approval of credit allocations within the limits of authorities delegated by the Board of Directors. Accordingly, the Short-Term Turkish Lira and FX credit applications under 1% of the company's shareholders' equity are evaluated and approved by the Credits Committee upon the proposal of the Head and the Directors of the Credits Departments. Taking into account the total risk of the company, credit requests exceeding 1% of the company's shareholders' equity are submitted to the Board of Directors for evaluation and approval.

Risk Management, Internal Control and Audit System at Türk Eximbank

The primary purpose of Türk Eximbank as Turkey's official export credit agency is to enhance the availability of export support by providing readily available, economical and affordable sources of funds in the form of loans, insurance and guarantee products and programs that satisfy the export financing needs of Turkish exporters and overseas contractors.

The Bank applies sound banking and investment principles in all of its operations. Although the Bank does not operate on a straight commercial basis, financial sustainability is a strategic objective. The Bank strives to provide a reasonable rate of return on its operations in order to preserve the Bank's capital. The Bank maintains its public mandate and operates in a risk-averse manner.

The internal control, audit and risk management system of the Bank has been established and related committees have been formed via necessary organizational changes within the framework of the Regulation on Banks' Internal Control and Risk Management Systems issued by the Banking Regulation and Supervision Agency of Turkey (BRSA) in the Official Gazette no. 24312, dated February 8, 2001. The Board of Inspectors, Internal Control and Risk Management Departments are carrying out their activities under the supervision of the member of the Board of Directors responsible for internal control, audit and risk management systems, appointed by the Board of Directors on December 21, 2001. According to the Banking Law no. 5411, the Audit Committee, consisting of at least two members of the Board of Directors, will be established in 2006 parallel with the new regulations of the BRSA.

Internal Audit

The Board of Inspectors is responsible for:

• Conducting investigations and examinations of operations, accounts and activities in the Bank's Headquarters units and branches and conducting inspections when required,
• Analyzing the compliance of the Bank's activities with the provisions of banking and related regulations and Bank's legal obligations,
• Evaluating the efficiency and adequacy of the Bank's internal control and risk management systems.

In order to provide effective continuity of the internal audit activities, the Board of Inspectors has performed inspections in the units, branches and representatives of the Bank within the framework of the main control areas stipulated in the “Regulation on Banks' Internal Control and Risk Management Systems” and the regulation of the Board of Inspectors and its annual work schedule that was prepared by the Board of Inspectors taking into account the criteria such as; transaction volume of the units and branches of the Bank, affect on the financial tables, previous audit dates and the number of inspectors.

In 2005, the auditing activities that were carried out to increase the efficiency and effectiveness of the Bank were performed as planned.

Internal Control

Internal Control Department is responsible for:

• Controlling and monitoring the compliance of the activities of the Bank with the policies, methods, directives and limits specified by the Bank's management,
• Regulating control activities preventing undesired events or investigative control activities aimed at proving and remedying undesired events, which have occurred, and leading control activities aimed at encouraging occurrence of a desired event.

The accounting records i.e. corrections, cancellations and material amount of operations were checked separately and the reasons were analyzed monthly, using the Bank's information technology system.

Also, the business resumption plan that is the “Urgent Action Plan” in the “Regulation on Banks' Internal Control and Risk Management Systems” published on February 8, 2001 by BRSA has been prepared as a draft. In this plan, in addition to the necessity of developing “business continuity culture”, required precautions to this aim are explained. The measures are planned against short and long-term service interruptions due to unexpected risks.

The internal control is a continuous process in the Bank. Each department also performs this activity individually. Loan, insurance and guarantee transactions and related reports, accounting records, the compliance of the credit documents to the principles of implementation, with the regulations and limits of the intermediary bank and companies and the appropriate utilization of the credit have been regularly monitored and controlled by the line departments. The duties and responsibilities related to the reporting system were categorized on a functional basis and were available on time in detail. While all these functions are performed via the information process system, tests are conducted at the beginning of the projects to eliminate the deficiencies. The information systems are designed to prevent individual interferences.

Risk Management

Risk Management Department is responsible for:

• Defining, measuring, analyzing, managing and monitoring all risks faced by the Bank and developing risk management policies to be approved by the Board of Directors,
• Computing profits and costs together with related line departments and reporting the results to the related committees and the responsible member of the Board of Directors.

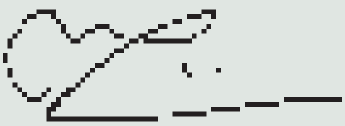
Under the risk management activities:

Credit Risk: Risks arising from lending and guarantee transactions within the limits imposed by law and by the Bank's own policies have been monitored. Since the greatest risk category to which the Bank was exposed in 2005 was the domestic and overseas bank credits, the internal rating system for banks has been used in the measurement of the banks' limits.

Market Risk: The market risk is calculated monthly by using standardized method determined by the BRSA and particularly considered in the calculation of the capital adequacy ratio. The possibility of loss due to interest rate risk and exchange rate risk arising from changes in interest and exchange rates is very low due to the recent stability in financial markets. The Bank considers currency risk and interest rate risk as the most important components of the market risk, since the Bank's investment portfolio consists only of Treasury bills.

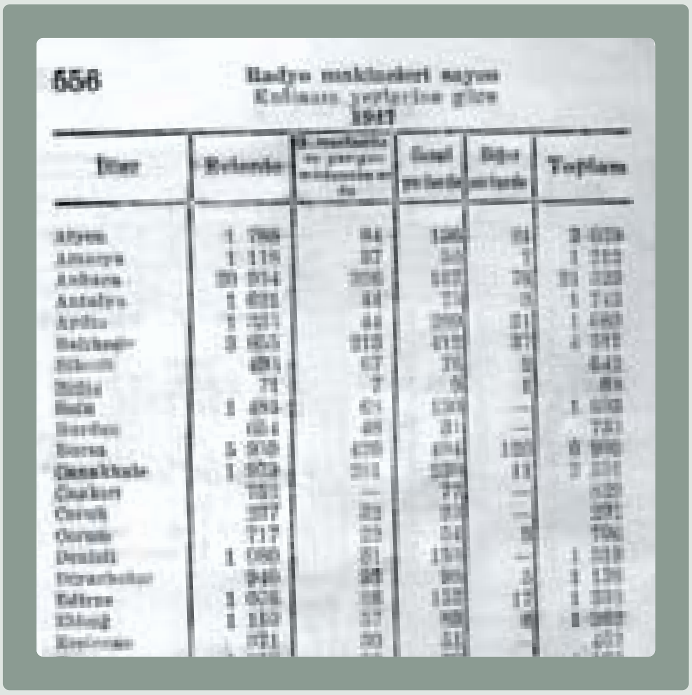
Operational Risk: Non-financial operational risks arising from banking activities are identified, assessed and monitored. In order to secure the Bank's system, a firewall attack assessment system was purchased to protect information access systems against the attacks coming from the internet, a security scanning system was purchased to verify and to eliminate the failures of the current security systems and other necessary programs were purchased to protect all the Bank's computers against computer viruses. Also, an encoding system was formed to protect the information systems. Besides these operations, the procedures of the payment systems, such as EFT and SWIFT were revised and approved by the Bank's Executive Committee. Operational transactions, verification and authorization are done separately.

In addition, the reports consisting of risk analysis such as GAP, Duration, Ratio and Asset-Liability are submitted to the Upper Management.



M. Nurhan GÜVEN
Member of the Board of Directors
Responsible for Internal Control, Audit and Risk Management System

Financial Information



Statistical Year Book, 1948

FINANCIAL PERFORMANCE

Türk Eximbank's assets reached YTL 3.4 billion (USD 2.5 billion) and ranked as the 16th largest bank of the sector according to assets size, as of December 31, 2005.

Assets

The assets of Türk Eximbank consists of 84.5% loans, 9.3% liquid assets, 5.5% securities held-to-maturity and 0.7% derivative financial instruments and, property and equipment.

The loan portfolio of the Bank is YTL 2.9 billion. Of this amount, YTL 2.7 billion (91.9%) is short-term loans, YTL 185 million (6.4%) is medium and long-term loans, and YTL 49 million (1.7%) net non-performing loans. By the use of appropriate risk management techniques, the duly collection of loans is emphasized. Therefore, although the Bank successfully allocates 84.5% of its funds to export loans, the share of net non-performing loans in total loans is insignificant with 1.7%, when compared to the 5.7% of the banking sector's average.

Although the Bank is exempt from setting any provisions under the Banking Law No. 5411, it has employed a conservative approach confirming with generally accepted banking principles with regards to provisions. As of end-2005 total provisions stood at YTL 85 million. Therefore, the Bank provides 63% loan loss provisions for overdue loans and losses, and accrued interest receivables that could arise on guarantees and commitments.

Liabilities

The YTL 2.9 billion (85%) of Türk Eximbank's liabilities are channelized to fund the assets. Of this amount, YTL 937 million (32%) is provided from domestic and international money and capital markets.

The remaining YTL 2 billion (68%) is shareholders' equity. Of this amount 34% is share capital, 41% is adjustment to share capital, and 25% is retained earnings and other reserves.

Solvency

The liquid assets-to-short-term liabilities ratio was realized over the 100% ratio considered as adequate in financial analysis, indicating the Bank's success in matching maturities of its assets and liabilities, as well as operating with a high level of capital.

Income Statement and Profitability

Türk Eximbank operates with high loans-to-assets ratio, therefore, 72% of its YTL 381 million total interest income comes from interests earned from loans. On the other hand, the Bank's main source of funding is through borrowings from domestic and international money and capital markets. As a result, 78% of its total YTL 74 million interest expenses consist of interests paid on borrowed funds.

Although Türk Eximbank is not a profit-oriented institution, it has always operated profitably, as this is important to sustain its sound financial structure. Therefore, Türk Eximbank's net profit has increased by 52% over the previous year in real terms and reached YTL 328 million as of end-2005. The profitability ratios have also increased over the previous year; the asset profitability ratio and shareholders' equity profitability ratio are realized as 10% and 17%, respectively.

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.
SUMMARY INFORMATION REGARDING CREDIT RATINGS ASSIGNED BY INTERNATIONAL RATING AGENCIES

Türk Eximbank borrows intensively from international loan and capital markets, and in this process it does not need guarantee of the Turkish Treasury. However, the Bank has been taking credit ratings from Standard & Poor's and Moody's since 1997 as a necessity for operating in these markets.

The long-term foreign currency issuer credit rating and the short-term foreign currency issuer credit rating assigned to the Bank are BB- (stable outlook) and B, respectively as of end-2005. These ratings are the same as that of the Turkish Treasury and indicate the highest grades that any institution could have in Turkey. These ratings reflect the key role that Türk Eximbank plays in the Turkish economy as the primary source of support for Turkish exports. It also reflects the Bank's 100% ownership by the Treasury and support provided by the Treasury in guaranteeing losses the Bank may incur as a result of political risks. Türk Eximbank's sound financial structure, particularly its strong capital adequacy, and professional management team has also played an important role in these ratings.

The outlook on the long-term foreign currency debt rating of the Bank has been changed to “positive” from “stable” in January 2006, parallel to the rating outlook of the Turkish Treasury. This change in the outlook indicates that an upgrade in the long-term foreign currency debt ratings of the Turkish Treasury and subsequently Türk Eximbank is quite likely over the medium-term if the current circumstances are sustained and certain positive expectations are realized.

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.
FINANCIAL HIGHLIGHTS FOR THE 2003-2005 PERIOD

Major Balance Sheet Accounts (YTL thousand)

	2005	2004 (*)	2003 (*)
Loans	2,892,562	3,512,209	4,327,494
Total Assets	3,422,588	4,436,441	5,502,832
Loans Borrowed	937,438	1,672,780	2,176,829
Shareholders' Equity	1,961,751	1,763,114	1,745,286
Total Paid-in Share Capital	1,470,382	1,470,382	1,470,382

Major Income Statement Accounts (YTL thousand)

	2005	2004 (*)	2003 (*)
Interest Income	380,056	494,029	750,113
Interest Income on Loans	274,897	323,261	502,408
Interest Expenses	(74,077)	(116,133)	(144,261)
Net Interest Income	305,979	377,896	605,852
Other Operating Income	136,789	109,448	114,006
Provisions for Loans and Other Claims	(84,597)	(175,291)	(314,074)
Other Operating Expenses	(87,081)	(75,661)	(135,131)
Net Income	327,744	215,266	273,648

(*) Inflation adjusted figures prepared and audited in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik A.Ş.
a member of
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AUDITOR'S REPORT

To the Board of Directors of
Türkiye İhracat Kredi Bankası A.Ş.

1. We have audited the accompanying balance sheet of Türkiye İhracat Kredi Bankası A.Ş. ("the Bank") at 31 December 2005 and the related statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. The financial statements of the Bank as at and for the year ended 31 December 2004 were audited by other auditors whose report dated 18 February 2005 expressed an unqualified opinion.

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of Türkiye İhracat Kredi Bankası A.Ş. at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Haluk Yalçın, SMMM

Istanbul, 10 February 2006

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.
BALANCE SHEETS AT 31 DECEMBER

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

	Notes	2005	2004
ASSETS			
Cash and due from banks	5	159,330	527,722
Financial assets at fair value through profit or loss	6	141,452	137,915
Derivative financial instruments	7	7,187	36,461
Loans and advances to customers	8	2,892,562	3,512,209
Investment securities			
- Available-for-sale	9	16,775	27,070
- Held-to-maturity	9	189,810	178,505
Property and equipment	10	10,253	10,772
Other assets	11	5,219	5,787
Total assets		3,422,588	4,436,441
LIABILITIES			
Other funds borrowed	12	937,438	1,672,780
Debt securities in issue	12	-	500,711
Derivative financial instruments	7	4,240	5,084
Other liabilities	14	512,385	487,870
Reserve for employment termination benefits	15	6,774	6,882
Total liabilities		1,460,837	2,673,327
SHAREHOLDERS' EQUITY			
- Share capital	16	657,864	657,864
- Adjustment to share capital	16	812,518	812,518
Total paid in share capital		1,470,382	1,470,382
Other reserves		2,186	-
Retained earnings	17	489,183	292,732
Total shareholders' equity		1,961,751	1,763,114
Total liabilities and shareholders' equity		3,422,588	4,436,441
Commitments and contingent liabilities	19		

The financial statements as at and for the year ended 31 December 2005 have been approved for issue by the Board of Directors on 10 February 2006 and signed on its behalf by Necati Yeniaras, the Chief Financial Officer and; by Muhittin Akbaş, the Head of Accounting and Reporting of the Bank.

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.
STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER

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

	Notes	2005	2004
Interest income:			
Interest on loans and advances to customers		274,897	323,261
Interest on interbank money market		17,522	67,928
Interest on investment and trading securities		58,710	88,821
Interest on deposits with banks		28,126	13,500
Other interest income		801	519
Total interest income		380,056	494,029
Interest expense:			
Interest on funds borrowed and debt securities in issue		(57,583)	(49,405)
Interest on interbank money market deposits		(9,203)	(8,288)
Other interest expenses		(7,291)	(58,440)
Total interest expense		(74,077)	(116,133)
Net interest income		305,979	377,896
Fee and commission income		1,212	1,076
Fee and commission expense		(2,371)	(9,042)
Net fee and commission expense		(1,159)	(7,966)
Foreign exchange gains, net		18,553	3,584
Other operating income		136,789	109,448
Operating income		460,162	482,962
Operating expenses	18	(87,081)	(75,661)
Net trading gains		1,005	9,379
Loss on net monetary position		(46,342)	(201,414)
Net income for the year		327,744	215,266

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

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

	Note	2005	2004
Cash flows from operating activities:			
Net income for the year		327,744	215,266
Adjustments for:			
Depreciation and amortisation	18	1,204	1,136
Provision for loan losses	8	973	17,449
Provision for employment termination benefits	15	(70)	(833)
Remeasurement of derivative financial instruments at fair value		28,430	(5,414)
Interest income, net		(305,979)	(377,896)
Interest paid		(101,890)	(121,547)
Interest received		399,604	527,969
Inflation effect on non-operating activities		(180)	(490)
Inflation effect on impairment provision for loan losses		(4,538)	(38,178)
Operating profit before changes in operating assets and liabilities		**337,496**	**217,462**
Net decrease in loans and advances to customers		597,712	880,783
Net increase in financial assets at fair value through profit or loss		(1,830)	(38,859)
Net decrease in other assets		568	7,958
Net increase/(decrease) in other liabilities		24,477	(469,477)
Inflation effect on operating activities		(37,917)	(16,803)
Net cash from operating activities		**928,308**	**581,064**
Cash flows used in investing activities:			
Purchases of property and equipment, net		(685)	1,102
Net increase in investment securities		884	49,980
Net cash used in investing activities		**199**	**51,082**
Cash flows from/(used in) financing activities:			
Repayment of borrowed funds and debt securities, net		(1,208,240)	(610,225)
Dividends paid		(131,293)	(197,429)
Inflation effect on financing activities		56,304	72,251
Net cash used in financing activities		**(1,283,229)**	**(735,403)**
Net decrease in cash and cash equivalents		**(354,722)**	**(103,257)**
Inflation effect on cash and cash equivalents		**(13,670)**	**(16,780)**
Cash and cash equivalents at the beginning of the year		**527,722**	**647,759**
Cash and cash equivalents at the end of the year	5	**159,330**	**527,722**

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.
STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER

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

	Share Capital					
	Share Capital	Adjustment to share capital	Total paid-in capital	Other reserves	Retained Earnings/ (Accumulated Deficit)	Total
Balance at 1 January 2004 - as previously reported	657,864	4,530,150	5,188,014	-	(3,442,739)	1,745,275
Elimination of accumulated deficit (Note 2.s)	-	(3,717,632)	-	-	3,717,632	-
Balance at 1 January 2004 - as restated	657,864	812,518	1,470,382	-	274,893	1,745,275
Cash dividends	-	-	-	-	(197,429)	(197,429)
Net income for the year	-	-	-	-	215,268	215,268
Balance at 31 December 2004	657,864	812,518	1,470,382	-	292,732	1,763,114
Balance at 1 January 2005 - as previously reported	657,864	4,530,150	5,188,014	-	(3,424,900)	1,763,114
Elimination of accumulated deficit (Note 2.s)	-	(3,717,632)	-	-	3,717,632	-
Balance at 1 January 2005 - as restated	657,864	812,518	1,470,382	-	292,732	1,763,114
Available-for-sale-securities' net fair value gains	-	-	-	2,186	-	2,186
Cash dividends	-	-	-	-	(131,293)	(131,293)
Net income for the year	-	-	-	-	327,744	327,744
Balance at 31 December 2005	657,864	812,518	1,470,382	2,186	489,183	1,961,751

The accompanying notes form an integral part of these financial statements.

NOTE 1 - PRINCIPAL ACTIVITIES

Türkiye İhracat Kredi Bankası A.Ş. (“the Bank” or “Eximbank”) is established as Turkey's “Official Export Credit Agency” on 25 March 1987 (transformed from “State Investment Bank”) as a development and investment bank and accordingly, the Bank does not accept deposits. The Bank's head office is located at Müdafaa Caddesi, 20 Bakanlıklar, Ankara/Turkey. As of 31 December 2005, the Bank has 2 branches at İstanbul and İzmir and 3 liaison offices at Denizli, Kayseri and Gaziantep. As of 31 December 2005, the Bank employed 369 people (31 December 2004: 342 people).

The Bank has been mandated to support foreign trade through diversification of the exported goods and services, by increasing the share of exporters and entrepreneurs in international trade, and to create new markets for the exported commodities, to provide exporters and overseas contractors with support to increase their competitiveness and to ensure a risk free environment in international markets.

As a means of aiding export development services, the Bank performs loan, guarantee and insurance services in order to financially support export and foreign currency earning services. While performing above-mentioned operations, the Bank provides short, medium or long term, domestic and foreign currency lending through borrowings from domestic and foreign money and capital markets and from its own sources.

On the other hand, the Bank also performs fund management (treasury) operations related with its core banking operations. These operations are domestic and foreign currency capital market operations, domestic and foreign currency money market operations, foreign currency market operations, derivative transactions, all of which are approved by the Board of Directors.

The losses due to the political risks arising on loan, guarantee and insurance operations of the Bank, are transferred to the Undersecretariat of Treasury (“Turkish Treasury”) according to article 4/C of Act number 3332 that was appended by Act number 3659 and according to Act regarding the Public Financing and Debt Management, number 4749, dated 28 March 2002.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of presentation of financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). The Bank maintains its books of accounts and prepares its statutory financial statements in New Turkish Lira in accordance with the Banking Law and the accounting principles promulgated by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code and Tax Regulations. These financial statements are based on the historical cost convention, restated for the effects of inflation and as modified by the revaluation of available-for-sale financial assets, trading securities and all derivative contracts.

The financial statements are presented in the national currency of the Republic of Turkey, the New Turkish Lira (“YTL”) (Note 2.t), expressed in terms of the purchasing power of YTL as at 31 December 2005.

The preparation of financial statements in conformity with International Financial Reporting Standards (“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 Note 4.

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

Adoption of revised standards

In 2005, the Bank adopted the following revised IFRS, which are relevant to its operations. The financial statements have been amended, as required, 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 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 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 4 (issued 2004)	Insurance Contracts

The adoption of IAS 1, 8, 10, 16, 21, 24, 32 and 39 (all revised 2003), IAS 36 and 38 (all revised 2004), and IFRS 4 (issued in 2004) have been made in accordance with the transition provisions in the respective standards and did not result in substantial changes to the Bank's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation and other disclosures,
- IAS 8, 10, 16, 21, 24, 39 (revised 2003) and IAS 36 (revised 2004) have no material effect on the Bank's policies,
- IAS 32 (revised 2003) has affected disclosure requirements in relation to financial instruments,
- IAS 38 (revised 2004) has no adjustment resulted from the reassessment of useful lives of its intangible assets.

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

(b) Accounting for the effect of hyperinflation

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

Indices and conversion factors used to restate these financial statements are given below:

Dates	Index	Conversion factor
31 December 2005	8,627.28	1.0000
31 December 2004	8,403.80	1.0266
31 December 2003	7,382.10	1.1687

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, which are carried at amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant (monthly, yearly average, year-end) conversion factors.

• Comparative financial statements are restated in terms of the measuring unit current at the currency 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 or loss on net monetary position.

(c) Derivative financial instruments
Derivative financial instruments, including currency swap instruments, are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently remeasured at their fair value. All derivative financial instruments are classified as held for trading. Even though cross currency swap transactions, while providing effective economic hedges under the Bank's 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. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Fair value of over-the-counter ("OTC") forward or swap foreign exchange contracts is determined based on the comparison of the original forward rate with the market interest rates. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(d) Investment securities
Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. 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 transaction prices, which normally reflect their fair values.

Available-for-sale investment debt and equity securities are subsequently remeasured at fair value based on quoted bid prices, or amounts derived from cash flow models. 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. Impairment losses recognised in the income statement on equity instruments are not reversed through 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.

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

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

(e) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists and are those designated at fair value through profit and loss at inception. These are initially recognised at cost 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.

(f) Income and expense recognition
Income and expenses are recognised on an accrual basis. Commission income and fees for certain banking services such as import and export related services and issuance of letters of guarantee and are recorded as income at the time of effecting the transactions to which they relate.

(g) Interest income and expense
Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price until, in management's estimates and judgment, collection becomes doubtful. Interest income includes coupons earned on fixed income securities and accrued discount on treasury bills.

(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. The level of the provision is also based on applicable banking regulations. 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 cannot be recovered are written off and charged against the allowance for loan losses. Such loans are written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for loan losses for the year (Note 8).

(i) Financial liabilities
Financial liabilities, including funds borrowed from banks and debt securities in issue, are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost 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 yield method.

(j) Foreign exchange transactions
Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date 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.

(k) Property and equipment
All property and equipment carried at historical cost less accumulated depreciation are restated to the equivalent purchasing power at 31 December 2005. Depreciation is calculated over the restated amounts of property and equipment using the straight-line method to write off the restated cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	50 years
Equipment and vehicles	4-16 years

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 disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

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.

(l) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (not exceeding a period of five years). The intangible assets are accounted for under property and equipment in these financial statements.

(m) Taxation on income

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of Act number 3659, the above-mentioned exemption became valid from 1 January 1988. Accordingly, deferred tax is not calculated and reflected to these financial statements.

(n) Employment termination benefits

Employment termination benefits ("ETB") represent the present value of the estimated total reserve for the future probable obligation of the Bank arising from the retirement of the employees, calculated in accordance with the Turkish Labor Law (Note 15).

The ETB provisions are booked as stated above for the personnel, who were subject to T.C. Emekli Sandığı (State Pension Fund) prior to the change in the statute of the Bank as "Eximbank" in 1987 and who are currently working for the Bank. In the case of the retirement of aforementioned personnel, T.C. Emekli Sandığı calculates and pays the termination benefits (seniority premium) of the personnel for the services of such personnel before 1987 and requests the amount from the Bank thereafter. The requested amount is transferred to T.C. Emekli Sandığı by the Bank. The Bank provides additional provision for such liability.

(o) 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.

(p) Offsetting

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

(q) Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and advances. Specific provisions are therefore established when losses are considered probable and recorded as other liabilities (Note 19).

(r) Reporting of cash flows

For the purposes of cash flow statement, cash and cash equivalents include cash, due from banks, trading securities and investment securities with original maturity periods of less than three months and share certificates (Note 5).

(s) Comparatives and restatement of the financial statements

Elimination of "accumulated deficit" and "adjustment to share capital" in accordance with the changes in the statutory financial statements:
Effective from 31 December 2001, with some further changes in 2002, the BRSA has introduced significant changes to the statutory financial accounting standards for banks in Turkey, including the implementation of inflation accounting. Accordingly, the Bank started to prepare and announce its statutory financial statements based on inflation accounting principles as promulgated by BRSA, which is also in line with IAS 29 in all material aspects ("inflation adjusted statutory financial statements"). Prior to these changes, the Bank's statutory financial statements were based on non-inflation adjusted historical amounts ("historical financial statements") and the historical financial statements were the base for profit distribution. As a result of inflation accounting application for the first time as of 31 December 2001, the Bank's "Shareholders' equity" in the statutory financial statements comprised "Share capital", "Adjustment to share capital", "Legal and extraordinary reserves" and "Accumulated deficit". The "Accumulated deficit" arose because of the transfers from "Retained earnings" to "Share capital" via the issuance of bonus shares and to "Legal and extraordinary reserves", based on net income according to the historical financial statements in the previous periods. Thus, such transfers caused a negative impact on the retained earnings of the Bank in the inflation adjusted statutory financial statements because the net income as per the historical financial statements was higher than that of the inflation adjusted statutory financial statements, and accordingly the transferred amounts exceeded the balance of the "Retained earnings" account according to the inflation adjusted financial statements.

On 29 July 2002, the BRSA approved the elimination of such accumulated deficit against current year income, if any, legal and extraordinary reserves and adjustment to share capital (which represents the restatement effect of cash and cash equivalent contributions to share capital), respectively, in order to enable banks to distribute future probable profits as per the Turkish Commercial Code. Following the BRSA approval and in line with the resolution of the Board of Directors meeting of the Bank, which was held on 15 April 2003, the Bank reported this elimination transaction in its inflation adjusted statutory financial statements. Accordingly, the effects of this elimination have also been reflected in these financial statements, which are prepared on the basis of IFRS and; the accumulated deficit of YTL3,717,632 thousand and the corresponding amount of adjustment to share capital have been eliminated retrospectively as a restatement of prior period financial statements.

(t) New Turkish Lira
Through the enactment of the Law numbered 5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 31 January 2004, the New Turkish Lira ("YTL") and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The sub-unit of the YTL is the YKr (1 YTL=100 YKr). When the prior currency, Turkish Lira, values are converted into YTL, one million TL shall be equivalent to 1 YTL. Accordingly, the currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

All references made to New 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 the keeping and presenting of books, accounts and financial statements.

(u) 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 20).

(v) Comparatives
Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

NOTE 3 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

As of 31 December 2005, the loan portfolio of the Bank constitutes approximately 85% of total assets. In short term lending, the Bank is taking the risk of the Turkish banking system, however, medium-to-long term country loans are under the political risk guarantee of the Turkish Treasury.

The interest rates of the 16% of the foreign currency denominated liabilities are constant while remaining is floating. The Bank has converted the rate of its fixed rate borrowings into floating rate by the cross-currency swaps. In accordance with its mission, the Bank strives to reflect the cost of its funding to the foreign currency loans granted. The loans denominated in New Turkish Lira are fully funded by equity and in accordance with the Bank's mission.

The Board of Directors of the Bank sets risk limits and parameters for the transactions having significant implications for the operations of the Bank.

The objective of the Bank's asset and liability management and use of financial instruments is to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy.

(b) Credit risk

According to article numbered 25 of the decree (regulating the "Articles of Association" of the Bank) of the Council of Ministers dated 17 June 1987; the scope of the annual operations of the Bank is determined by the Bank's Annual Program that is approved by Supreme Advisory and Credit Guidance Committee ("SCLGC"). SCLGC is chaired by the Prime Minister or State Minister appointed by the Prime Minister and includes executive managers. The Board of Directors of the Bank is authorised to allocate the risk limits of loan, guarantee and insurance premium to country, sector and commodity groups, within the boundaries of the Annual Program.

In accordance with the collateralisation policy of the Bank, the Bank is taking the risks of domestic banks short-term loans.
The cash and non-cash limits of domestic banks for short-term credits are approved by the Board of Directors.

Short-term export loans and foreign currency earning services are granted to companies upon the approval of the Loan Committee of the Bank. This authorisation is limited to 1% of the equity of the Bank.

The risk limits of the foreign country loans are determined by annual programs which are approved by SCLGC within the foreign economic policy.

Country loans are granted with the approval of the Board of Directors and the approval of the Minister and the Council of Ministers, according to article 10 of Act number 4749 dated 28 March 2002 related to the regulation of Public Finance and Debt Management.

The fundamental collateral of the foreign country loans are the government guarantee of the counter country and the guarantee of banks that the Bank accepts as accredited.

The limit of a country is restricted by both "maximum limit that can be undertaken" and "maximum amount that can be used annually".

Each year major portion of the commercial and politic risks emerged in Short-Term Export Insurance Program is transferred to international reinsurance companies under renewed agreements.

According to the Article 4/C of Act number 3332 that was appended by Act number 3659 and Act regarding the regulation of Public Financing and Debt Management dated 28 March 2002, the losses incurred by the Bank in its credit, guarantee and insurance transactions as a result of political risks are covered by the Turkish Treasury.

The Bank reviews reports of OECD country risk groupings, reports of the members of the International Union of Credit and Investment Insurers, reports of independent credit rating institutions and the financial statements of the banks during the assessment and review of the loans granted.

The risks and limits of companies and banks are followed by both loan and risk departments on a weekly and monthly basis.

In addition, all of the foreign exchange denominated operations and other derivative transactions of the Bank are carried on under the limits approved by the Board of Directors.

Business and geographic distribution of the loan risks runs parallel with the export composition of Turkey and this is followed up by the Bank regularly.

(c) Market risk

The Bank considers currency risk and interest rate risk as the most important components of market risk. The limit structure for such risks is designed by considering the capital structure of the Bank. Currency and interest rate risks are analysed both on a portfolio and on a product basis.

(d) Currency risk

Foreign currency denominated assets and liabilities, together with purchase and sale commitments give rise to foreign exchange exposure.

The Bank's foreign exchange position is followed daily, and the transactions are performed in accordance with the expectations in the market and within the limits determined by the Risk Management Principles approved by the Board of Directors of the Bank.

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

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2005 and 2004. Included in the table are the Bank's assets and liabilities and equity at carrying amounts, categorised by currency.

				2005		
	US$	EUR	JPY	Other	YTL	Total
Cash and due from banks	21,092	10,778	866	574	126,020	159,330
Financial assets at fair value through profit or loss	9,413	-	-	-	132,039	141,452
Derivative financial instruments	3,384	-	2,869	-	934	7,187
Loans and advances to customers	1,051,045	430,929	618	7,322	1,402,638	2,892,562
Investment securities						
- Available-for-sale	11,715	-	-	-	5,060	16,775
- Held-to-maturity	72,151	-	-	-	117,659	189,810
Property and equipment	-	-	-	-	10,253	10,253
Other assets	1,760	96	-	-	3,363	5,219
Total assets	**1,170,570**	**441,803**	**4,353**	**7,896**	**1,797,966**	**3,422,588**
Other funds borrowed	712,390	70,229	154,819	-	-	937,438
Derivative financial instruments	4,240	-	-	-	-	4,240
Other liabilities	476,707	15,249	-	-	20,429	512,385
Reserve for employment termination benefits	-	-	-	-	6,774	6,774
Shareholders' equity	1,739	-	-	-	1,960,012	1,961,751
Total liabilities and equity	**1,195,076**	**85,478**	**154,819**	**-**	**1,987,215**	**3,422,588**
Net balance sheet position	**(24,506)**	**356,325**	**(150,466)**	**7,896**	**(189,249)**	**-**
Off balance sheet derivative instruments net notional position	**37,384**	**(350,900)**	**144,571**	**-**	**176,425**	**7,480**

At 31 December 2005, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of YTL1.3458 = US$1 and YTL1.595 = EUR1.

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

			2004		
	US$	EUR	Other	YTL	Total
Cash and due from banks	177,963	123,179	4,134	222,446	527,722
Financial assets at fair value through profit or loss	27,555	-	-	110,360	137,915
Derivative financial instruments	339	-	36,122	-	36,461
Loans and advances to customers	1,645,311	467,717	5,172	1,394,009	3,512,209
Investment securities					
- Available-for-sale	21,980	1,091	-	3,999	27,070
- Held-to-maturity	70,514	6,087	-	101,904	178,505
Property and equipment	-	-	-	10,772	10,772
Other assets	1,466	178	11	4,132	5,787
Total assets	1,945,128	598,252	45,439	1,847,622	4,436,441
Other funds borrowed	880,922	564,908	225,898	1,052	1,672,780
Debt securities in issue	500,711	-	-	-	500,711
Derivative financial instruments	5,084	-	-	-	5,084
Other liabilities	240,238	5,504	2,748	239,380	487,870
Reserve for employment termination benefits	-	-	-	6,882	6,882
Shareholders' equity	-	-	-	1,763,114	1,763,114
Total liabilities and equity	1,626,955	570,412	228,646	2,010,428	4,436,441
Net balance sheet position	318,173	27,840	(183,207)	(162,806)	-
Off balance sheet derivative instruments net notional position	(198,740)	(24,654)	218,467	-	(4,927)

At 31 December 2004, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of YTL1.337042= US$1 and YTL1.822923 = EUR1.

(e) Interest rate risk

The Bank is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest-sensitive assets and liabilities. Interest rate risk is the key component of the Bank's asset and liability management. Interest rate risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities and the remaining interest rate risk is managed with derivative instruments including interest rate swaps.

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

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

	2005					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash and due from banks	157,492	-	-	-	1,838	159,330
Financial assets at fair value through profit or loss	13,842	102,668	24,942	-	-	141,452
Derivative financial instruments	6,962	225	-	-	-	7,187
Loans and advances to customers	992,558	1,749,089	150,915	-	-	2,892,562
Investment securities						
- Available-for-sale	-	-	11,715	-	5,060	16,775
- Held-to-maturity	51,029	78,753	15,220	44,808	-	189,810
Property and equipment	-	-	-	-	10,253	10,253
Other assets	-	-	-	-	5,219	5,219
Total assets	1,221,883	1,930,735	202,792	44,808	22,370	3,422,588
Other funds borrowed	230,375	605,862	101,201	-	-	937,438
Derivative financial instruments	4,240	-	-	-	-	4,240
Other liabilities	53,586	369,530	-	-	89,269	512,385
Reserve for employment termination benefits	-	-	-	-	6,774	6,774
Total liabilities	288,201	975,392	101,201	-	96,043	1,460,837
Net repricing gap	933,682	955,343	101,591	44,808	(73,673)	1,961,751

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

	2004					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash and due from banks	526,465	-	-	-	1,257	527,722
Financial assets at fair value through profit or loss	37,981	54,814	45,120	-	-	137,915
Derivative financial instruments	36,461	-	-	-	-	36,461
Loans and advances to customers	1,492,504	1,872,035	64,961	82,709	-	3,512,209
Investment securities						
- Available-for-sale	12,594	-	10,477	-	3,999	27,070
- Held-to-maturity	112,060	56,717	9,728	-	-	178,505
Property and equipment	-	-	-	-	10,772	10,772
Other assets	-	-	-	-	5,787	5,787
Total assets	**2,218,065**	**1,983,566**	**130,286**	**82,709**	**21,815**	**4,436,441**
Other funds borrowed	907,922	597,888	150,159	16,811	-	1,672,780
Debt securities in issue	500,711	-	-	-	-	500,711
Derivative financial instruments	5,084	-	-	-	-	5,084
Other liabilities	13,046	-	-	-	474,824	487,870
Reserve for employment termination benefits	-	-	-	-	6,882	6,882
Total liabilities	**1,426,763**	**597,888**	**150,159**	**16,811**	**481,706**	**2,673,327**
Net repricing gap	**791,302**	**1,385,678**	**(19,873)**	**65,898**	**(459,891)**	**1,763,114**

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

	2005			
	US$ (%)	EUR (%)	JPY (%)	YTL (%)
Assets				
Cash and due from banks:				
-Time deposits in foreign banks	4.20	2.35	-	14.99
-Time deposits in domestic banks	-	-	-	15.03
-Interbank money market placements	-	-	-	13.50
Financial assets at fair value through profit or loss	9.46	-	-	18.29
Loans and advances to customers	5.28	3.83	1.61	14.69
Investment securities				
-Available-for-sale	9.66	-	-	-
-Held-to-maturity	6.80	-	-	17.42
Liabilities				
Other funds borrowed	4.95	3.09	2.47	-

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

	2004		
	US$ (%)	EUR (%)	YTL (%)
Assets			
Cash and due from banks:			
-Time deposits in foreign banks	1.52	2.03	-
-Time deposits in domestic banks	-	-	21.86
-Interbank money market placements	-	-	18.00
Financial assets at fair value through profit or loss	9.39	-	30.44
Loans and advances to customers	3.59	4.31	19.24
Investment securities:			
-Available-for-sale	8.06	10.12	-
-Held-to-maturity	7.33	8.87	29.83
Liabilities			
Other funds borrowed	2.15	4.05	22.25
Debt securities in issue	11.50	-	-

(f) Liquidity risk

A major objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments and to satisfy the Bank's own liquidity needs. The Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets determined by the Board of Directors which it judges sufficient to meet its commitments.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity management of the Bank. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.
The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank prepares cash flow schedules in domestic and foreign currency weekly, monthly and annually and uses these schedules in the decision making process of the liquidity management.

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

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

	2005					
	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Cash and due from banks	159,330	-	-	-	-	159,330
Financial assets at fair value through profit or loss	5,882	102,668	32,902	-	-	141,452
Derivative financial instruments	4,094	225	-	2,868	-	7,187
Loans and advances to customers	857,248	1,839,306	196,008	-	-	2,892,562
Investment securities						
- Available-for-sale	-	-	11,715	-	5,060	16,775
- Held-to-maturity	24,066	70,140	51,554	44,050	-	189,810
Property and equipment	-	-	-	-	10,253	10,253
Other assets	-	-	-	-	5,219	5,219
Total assets	**1,050,620**	**2,012,339**	**292,179**	**46,918**	**20,532**	**3,422,588**
Other funds borrowed	105,125	483,675	213,198	135,440	-	937,438
Derivative financial instruments	-	-	-	4,240	-	4,240
Other liabilities	54,366	369,530	-	-	88,489	512,385
Reserve for employment termination benefits	-	-	-	-	6,774	6,774
Total liabilities	**159,491**	**853,205**	**213,198**	**139,680**	**95,263**	**1,460,837**
Net liquidity gap	**891,129**	**1,159,134**	**78,981**	**(92,762)**	**(74,731)**	**1,961,751**

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

	2004					
	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Cash and due from banks	526,465	-	-	-	1,257	527,722
Financial assets at fair value through profit or loss	23,566	54,814	59,535	-	-	137,915
Derivative financial instruments	-	-	-	36,461	-	36,461
Loans and advances to customers	1,116,314	2,050,506	262,680	82,709	-	3,512,209
Investment securities						
- Available-for-sale	12,545	-	10,526	-	3,999	27,070
- Held-to-maturity	98,052	56,717	23,736	-	-	178,505
Property and equipment	-	-	-	-	10,772	10,772
Other assets	-	-	-	-	5,787	5,787
Total assets	1,776,942	2,162,037	356,477	119,170	21,815	4,436,441
Other funds borrowed	377,682	757,738	324,256	213,104	-	1,672,780
Debt securities in issue	500,711	-	-	-	-	500,711
Derivative financial instruments	-	-	-	5,084	-	5,084
Other liabilities	11,135	22,250	7,245	-	447,240	487,870
Reserve for employment termination benefits	-	-	-	-	6,882	6,882
Total liabilities	889,528	779,988	331,501	218,188	454,122	2,673,327
Net liquidity gap	887,414	1,382,049	24,976	(99,018)	(432,307)	1,763,114

(g) Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, improving the skills of the staff, improving the job technology and job definitions, establishing the necessary internal controls and various insurances are employed as main methods.

(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, judgment 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.

A market does not presently exist for term loans which would facilitate obtaining prices for comparative instruments, and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Accordingly, fair value has not been computed for these instruments and net book amounts are considered to be a reasonable estimate of the fair value. Balances denominated in foreign currencies are translated at year-end exchange rates.

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 cost, including cash and balances with the Central Bank of Turkey, due from other banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

The fair value of investment securities has been estimated based on market prices at balance sheet dates (Note 9).

The carrying value of loans and advances to customers, along with the related allowances for impairment, is considered to approximate their fair value.

(ii) Financial liabilities

Financial liabilities including debt securities in issue and funds borrowed are recognised initially at cost net of transaction costs. 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 yield method.

(iii) Derivative financial instruments

The fair values of foreign exchange and cross-currency swaps have been estimated based on quoted market rates prevailing at the balance sheet date (Notes 7 and 19).

NOTE 4 - 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 judgments 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 at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments 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) Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

(c) 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 judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investor, industry and sector performance, changes in technology, and operational and financing cash flows.

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

(d) 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 judgment. In making this judgment, 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 at amortised cost.

NOTE 5 - CASH AND DUE FROM BANKS

	2005	2004
Cash funds:		
Cash on hand	6	-
	6	-
Current accounts and demand deposits:		
Central Bank of the Republic of Turkey	65	95
Foreign banks	1,687	1,067
Domestic banks	80	95
	1,832	1,257
Time deposits:		
Foreign banks	108,222	324,688
Domestic banks	39,470	140,541
	147,692	465,229
Interbank money market placements	9,800	61,236
Total cash and due from banks	159,330	527,722

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December is as follows:

	2005	2004
Cash and due from banks	159,330	527,722

NOTE 6 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005	2004
Government bonds	132,039	107,297
Eurobonds	9,413	30,618
	141,452	137,915

There are no securities pledged under repurchase agreements.

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

The Bank utilises the following derivative instruments:
"Cross currency and foreign exchange swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of principal as well. The Bank's "credit risks" represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table.

	2005 Fair values		2004 Fair values	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps purchases and sales	758	-	-	-
Foreign exchange swaps purchases and sales	3,562	-	339	-
Cross currency swaps purchases and sales	2,867	(4,240)	36,122	(5,084)
Total derivative assets/(liabilities)	7,187	(4,240)	36,461	(5,084)

As also explained in Note 2 (c), even though certain derivative transactions, while providing effective economic hedges under the Bank's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading. The Bank extends medium-term project finance loans in US$ at floating rate by using JPY fixed-rate medium term borrowings. In order to hedge the exchange rate and interest rate risks attached to this transaction cross currency swap transactions were performed with foreign banks.

The notional amounts of derivative transactions are explained in detail in Note 19.

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

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

	2005	2004
Short-term		
Financial institutions	1,402,222	1,694,847
Export guaranteed loans	805,677	880,690
Fund sourced loans (Note 14)	412,565	404,437
Specialized loans	32,045	24,012
Discount loans	4,707	9,820
Other loans guaranteed	608	3,716
	2,657,824	3,017,522
Medium and long-term		
Foreign country loans (political risks)	84,683	103,433
Financial institutions	72,161	85,725
Export guaranteed investment loans	8,664	14,726
Specialized loans	3,216	14,056
Other	16,611	2,092
	185,335	220,032
Performing loans	2,843,159	3,237,554
Non-performing foreign country loans (political risks)	32,371	328,328
Non-performing loans under legal follow-up	39,617	38,644
Accrued interest receivable	62,012	82,974
Total loans and advances to customers	2,977,159	3,687,500
Allowance for loan losses	(84,597)	(175,291)
Net loans and advances to customers	2,892,562	3,512,209

The Bank provides allowance amounting to YTL12,373 thousand (31 December 2004: YTL68,737 thousand) for non-performing foreign country loans and 100% allowance for non-performing loans under legal follow-up amounting to YTL39,617 thousand (31 December 2004: YTL38,644 thousand) comprising 1.33% (31 December 2004: 1.05%) of the total loans outstanding at 31 December 2005. The Bank also provided an additional allowance amounting YTL32,607 thousand (31 December 2004: YTL67,910 thousand) for other components of the loan portfolio to cover the inherent risk of loss present in the lending relationship.

In 2005, YTL130,089 thousand has been accrued as the share of the Turkish Treasury from 2004 profit and has been reserved and netted off from political risks in accordance with the letter dated 18 May 2005 from Turkish Treasury.

Movements in the provision for loan losses for the year ended 31 December are as follows:

	2005	2004
Balance at the beginning of the year	175,291	314,043
- Recoveries	(87,129)	(118,018)
- Net specific provision for the year	973	17,449
- Monetary gain	(4,538)	(38,183)
Balance at year end	84,597	175,291

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

Loans and advances to the public sector and private sector are as follows:

	2005	2004
Public sector	204,157	199,677
Private sector	2,773,002	3,487,823
	2,977,159	3,687,500

NOTE 9 - INVESTMENT SECURITIES

(a) Available-for-sale securities:

	2005	2004
Debt securities		
- Eurobonds	11,715	23,071
Equity securities		
- Listed	5,060	3,999
Total available-for-sale securities	16,775	27,070

There are no securities pledged under repurchase agreements or pledged as collateral with financial institutions.

The Bank has not reclassified any financial asset measured at amortised cost rather than fair value for the year ending 31 December 2005.

As explained in Note 2 (c) unrealised gain and losses arising from changes in the fair value of securities classified as "available-for-sale" are recognised as "other reserves" in the shareholders' equity unless there is a permanent decline in the fair values of such assets, which are charged to the income statement.

The breakdown of available-for-sale equity securities at 31 December 2005 and 2004 are as follows:

	Share %		Carrying Amount		
Listed Equity Securities	2005	2004	2005	2004	Business
Garanti Faktoring Hizmetleri A.Ş.	9.78	9.78	5,060	3,999	Factoring
			5,060	3,999	

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

(b) Held-to-maturity securities:

	2005	2004
Debt Securities		
- Government Bonds	100,829	117,347
- Treasury Bills	16,945	30,856
- Eurobonds	56,839	15,034
- Government bonds denominated in foreign currency	15,197	15,268
Total held-to-maturity securities	189,810	178,505

As of 31 December 2005, Treasury bills and government bonds amounting to YTL105,161 have been pledged as collateral with the Central Bank of Turkey and Istanbul Stock Exchange.

The fair values of the held-to-maturity securities amount to YTL191,661 thousand (2004: YTL117,891 thousand) as of 31 December 2005.

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey.

The movement of held-to-maturity securities is as follows:

	2005
Balance at 1 January	178,505
Purchases	167,448
Redemptions	(171,441)
Foreign exchange difference	19,922
Monetary loss	(4,624)
Balance at 31 December	189,810

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

NOTE 10 - PROPERTY AND EQUIPMENT

	Land and Buildings	Equipment and Vehicles	Total
At 1 January 2004			
Cost	18,165	9,550	27,715
Accumulated depreciation	7,804	7,206	15,010
Net book amount	**10,361**	**2,344**	**12,705**
Year ended 31 December 2004			
Opening net book amount	10,361	2,344	12,705
Additions	-	200	200
Disposals	(1,232)	-	(1,232)
Depreciation charge	(318)	(799)	(1,117)
Closing net book amount	**8,811**	**1,745**	**10,556**
At 31 December 2004			
Cost	16,924	9,750	26,674
Accumulated depreciation	8,113	8,005	16,118
Net book amount	**8,811**	**1,745**	**10,556**
Year ended 31 December 2005			
Opening net book amount	8,811	1,745	10,556
Additions	422	263	685
Depreciation charge	(321)	(788)	(1,109)
Closing net book amount	**8,912**	**1,220**	**10,132**
At 31 December 2005			
Cost	17,346	9,660	27,006
Accumulated depreciation	8,434	8,440	16,874
Net book amount	**8,912**	**1,220**	**10,132**

The Bank holds intangible assets composed of software investments with net book value of YTL121 thousand as of 31 December 2005 (31 December 2004: YTL216 thousand) which are accounted for under property and equipment in these financial statements. The amortisation charge for the intangible assets for the year ending 31 December 2005 and 2004 is YTL95 thousand and YTL92 thousand, respectively.

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

NOTE 11 - OTHER ASSETS

The principal components of other assets are as follows:

	2005	2004
Receivables from Development and Support Fund	6,552	6,682
Insurance Premiums Receivables	2,818	3,173
Receivables from Reinsurance Companies	607	-
Other	1,794	2,614
	11,771	12,469
Provision for impairment on other assets	(6,552)	(6,682)
	5,219	5,787

As at 31 December 2005, US$447,071 (YTL602 thousand, 31 December 2004: YTL613 thousand) receivable from the Development and Support Fund is due to the incomplete payment of General Headquarters of Gendarme regarding the military equipment purchases. Rest of the receivables from the Development and Support Fund, amounting to US$4,421,357 (YTL5,950 thousand, 31 December 2004: YTL6,069 thousand), arises from the exchange losses due to the late transfer of the funds to the Bank from the Ministry of Defense. As of 31 December 2005, there is no improvement in the collection of these receivables for the last five years and accordingly, 100% provision is provided and booked as provision for impairment on other assets.

NOTE 12 - OTHER FUNDS BORROWED AND DEBT SECURITIES IN ISSUE

Funds borrowed:

	2005	2004
Domestic Banks		
- New Turkish Lira	-	1,052
- Foreign Currency	286,766	837,640
	286,766	838,692
Foreign Institutions		
-Foreign Currency	650,672	834,088
	650,672	834,088
Total other funds borrowed	937,438	1,672,780

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

The breakdown of other funds borrowed is as follows:

	2005	2004
Subordinated Loans (i)	271,775	275,914
Syndicated Loans (ii)	269,578	278,220
Japan Bank for International Cooperation (JBIC) (iii)	154,281	225,213
World Bank-Export Finance Intermediation Loan (EFIL) (iv)	92,055	181,395
Isbank-GmbH-Frankfurt (v)	61,010	62,929
Calyon Bank Paris (vi)	42,298	-
Black Sea Trade and Development Bank (vii)	31,449	31,995
Borrowings from Domestic Banks (viii)	13,614	489,866
Borrowings from the Central Bank of Turkey (CBT) (ix)	1,378	74,306
Finansbank Holland	-	47,474
EDC (Export Development Corporation)-Canada	-	5,432
International Bank for Reconstruction and Development (IBRD)	-	36
Total	937,438	1,672,780

(i) As of 31 December 2005 US$200 million (YTL271,775thousand) of the Fiscal and Public Sector Adaptation Credit, provided by the World Bank to Turkish Treasury in accordance with the agreement signed on 12 July 2001, is transferred to the Bank for the development of the export oriented real sector.

(ii) As of 31 December 2005, the Bank raised a syndicated credit facility, in the amount of US$200 million (YTL269,578 thousand) on 31 January 2005.

(iii) As of 31 December 2005, the Bank has raised two lines of credit at an amount of JPY13,323 million (YTL154,281 thousand) with the guarantee of Turkish Treasury, from JBIC (Japanese Bank for International Cooperation) for the support of the projects in third world countries by Turkish businessman.

(iv) The Bank obtained loan facility from World Bank, with the guarantee of Turkish Treasury, in order to increase the competitive power of exporters through providing short/medium term working capital needs and supporting export based investments and to attain a permanent increase in export figures. The amount of the funds borrowed from World Bank is US$67 million (YTL92,055 thousand).

(v) Funds borrowed from İşbank Frankfurt include credit facilities in the amount of EUR 38 million (YTL61,010 thousand).

(vi) As of 31 December 2005, the bank borrowed from Calyon Bank Paris at an amount of US$25 million (YTL34,259 thousand) and EUR 5 million (YTL8,039 thousand).

(vii) The revolving loan borrowed from Black Sea Trade and Development Bank within the context of the relationships of the Bank amounts to US$23 million (YTL31,449 thousand).

(viii) As of 31 December 2005, the Bank borrowed from Banca Di Roma SPA at an amount of US$10 million (YTL13,614 thousand).

(ix) The Bank obtained borrowing for discount loan programs from the Central Bank of the Republic of Turkey amounting to YTL1,378 thousand.

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

As of 31 December 2005 and 2004, the repayment schedule of the borrowed funds is as follows:

	2005	2004
2005	-	1,135,420
2006	588,800	166,575
2007	83,329	80,589
2008	46,026	39,539
2009	43,231	39,539
2010	40,612	39,539
2011	23,278	22,875
2012	21,441	22,875
2013	19,776	22,875
2014	18,204	22,875
2015 +	52,741	80,079
Total	937,438	1,672,780

Debt securities in issue

As of 31 December 2005, there are no debt securities in issue.

As of 31 December 2004, the amount of debt securities in issue is YTL500,711 thousand (principal amount- US$350 million), maturing on 24 February 2005 and with a fixed interest of 11.5%.

NOTE 13 - TAXATION

The Bank is exempted from Corporate Tax upon the Act 3332 dated 25 March 1987 and article 4/b of Act 3659 dated 26 September 1990, respectively. According to the 3rd article of Act number 3659, the stated changes were valid from 1 January 1988. Accordingly, no deferred tax asset or liability is present in the accompanying financial statements.

NOTE 14 - OTHER LIABILITIES

The principal components of other liabilities and accrued expenses are as follows:

	2005	2004
Turkish Treasury-current account-Iraq Credit	423,116	413,344
Funds from United Nations Compensation Fund-Iraq Credit	63,107	52,345
Turkish Treasury temporary account-Country credits	6,280	2,075
Funds from Turkish Treasury	1,077	1,105
Vacation pay liability	2,525	986
Other	16,280	18,015
	512,385	487,870

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

Turkish Treasury current account consists of the funds transferred by Turkish Treasury to the Bank to finance Iraq loans and the related interest income and foreign exchange differences of such funds as of 31 December 2005, with an equal amount of asset (principal-YTL412,565 thousand; income accrual: YTL10,551 thousand) included in loans and advances to customers (Note 8). These funds are transferred to the Bank by Turkish Treasury under the scope of political risk accounts and are covered by Turkish Treasury. Therefore, the Bank does not reflect any gains or losses to the statements of income on such loans.

Funds from United Nations Compensation Fund consist of funds transferred by the United Nations Compensation Fund for projects in Iraq.

NOTE 15 - EMPLOYMENT TERMINATION BENEFITS

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

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 as at 31 December:

	2005	2004
Discount rate (%)	5.49	5.45
Turnover rate to estimate the probability of retirement (%)	2.7	-

Additionally, the principal actuarial assumption is that the maximum liability of YTL1,727.15 (in full YTL amount), for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of YTL1,770.61 in full YTL amount, which is effective from 1 January 2006, has been taken into consideration in calculating the reserve for employment termination benefit of the Bank.

The ETB provisions are booked as stated above for the personnel, who were subject to T.C. Emekli Sandığı (State Pension Fund) prior to the change in the statute of the Bank as "Eximbank" in 1987 and who are currently working for the Bank. In the case of the retirement of aforementioned personnel, T.C. Emekli Sandığı calculates and pays the termination benefits (seniority premium) of the personnel for the services of such personnel before 1987 and requests the amount from the Bank thereafter. The requested amount is transferred to T.C. Emekli Sandığı by the Bank. As of 31 December 2005 the Bank provides additional provision amounting to YTL865 thousand for such liability.

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

Movement in reserve for employment termination benefits during the year is as follows:

	2005	2004
1 January	6,882	6,546
Provision for the year, net	70	1,132
Monetary gain	(178)	(796)
31 December	6,774	6,882

For the year ending 31 December 2005, the paid termination benefit is YTL116 thousand.

NOTE 16 - SHARE CAPITAL

The historical paid in share capital of the Bank is YTL657,864 (31 December 2004: YTL657,864) and consists of 750 million (31 December 2004: 750 million) authorised shares with a nominal value of YTL1 each.

	2005	2004
- Share capital	750,000	750,000
- Capital commitments (-)	(92,136)	(92,136)
Historical share capital	657,864	657,864
Adjustment to share capital	812,518	812,518
Total paid in share capital	1,470,382	1,470,382

The Bank is fully owned by Turkish Treasury.

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 after elimination of the accumulated deficit.

NOTE 17 - RETAINED EARNINGS AND RESERVES

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Bank is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.
b) Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to adsorb losses.

NOTE 18 - OPERATING EXPENSES

	2005	2004
Staff costs	19,304	18,920
Premiums paid to insurance companies	13,474	11,174
Taxes and duties expenses	3,627	7,751
Premiums paid to reinsurance companies under political risk	2,860	2,094
Stationary expenses	1,784	2,131
Depreciation charges of property and equipment	1,204	1,209
Provision expenses	1,043	18,581
Other	43,785	13,801
	87,081	75,661

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

NOTE 19 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in these balance sheets, including letters of guarantee, other guarantees and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

Legal proceedings

At 31 December 2005, there are 2 legal proceedings outstanding against the Bank amounting to US$1,952,494. No provision has been made as professional advice indicates that it is unlikely that any significant loss will result.

Commitments under derivative instruments:

The breakdown of swap transactions at 31 December is as follows:

		2005		2004	
Transaction Type	Currency	Foreign Currency	YTL 000	Foreign Currency	YTL 000
Swap transactions					
Interest rate swap purchases	US$	30,000,000	40,374	-	-
Foreign exchange swap purchases	EUR	-	-	7,000,000	13,100
	YTL	-	176,425	40,469	40,237
	US$	263,346,825	354,412	26,519,920	36,401
Cross-currency swap purchases	JPY	12,597,642,857	144,571	17,057,071,428	228,322
Total purchases			**715,782**		**318,060**
Interest rate swap sales	US$	30,000,000	40,374	-	-
Foreign exchange swap sales	EUR	220,000,000	350,900	20,000,000	37,428
	US$	129,000,000	173,608	25,000,000	34,315
	JPY	-	-	951,720,000	12,740
Cross-currency swap sales	US$	106,568,473	143,420	144,398,986	198,202
Total sales			**708,302**		**282,685**
			1,424,084		600,745

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

Maturity analysis for swap transactions is as follows:

2005	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 Years	Total
Interest rate swap purchases	-	-	-	40,374	**40,374**
Foreign exchange swap purchases	530,837	-	-	-	**530,837**
Cross-currency swap purchases	25,589	25,588	93,394	-	**144,571**
Total purchases	**556,426**	**25,588**	**93,394**	**40,374**	**715,782**
Interest rate swap sales	-	-	-	40,374	**40,374**
Foreign exchange swap sales	524,508	-	-	-	**524,508**
Cross-currency swap sales	25,456	25,456	92,508	-	**143,420**
Total sales	**549,964**	**25,456**	**92,508**	**40,374**	**708,302**

2004	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 Years	Total
Foreign exchange swap purchases	49,501	40,237	-	-	**89,738**
Cross-currency swap purchases	29,846	29,846	158,303	10,327	**228,322**
Total purchases	**79,347**	**70,083**	**158,303**	**10,327**	**318,060**
Foreign exchange swap sales	50,168	34,315	-	-	**84,483**
Cross-currency swap sales	25,963	25,963	137,450	8,826	**198,202**
Total sales	**76,131**	**60,278**	**137,450**	**8,826**	**282,685**

The above tables summarise the Bank's derivative transactions. Each transaction represents a simultaneous receivable and payable to be received and paid, on a future date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Bank with respect to commitments arising from these transactions.

Credit related commitments:

Letters of guarantee, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under these guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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

The following table shows the outstanding credit related commitments of the Bank at 31 December 2005 and 2004:

	2005	2004
Letters of guarantee issued by the Bank		
- Foreign currency	5,258	5,363
Endorsements		
- Foreign currency	1,378	7,853
Other guarantees		
- Foreign currency	286,761	252,422
	293,397	265,638

The Bank provides cover for Turkish exporters, against commercial and political risks by offering variety of insurance programs. Other guarantees include the Bank's commitment related with the underwritten short-term commercial and political risks.

NOTE 20 - RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. 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.

A number of banking transactions were entered into with related parties in the normal course of business.

(i) Balances with related parties:

	2005	2004
Due from banks	70	61,329
Loans and advances to customers	205,660	204,797
Financial assets at fair value through profit or loss	141,452	137,915
Investment securities		
- Available-for-sale	11,715	23,071
- Held-to-maturity	189,810	178,505
Other funds borrowed	273,153	406,302
Other liabilities	7,357	3,180

(ii) Transactions with related parties:

	2005	2004
Interest income on deposits with banks	25,065	60,850
Interest income on investment and trading securities	58,710	88,821
Interest income on loans and advances to customers	19,364	25,442
Interest expense on funds borrowed	12,161	23,325

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