

BUILDING THE FUTURE WITH A DEEP-ROOTED HISTORY



T.C. ZİRAAT BANKASI A.Ş.

ANNUAL REPORT 2005



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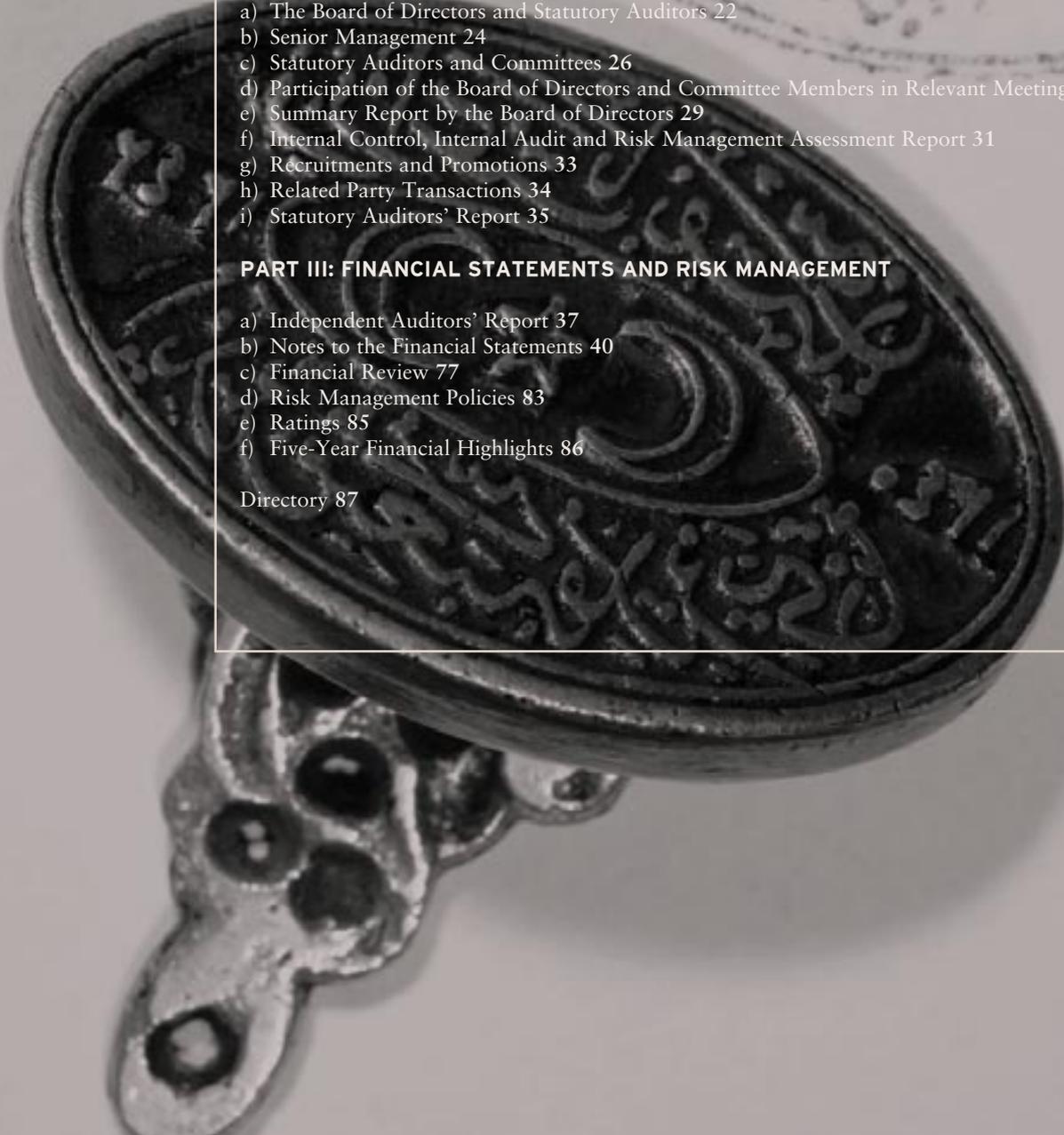
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FINANCIAL HIGHLIGHTS

(YTL million)

	2005*	2004*	2005**	2004**
>> Total Assets	65,034	59,785	65,050	56,994
>> Liquid Assets and Banks	9,209	6,255	9,204	5,845
>> Securities Portfolio (Net)	39,158	40,079	37,188	36,020
>> Loans (Net)	13,691	9,870	13,425	9,135
>> Deposits	52,132	47,899	51,778	45,382
>> Equity	5,894	5,375	5,796	5,047
>> Interest Income	8,039	9,456	7,924	9,032
>> Interest Expenses	5,141	5,598	5,066	5,354
>> Net Profit	1,667	1,529	1,802	1,531

* In accordance with IFRS (International Financial Reporting Standards). All amounts are expressed in equivalent purchasing power of the New Turkish Lira as at 31 December 2005.

** In accordance with BRSA (Banking Regulation and Supervision Agency) regulations. All financial data from page 01 to page 86 (except the IFRS report) are taken from financial statements prepared in accordance with BRSA regulations.

OWNERSHIP

The entire capital of Ziraat Bank is owned by the Turkish Treasury.

Articles 6, 7, 11, 17, 18, 19, 20, 22, 23, 24, 25, 26, 30 and Provisional Article 1 of the Articles of Association were amended at the General Assembly held on 12 April 2005.

As a result of these amendments, the Executive Board and Executive Board Membership have been abolished, and the duties and powers of the Executive Board have been transferred to the Board of Directors, while the duties and powers of Executive Members have been transferred to the General Manager. The powers of the Board of Directors and the General Manager have been revised.

The scope of the Bank's agricultural lending activities has expanded.

SHAREHOLDERS

The Chairman and members of the Board of Directors, Statutory Auditors, General Manager and Assistant General Managers do not own any shares in the bank.

HISTORY OF ZİRAAT BANK

1863

› Homeland Funds, which was the foundation of Ziraat Bank, was established by Mithat Pasha in the town of Pirot.

1867

› The first organized agricultural lending effort and the first organized lending legislation of Turkey, the Homeland Funds Regulations, came into force.

1883

› Benefit Funds replaced Homeland Funds.

1888

› Ziraat Bank Regulations came into force.
› Ziraat Bank Headquarters started operations.

1916

› Ziraat Bank Law was enacted on 23 March.

1919

› Ziraat Bank funds were used to procure equipment for the National Independence Army formed during the War of Independence.

1920

› Following the opening of the Turkish Grand National Assembly, Ziraat Bank Ankara Branch was assigned to manage branches and funds in the area controlled by the Turkish Grand National Assembly.

1922

› Ankara took control of the organization in Izmir on 9 September, and Istanbul some time later. Ziraat Bank regained its national unity on 23 October.

1924

› Upon the enactment of the Budget Law, Ziraat Bank ceased to act as an official body and became a joint stock company.

1937

› Ziraat Bank Law No. 3202 was enacted and published in the Official Gazette on 12 June 1937 with the signature of M. Kemal Atatürk.

1938

› "Law on the Organization, Administration and Auditing of Economic Enterprises the Entire Capital of which are provided by the State" was enacted to expand the powers of the General Assembly.
› The "Board of Auditors" provided for under Law No. 3202 was abolished with Law No. 3460, and its duties were transferred to the "General Auditors Council" operating under the Prime Ministry.
› The Supreme Supervision Council, as it is named today, started auditing Ziraat Bank.

1974

› Girne Branch was opened in Cyprus.

1975

› Hamburg representative office was opened.

1981

› Ziraat Bank Museum was opened in the "Hall of Honor" at the headquarters to exhibit the history of the Bank. This is the first banking museum in Turkey.

1983

- › New York Branch was opened.
- › Ziraat Bank took over Hisarbank, Istanbul Bankası and Odibank.

1987

- › London Branch was opened.

1989

- › Ziraat Bank Banking School was opened to train qualified personnel for the banking industry.

1993

- › Ziraat Bank Moscow, Kazkommerts Ziraat International Bank (KZI Bank), Turkmen Turkish Commercial Bank (TTC Bank) and Uzbekistan Turkish Bank (UT Bank) were established.

1998

- › Sofia Branch was opened.

1999

- › Number of subsidiaries reached 21.
- › Skopje Branch was opened.

2000

- › Ziraat Bank became a joint stock company by Law No. 4603 enacted on 15 November 2000.

2001

- › The management of state-owned banks (Ziraat Bank, Halkbank and Emlak Bank) was gathered under a joint board of directors.
- › Ziraat Bank took over Emlak Bank.

2003

- › M. Zeki Sayın was appointed Chairman of the Joint Board of Directors of State-owned Banks, while Can Akın Çağlar was appointed General Manager of Ziraat Bank.

2004

- › In its "1,000 Largest Banks of the World" list, the Banker ranked Ziraat Bank as the 57th largest bank in Europe and the 115th largest bank worldwide.

2005

- › The joint management of state-owned banks was terminated upon successful completion of its mission.
- › Prof. Dr. İlhan Uludağ was appointed Chairman of the Board of Directors of Ziraat Bank.
- › Ziraat Bank posted the highest ever profit recorded in the Turkish banking industry.

MESSAGE FROM THE CHAIRMAN

Ziraat Bank continuously renews itself and stays abreast of advances in technology in order to improve its competitiveness in Turkey and worldwide.

I would like to take a brief look at 2005, which was another successful year for us. Interest rate hikes in the US and Europe, the fluctuating euro-dollar rate and rising oil prices were among the major developments that marked last year. Major developments in Turkey included the start of accession talks with the European Union, the inflation rate falling to single-digit levels, continuing economic stability and fiscal discipline and the privatization of state enterprises.

In addition to these promising economic events taking stage, domestic financial markets witnessed favorable developments in 2005 as well: Interest rates fell, mergers between private banks and foreign banks gained momentum, and the inflow of foreign capital increased as a result of rising investor confidence.

In 2005, capital flow from international capital markets to emerging countries reached record levels

and Turkey also benefited from this trend. The start of full membership negotiations with the EU and the consequent positive economic developments brought confidence to the markets, and Turkey became more attractive for foreign investors and banks. The increasing number of foreign entrants into the Turkish banking industry intensified competition and reshaped service concepts.

In parallel to these developments, Ziraat Bank continuously renews itself and stays abreast of advances in technology in order to improve its competitiveness in Turkey and worldwide. 2005 has been a very successful year for Ziraat Bank, which maintained its margins by adopting an effective liability management strategy, increased its lending volume and implemented cost-saving measures. The Bank started 2006 with new aspirations, which will carry forward its service quality to the top.

Following banking practices under a similar approach akin to private-sector banks, Ziraat Bank does what it takes to compete in the market. Focused on efficiency and profitability, the Bank will continue to serve Turkey and the Turkish economy through its vast client base.

The driving force behind our success is the self-sacrificing efforts of our employees. I would like to express my gratitude to them and to our clients for their trust, and to all our business partners for their contribution.

Yours sincerely,



Prof. Dr. İlhan ULUDAĞ
Chairman



MESSAGE FROM THE GENERAL MANAGER

In 2005, Ziraat Bank further improved its already high performance and became the most profitable bank in the industry by posting a net profit of YTL 1.8 billion.

In 2005, Ziraat Bank further improved its already high performance and became the most profitable bank in the industry by posting a net profit of YTL 1.8 billion. Its total assets increased 14%, reaching YTL 65 billion. Ziraat Bank is the largest Turkish bank not only in terms of asset size and profitability but also in terms of its paid-in capital, deposit volume, and domestic and international service network.

This success is a result of our focus on profitability and efficiency and a persistent restructuring process. As a result of restructuring efforts, the technological infrastructure of the Bank has been largely renewed, and modernization of the Bank's human resources policy boosted employee motivation.

In 2005, high performance in our lending operations resulted in a 47% increase in our credit portfolio. In line with the Bank's strategy, the shares of consumer loans, agricultural credits and commercial credits in the total credit volume were 50%, 25% and 25%, respectively.

The driving force behind our retail credit operations is housing and consumer loans. Our market share in housing loans increased from 3% to 11%. In the agricultural credits segment, which is our field of

specialization, we focused on project credits, and by restructuring non-performing loans and offering repayment opportunities to farmers, we increased the liquidity of our pending receivables. As a result of its prudent lending policies, the share of the Bank in corporate and commercial banking transactions is increasing every year. In the coming years, we will continue to grant loans to the real sector and expand our commercial credits portfolio. In 2006, extending loans to small businesses will be a top priority for the Bank.

The next few years will witness intensified competition in the banking industry. Turkish banks now have to operate more efficiently, control their costs more effectively, lend more support to real sector, avoid channeling their technology investments to only retail banking products and services, and reinforce their risk management infrastructure with support from IT applications.

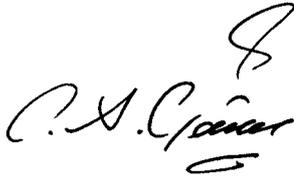
Being aware of this fact, Ziraat Bank renewed its system infrastructure and banking software, imposed stricter control on its costs, focused on profitability and efficiency and started to improve service quality and product diversity. Ziraat Bank is ready for the highly competitive business environment of the future.

Ziraat Bank, the most longstanding bank of Turkey, continued to share its heritage with society in 2005, making significant contributions to arts, the sciences, culture and sports. The Bank sponsors numerous social responsibility projects.

Ziraat Bank is an inseparable part of our country and its people. No other bank has this much integrated with every segment of our society. As the managers of the Bank, we are aware of the importance of our responsibility. One of our primary objectives is to ensure that Ziraat Bank operates as a modern bank which does not preclude but promote competition in the industry.

Ziraat Bank delivered an excellent performance in 2005. Backed by the experience of 142 years, the diligent efforts of our employees, and the confidence of our clients, the Bank posted the highest ever profit in the Turkish banking history. With the well-deserved pride of this excellent performance, we are committed to maintaining our success in the coming years. I would like to express my gratitude to our clients, and to all our employees who have contributed to this success story.

Yours sincerely,



Can Akın ÇAĞLAR
General Manager



RELIABILITY,
PERMANENCE AND
THE POWER COMING
FROM A 142-YEAR
DEEP-ROOTED HISTORY



Karar heyeti

REVIEW OF OPERATIONS IN 2005

Although there is no difference between Ziraat Bank and its competitors in terms of the diversity of corporate and commercial banking services, the Bank possesses certain competitive advantages thanks to its extensive and well-established domestic and international organization, lower funding costs, high liquidity and its ability to meet large-volume needs of its clients.

EMPLOYEES AND BRANCHES

Number of Employees	20,299
Number of Branches	1,137 Domestic Branches 9 International Branches

SERVICES AND ACTIVITIES

Activities of the Bank include extending cash and non-cash Turkish Lira and foreign currency credits, conducting transactions in the domestic and international money and capital markets, providing financial support to agriculture, collecting Turkish Lira and foreign currency deposits, and performing other banking activities.

REVIEW OF OPERATIONS IN 2005

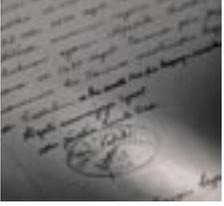
>> CORPORATE BANKING

Although there is no difference between Ziraat Bank and its competitors in terms of the diversity of corporate and commercial banking services, the Bank possesses certain

competitive advantages thanks to its extensive and well-established domestic and international organization, lower funding costs, high liquidity and its ability to meet large-volume needs of its clients. Also, the Bank has a brand recognition, associated with "reliability, endurance and a deep-rooted history".

Ziraat Bank capitalizes on the size of its assets and shareholders' equity in its marketing efforts to reach larger scale public and private companies, which usually use more sophisticated facilities with larger limits. The Bank targets to take a share in all banking transactions and cash flows of such clients. Also, working with such large-scale public and private companies provides better access to their smaller business partners such as dealers, suppliers, retailers etc. The Bank aims to diversify its credit risk by offering a large number of relatively small loans to small businesses.

The objective of commercial and corporate banking activities is not only to sell products and services, but also to ensure customer satisfaction through quality services, and to create customer loyalty through long term, well-established and mutually beneficial relationships.



REVIEW OF OPERATIONS IN 2005 CONTINUED

In 2005, in addition to Internet Banking, which also allows on-line investment transactions, the Bank renovated its ATM network to become one of the widest and modern distribution networks in Turkey. High-technology distribution channels will be more intensively used in the near future when the Bank launches telephone banking in parallel with advances in technology.

Public and private companies have a large share in the commercial and corporate loan portfolio. Credits extended to smaller companies also have a significant share in commercial and corporate loans.

It is envisaged that in the future, smaller companies will have a larger share in the commercial and corporate loans portfolio. The Bank will continue to extend credit facilities with large limits to public agencies and large private sector companies, while increasing the volume of loans extended to small businesses regardless of the region and industry they operate in, through its extensive branch network across the entire country.

2005 Results

Ziraat Bank adopts a prudent and selective lending policy which aims to offer innovative solutions to clients. In 2005, the Bank's lending policy focused on extending more credits to smaller businesses. Cash credits for working capital requirements extended to smaller businesses reached YTL 740 million through contracts signed with chambers of commerce, industry, craftsmen, artisans and pharmacists, as well as with KOSGEB (SME

Development Organization). A credit agreement has been signed with the European Investment Bank (EIB) for long-term financing needs of SMEs.

Having upgraded its technological infrastructure and improved product diversity within the framework of a restructuring effort launched in 2001, the Bank continues to increase its share in commercial and corporate banking transactions. In parallel with the stability and optimism in financial markets, commercial and corporate loans reached YTL 2,389 million in 2005, a 15% increase over the 2004 figure which was YTL 2,074 million. As a result of its policy to provide financial support to smaller companies, the share of small business loans in commercial and corporate loans increased to 31% in 2005, compared to 19% in 2004.

In 2004, "SME Exports Support Loan Protocol" was signed with KOSGEB pursuant to the "Decision on Financial Support to be Provided by KOSGEB for Development and Promotion of SMEs". Under this protocol, SME Exports Support Loans have been granted extensively throughout 2005.

In the coming years, the Bank will continue to expand its loan portfolio by extending facilities to real sector and increasing the number of its commercial clients. The Bank will intensify cooperation with private sector companies and strengthen its relations with public institutions. Ziraat Bank's long-term objectives include diversifying its corporate and commercial banking products, increasing the share of commercial loans in its assets, exceeding banking industry averages and improving quality of service focused on customer satisfaction.

>> RETAIL BANKING

Ziraat Bank enjoys several advantages in the retail banking segment: an extensive branch network, a strong image instilling confidence in customers, a self-sacrificing staff, low funding costs, competitive prices and a large database. These advantages give the Bank a competitive edge in consumer loans, vehicle loans, housing loans, credit cards and all other retail products and services. Especially, its low funding costs and competitive pricing, formality-free credit procedure and access to the Housing Development Administration of Turkey offer the Bank unique marketing opportunities for housing loans.

Ziraat Bank will retain its competitiveness in the retail segment by intensifying its advertisement and promotion activities and increasing the number of its off-branch distribution channels, especially the number of POS devices.

Ziraat Bank offers its clients the full range of traditional and contemporary retail banking products and services using state-of-the-art technology.

Distribution Channels

The most important distribution channel of the Bank is its widespread branch network. In 2005, in addition to Internet Banking, which also allows on-line investment transactions, the Bank renovated its ATM network to become one of the widest and modern distribution networks in Turkey. High-technology distribution channels will be more intensively used in the near future when the Bank launches telephone banking in parallel with advances in technology.

By the end of 2005, the number of Ziraat Bank ATMs reached 1,488. Agreements have been signed with four banks to allow them use the Ziraat Bank ATM network.

2005 Results

In housing and consumer loans, the Bank achieved growth above industry averages, as a result of loans extended in the form of lump-sum advance payments to beneficiaries of compulsory savings accounts. Following the economic crisis of 2001, the Bank focused on retail credits, which were important for economic revival. In the aftermaths of the crisis periods when consumer demand was postponed, consumption increased and the balance sheets of companies improved. Thanks to the well-designed interest and pricing policy it adopted in this context, Ziraat Bank became the driving force of this segment. Retail credit volume, which was YTL 2,536 million by the end of 2004, reached YTL 4,823 million by the end of 2005.

>> AGRICULTURAL BANKING

Ziraat Bank undertakes agricultural banking operations at 22 regional directorates and 838 branches that report to these directorates and are authorized to extend agricultural loans.

REVIEW OF OPERATIONS IN 2005 CONTINUED



Major competitive advantages of the Bank include its extensive client portfolio and branch network, the confidence of its clients and its expertise in agricultural loans.

2005 has been a favorable year as a result of overall economic stability. The most important development of the year in terms of agricultural banking was the launch of subsidized agricultural loans for agricultural production pursuant to Council of Ministers' Decision No. 8378 aimed at increasing agricultural production, improving productivity and quality and offering convenient financing to growers.

Agricultural banking products and services are offered in two groups:

a) Loans

Ziraat Bank offers subsidized agricultural loans at a 25-60% discount on agricultural loan rates, depending on the product. Ziraat Bank loans are divided into two: Operating Loans and Investment Loans.

1. Operating Loans

- Farmer loans
- Operating loans for projects
- Loans for production under contract
- Spot agricultural loans

2. Investment Loans

- Loans for business establishment, modernization and investment goods.
- Mechanization loans

b) Intermediary Services

Ziraat Bank acts as an intermediary for fund-sourced loan applications, government's product payments and direct income subsidies. The Bank holds the great advantage of having specialized in agricultural lending since its inception.

2005 Results

New lending schemes launched in 2005 increased bank sourced credit volume to YTL 2,161 million by the end of 2005, compared to YTL 1,076 million at the end of

2004. These schemes facilitated the loan approval process and offered different payment and flexible-term options to farmers.

Moreover, subsidized lending which had been launched in 2004 was expanded in 2005. Discounts on current agricultural loan rates varied between 25% and 60%, depending on loan type. As of 30 December 2005, Ziraat Bank extended YTL 1.9 billion in agricultural loans to almost 175,000 farmers at annual interest rates ranging between 8% and 15%.

The objective of the Bank is to improve profitability by offering existing and prospective agricultural banking clients other banking products in addition to agricultural loans and to improve the productivity of the agricultural sector by offering added value to clients.

>> TREASURY

Ziraat Bank's already strong portfolio management skills are enhanced by its ability to access millions of clients from every segment of the society through its nationwide branch network, the power and trust created by its 142-year history, and the size of its financial capability which allows it to play an effective role in domestic and international financial markets.

Strengths of the Bank in terms of treasury management include its competent human resources, extensive international branch and subsidiary network which improve its effectiveness in international markets, and high facility limits extended by domestic and international correspondents.

Treasury Management Strategy

The primary strategy of the Bank is to improve productivity and profitability by ensuring the optimum use of its current assets (such as FX, TL and securities) within the limits of the risk parameters determined by senior management, and to evaluate the interaction of such assets rationally. The objective of the treasury management function is to monitor and manage financial risks that the Bank may encounter, invest the Bank's assets and maximize profits by monitoring emerging market opportunities. This general strategy will be maintained in the future.

Information Technologies in Treasury Transactions

With the launch of the centralized banking system Fin@rt, treasury transactions have been largely automated. The entire process from actual treasury transactions to accounting is carried out within this straight-through processing system. Thus potential operational risks are minimized.

Market-making

Ziraat Bank was a market maker for Turkish Treasury Bills and Government Bonds in 2004 and 2005. In the fourth period which started in September 2005, it has also become a member of the Market-Making System. In 2005, Ziraat Bank was a co-issuer bank in four Eurobond offerings by the Turkish Treasury.

>> INTERNATIONAL RELATIONS AND SUBSIDIARIES

International Relations

Ziraat Bank, which was the 144th largest bank worldwide in 2005 according to The Banker, has four branches in the Turkish Republic of Northern Cyprus,

REVIEW OF OPERATIONS IN 2005 CONTINUED

The international strategy of Ziraat Bank is "to accompany Turkish businessmen wherever they go, and to be there even before they arrive".

one branch each in New York, London, Sofia, Skopje and Tbilisi, and subsidiaries in Germany, Azerbaijan, Bosnia Herzegovina, Russia, Uzbekistan, Turkmenistan, Kazakhstan and France. The Bank's global service network is complemented by its representative offices in Kabul, Tehran and Karachi.

The international strategy of Ziraat Bank is "to accompany Turkish businessmen wherever they go, and to be there even before they arrive". In line with this strategy, the Bank intends to penetrate new markets to expand its global presence. The Baghdad branch, for which necessary permits have been obtained from Turkish and Iraqi authorities, is planned to be opened in the first half of 2006.

Ziraat Bank has a prominent position in international markets with its asset size, profitability and growth rate. Having a wide correspondent network covering 92 countries, the Bank maintained its position as the first choice of foreign banks operating in Turkey, and accelerated its efforts to mutually increase business volume, while developing existing relations.

Thanks to its strong correspondent relations and robust funding structure, Ziraat Bank offers competitive services for the foreign trade transactions of its clients.

In the future, Ziraat Bank aims to maintain its already excellent reputation in international markets. The Bank will expand its correspondent banking network according to clients' requests and global economic conditions, and increase its share in foreign trade.

Subsidiaries

Ziraat Bank's shares in some of its subsidiaries are as follows:

Domestic Subsidiaries	Share (%)	Capital (YTL thousand)
Ziraat Finansal		
Kiralama A.Ş.	50.00	49,854
Ziraat Yatırım		
Menkul Değ. A.Ş.	50.00	17,967
Ziraat Portföy		
Yönetimi A.Ş.	50.00	1,112
Bileşim ADK ve		
Ödeme Sistemleri A.Ş.	25.00	2,315
Fintek Finansal Teknoloji		
Hizmetleri A.Ş.	24.00	653
Arap Türk Bankası A.Ş.	15.00	32,086
International Subsidiaries	Share (%)	Capital
Ziraat Bank International		
A.G. (Euro)	100.00	120,295,022
Turkish Ziraat Bank		
Bosnia d.d. (Euro)	100.00	17,767,393
Ziraat Bank (Moscow)		
CJSC (USD)	99.22	7,388,617
Kazakhstan Ziraat		
Int. Bank (USD)	93.88	16,230,338
Uzbekistan Turkish		
Bank (USD)	50.00	4,044,399
Turkmen Turkish		
Joint Stock Commercial		
Bank (USD)	50.00	2,500,000
Azer-Turk Bank Open		
Stock Company (USD)	46.00	2,184,196
Banque Du		
Bosphore (Euro)	26.00	4,160,000

>> HUMAN RESOURCES

Ziraat Bank employees are equipped with a wide range of skills to serve the needs of the Bank's large client base, service diversity and extensive branch network. Employee loyalty at Ziraat Bank is very high. The Bank's human resources policies rest on the principles of complying with standard staff criteria, rotating employees among different job positions to minimize operational risks, and implementing discipline regulations without any compromise.

Ziraat Bank contributes to employee motivation by offering fair promotion opportunities, life insurance, high-quality and diversified healthcare services and ample fringe benefits. The wide experience gained by working at Ziraat Bank and its massive size are among the factors which add to the loyalty of its employees.

Education

Ziraat Bank, which owns Turkey's first and only banking school, enjoys the privilege of being the top Turkish bank in the area of education. The banking school offers the most comprehensive banking education in the industry.

Ziraat Bank implements a more sophisticated distant training system compared to other banks. Due to the size of its organization, training programs are usually provided in different regions.

As part of the restructuring efforts of 2004 and 2005 and in accordance with the changes in the Bank's organization, existing employees were provided technical training to equip them with the knowledge and skills required by their new tasks. Certification Programs,

which started in 2005, will continue in the coming years. The objective of these programs is to achieve standardization in training and to ensure that all employees receive basic training for their respective positions. In 2006, the Bank aims to ensure that each employee attends at least one Certification Program.

>> STRATEGIC MANAGEMENT

The objectives of the Strategic Management Department include developing new strategies in parallel with advances in the economy and the banking industry, determining short-, medium- and long-term policies for aligning the existing structure with changes in the banking environment, preparing alternative plans, defining policies for drafting and revising the budget of the Bank, and evaluating the performance of branches and regional directorates.

In 2005, the management determined its macro strategies, budgetary targets for the years between 2005 and 2010, and developed an implementation plan for the strategic roadmaps to be used to achieve these targets. Also, various analyses and country- and sector-specific reports are prepared as part of R&D activities.

The funding costs, return on assets and cost of liabilities are calculated regularly. The financial position of the Bank is periodically compared against peer group banks to allow senior management to make more informed strategic decisions. Moreover, weekly and monthly financial condition reports are regularly sent to senior management.

- 
- 144TH LARGEST BANK GLOBALLY IN TIER-I CAPITAL
 - 1ST BANK IN WESTERN EUROPE IN TERMS OF RETURN ON CAPITAL

REVIEW OF OPERATIONS IN 2005 CONTINUED

Ziraat Bank has the highest banking transaction volume in Turkey. In addition to its traditional banking activities, products and services, the Bank is also responsible for making several public sector payments because of its status as a state-owned bank.

>> GENERAL ACCOUNTING AND FINANCIAL MANAGEMENT

The aim of the General Accounting and Financial Management Department is to define procedures and principles for keeping accounting records of the Bank in a reliable manner and in conformity with applicable legislation, to monitor financial statements, to evaluate changes and to inform relevant units when necessary.

Major tasks of the Department include: Consolidating financial figures of the Bank and preparing general, domestic and international trial balances, balance sheets, income statements, off-balance sheet liabilities, shareholders' equity trend ratios, cash flow statements, profit distribution statements and similar statements as well as notes thereto within statutory time limits; forwarding such financial statements to independent auditors; publishing and submitting annual statements to the approval of relevant regulators and authorities; calculating legal liabilities (Statutory Reserves, Savings Deposit Insurance Fund, YTL/FX deposit status reports etc.) using consolidated figures based on the accounting records of the Bank; reporting such liabilities to relevant regulators and authorities and ensuring that these liabilities are met; submitting reports whose format and

contents are determined by public authorities; preparing and submitting replies of the Bank regarding reports prepared by the Banking Regulation and Supervision Agency's "Certified Bank Auditors Board", entrusting the Financial Management Units of the Head Office and Regional Directorates with the task of preparing performance evaluation data of regions and branches; monitoring financial statements daily; evaluating changes and ensuring necessary corrections are made; and conducting analyses and preparing reports related to financial statements.

>> BANKING OPERATIONS

Ziraat Bank has the highest banking transaction volume in Turkey. In addition to its traditional banking activities, products and services, the Bank is also responsible for making several public sector payments because of its status as a state-owned bank. In a year, the Bank makes 14.7 million pension and other benefit payments to members of the Turkish Pension Fund, 4.6 million payments to members of the "65-year-old Pensioners Plan", 41.3 million payments to Social Security Institution members, and 4 million payments to Bağ-Kur (Social Security Organization for Artisans and

REVIEW OF OPERATIONS IN 2005 CONTINUED

The inspiration that underlies Ziraat Bank's compassion for and contribution to science, culture, sports and the arts is its philosophy of sharing its heritage with the society.

the Self-Employed) members. Ziraat Bank is also responsible for collecting and paying the tax refund declarations of almost 4.6 million pensioners. Moreover, Ziraat Bank annually makes 16 million refund payments under the compulsory savings scheme. It also paid YTL 12 million subsidies to almost 8 million farmers until today, in the form of direct income subsidies and other financial support payments.

Since the license of İmar Bank to accept deposits and perform banking transactions has been revoked, the deposits of approximately 380,000 clients are paid by Ziraat Bank through its 190 branches.

Information Technologies

Ziraat Bank is matchless in terms of the number of its branches and the variety of its services. As a result of the transition to a centralized system in 2004, the Fin@rt banking application has been implemented in all branches and Head Office departments. By the end of the year, the Bank successfully completed the switch to the New Turkish Lira currency unit. In 2005, development and improvement efforts continued regarding the Fin@rt banking application.

The transition from a distributed system to a centralized system was completed in a very short time, using an open architecture instead of high-technology mainframe systems, which have very high total acquisition costs. This choice not only brought cost advantages compared to competitors who use the mainframe technology, but also rendered the IT structure of the Bank very flexible in terms of expansion as well as the establishment of an Emergency Recovery Center. Sufficient number of qualified personnel has been employed to implement these new IT systems.

Although the Bank is still working on establishing an Emergency Recovery Center, which will not be in the same city with the Head Office, backups of the systems are safeguarded in various locations in Ankara. The backup system is designed to ensure uninterrupted service.

Video-conferencing equipment has been installed at Regional Directorates and the Head Office to enable interactive meetings and conferences with the regions in a more cost-effective manner.

The Bank launched its Retail Internet Banking Branch on 15 July 2005. The Corporate Internet Banking Branch project is still continuing.

>> SOCIAL RESPONSIBILITY PROJECTS

Contributing to Science, Culture, Sports and the Arts

The inspiration that underlies Ziraat Bank's compassion for and contribution to science, culture, sports and the arts is its philosophy of sharing its heritage with the society. Ziraat Bank has always been a constant sponsor of numerous social responsibility projects.

The mission of the Bank is to add enduring value to science, culture, sports and the arts, and to ensure that our national values are passed onto future generations. The Bank undertook various social responsibility projects in 2005.

The Ziraat Bank Art Collection and Art Galleries

Following the foundation of the Turkish Republic, the Bank started "The Ziraat Bank Art Collection" in 1926, by buying works of art in order to develop Turkish art of painting.



The collection is so rich in paintings that it can tell the whole story of Turkish art of painting from its earliest days to modern times. The number of original paintings in the collection reached 1,907. Ziraat Bank expands this collection by buying from exhibitions held at the Bank's art galleries every year.

Ziraat Bank has two art galleries in Ankara, and one in Istanbul and Safranbolu each. There is also an exhibition hall in Samsun and a foyer exhibition hall in Tandoğan, Ankara. Artists' works are exhibited at three-week intervals in the art galleries of the Bank. In 2005, 58 exhibitions were held and 72,000 artlovers visited Ziraat Bank galleries and exhibition halls.

The Ziraat Bank Movie Theatre

The auditorium of Mithatpaşa Cultural Center is the only movie theatre owned by a bank and is operated for public benefit. Within the scope of a project carried out jointly by Ziraat Bank and the Ministry of National Education in 2005, movies were shown to 34,000 students from 170 primary schools in Ankara and its environs.

The Ziraat Bank Museum

The Ziraat Bank Museum, which is the first banking museum in Turkey, displays the commercial, economic, political, cultural, artistic, educational transformation and development of Turkish banking system from its very first day to the present. In its historic atmosphere, the Ziraat Bank Museum exhibits several artifacts that have been used in banking system.

The museum which is open to the public is also used for drama workshops of universities, and is frequently visited by students on field trips. Some of the artifacts of the museum are displayed at a permanent Ziraat Bank stand opened at the Atatürk Mausoleum.

Other Social Activities

In 2004, Ziraat Bank sponsored a large number of publications both in Turkey and abroad as part of its ongoing sponsorship and promotion program. These activities have been carried out regularly to improve the recognition and visibility of its brand in both national and international markets.

ZİRAAT BANK AND THE BANKING INDUSTRY

In 2004 and 2005, Ziraat Bank adopted a strategy which focused on profitability rather than volumes. It developed new policies in areas where it is relatively strong and maintained its margins thanks to an effective liability management.

In 2004 and 2005, Ziraat Bank adopted a strategy which focused on profitability rather than volumes. It developed new policies in areas where it is relatively strong and maintained its margins thanks to an effective liability management.

The Bank's asset size reached YTL 65 billion by the end of 2005. Assets grew by 14% over 2004. Total assets of Ziraat Bank constitute almost 17% of total assets in the entire banking industry.

By the end of 2005, the number of domestic branches was 1,137, foreign branches nine, and the number of employees was 20,299. Ziraat Bank possesses 18% of the total branches and 15% of the total employees in the industry.

The share of the Bank's loans in the total amount of loans in the banking industry was 8.6% by the end of 2005, compared to 8.9% at the end of 2004.

The Bank's 23% share in total deposits in the industry by the end of 2004, decreased to 20.6% by the end of 2005.

Ziraat Bank's profit, which had a 24% share in the sector at the end of 2004, increased to 32% by the end of 2005.

R&D EFFORTS

In 2005, Ziraat Bank developed new products and services within the scope of marketing activities. The Bank has launched an Internet Banking system and new ATMs.

1. New products and services have been developed within the scope of marketing activities.

- a. Credit cards have been made compatible with the EMV system. This application has been uploaded to ATMs in 200 branches.
- b. Within the framework of the protocol signed between Ziraat Bank and the General Directorate of Highways, two electronic toll collection products have been launched: Cash Toll Collection Cards and Credit Toll Collection Cards.
- c. Beneficiaries of compulsory savings accounts were granted consumer loans in consideration of their receivables.

2. Intensive efforts have been made to minimize queuing in branches.

- a. 1,550 new ATMs have been purchased and 800 of them have been installed. The procurement procedure of 750 ATMs has been completed.
- b. The Bank has launched an Internet Banking system.

3. Efforts have been made to reduce the operational burden of branches.

- a. Payroll payments, which were among the manual transactions increasing the Bank's workload, have been centralized.
- b. Deposit inquiries of branches have been centralized as much as possible.
- c. Additional sites have been opened for service to reduce the workload on branches that serve a large number of clients.
- d. Protocols between the Bank and its institutional clients have been reviewed and inefficient ones have been terminated.

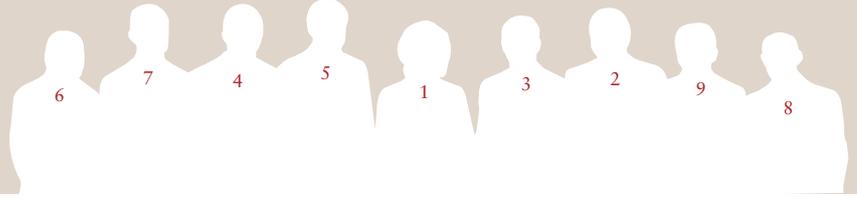
MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

- 1 Prof. Dr. İlhan ULUDAĞ
- 2 Mehmet MUMCUOĞLU
- 3 Can Akın ÇAĞLAR
- 4 Murat ULUS
- 5 Osman ARIOĞLU
- 6 M. Emin ÖZCAN
- 7 Burhanettin AKTAŞ

Statutory Auditors

- 8 Süleyman SAYGI
- 9 Abdullah YALÇIN



Prof. Dr. İlhan ULUDAĞ

Chairman of the Board of Directors

She was born in Mudanya in 1948. Uludağ graduated from the Economics Faculty of Anadolu University in 1969. She received her Ph.D. from the same university. In 1987, she became an assistant professor in economic policy at Uludağ University. In 1998, she became a professor of banking at Marmara University. She worked on the academic staff at Marmara University, Uludağ University, London School of Economics and Maryland University. She published 14 books and numerous articles and papers in her area of specialization. In 1993, she was awarded the Turkish Banking Association Award for her work entitled "Competitiveness of the Turkish Banking System in Comparison to Banking in the European Union", in 1994, she was awarded the Marmara University's Superior Service Award, and in 2001 the Founder Manager award by Marmara University Banking and Insurance School and Institute. Prof. Uludağ speaks English. She has been a member of the Board of Directors since 2003.

Mehmet MUMCUOĞLU

Deputy Chairman of the Board of Directors

He was born in Kayseri in 1952. Mumcuoğlu graduated from the Business Administration Faculty of Istanbul University in 1974. He worked as an Inspector, Assistant Branch Manager, Personnel Manager, Chairman of the Board of Inspectors at Akbank and Dışbank. He worked as manager and consultant for various private companies. He speaks English and German. He has been a member of the Board of Directors since 2003.

Can Akın ÇAĞLAR

General Manager and Member of the Board of Directors

He was born in Sivas in 1962. Çağlar graduated from the Faculty of Economics of Istanbul University. He received his Master's degree in Money and Banking from the same university. He received a second Master's degree in banking and finance from Boston University. In 1985, he became a certified bank auditor for the Undersecretariat of Treasury. In 1997, he joined Egebank as an Assistant General Manager and later became General Manager of that bank's brokerage firm, Ege Yatırım Menkul Değerler. In 1998, he was appointed General Manager of a participation bank. He joined Ziraat Bank in 2003. Çağlar is married and speaks English. He has been a member of the Board of Directors since 2003.

Murat ULUS

Member of the Board of Directors

He was born in Kaman in 1965. Ulus graduated from the Political Sciences Faculty of Ankara University in 1987. He received his Master's degree in financial economics from Boston University. Between 1987 and 1995, he served as a certified bank auditor for the Undersecretariat of Treasury and as an Assistant General Manager for Egebank in 1995-1996. In 1996, he took part in the establishment of Asya Finans, a participation bank. He served as its founding CEO until 2000. Between 2001 and 2003, he acted as Deputy Chairman of the Board of Directors of Okur Ulusal Pazarlama Satış ve Dağıtım Hizmetleri. Ulus is married and speaks English. He has been a member of the Board of Directors since 2003.



Osman ARIOĞLU

Member of the Board of Directors

He was born in Boyabat, Sinop in 1959. Arioğlu graduated from the Economics and Finance Department of the Ankara University's Political Sciences Faculty in 1979. He worked for the Ministry of Finance as an Assistant State Auditor between 1980 and 1984, and as a State Auditor between 1984 and 1994. He conducted studies on municipality revenues in the UK between 1988 and 1989. Then he worked as Deputy Treasurer of Istanbul between 1989 and 1994, and as an Assistant General Director at the General Directorate of Revenues between 1994 and 2002. In 1997, he completed the Financial Programming and Structural Harmony program jointly organized by the International Monetary Fund and the Islamic Development Bank. He was appointed Deputy General Director of the General Directorate of Revenues in November 2002. Arioğlu is currently a member of the Board of Directors of the Fencing Federation. He was also a member of the Board of Auditors of the Electric Survey Authority and a member of the Board of Directors in Güven Sigorta's subsidiary in Cyprus. He is a member of the Ankara University Political Sciences Faculty Alumni Association, Istanbul Chamber of Certified Public Accountants and the Association of Auditors. He is married and the father of two, and speaks English. He has been a member of the Board since 2003.

M. Emin ÖZCAN

Member of the Board of Directors

He was born in Beytüşşebap in 1960. He graduated from the Economics and Public Finance Department of the Ankara University's Political Sciences Faculty in 1982. He started his

career as an Assistant Inspector at İşbank in the same year. He worked in various management positions in the finance sector. In 2003, he was appointed Executive Member of the Board of Halkbank. He was in charge of Non-Branch Profit Centers (Treasury, Financial Institutions and International Banking, Subsidiaries, International Organization). He was also appointed a board member of Demir-Halk Bank Nederland, Halk Yatırım A.Ş. and Halk Leasing A.Ş. He was appointed a board member of Ziraat Bank in 2005. He is in charge of internal auditing at the bank (Board of Inspectors, Internal Control and Risk Management). Özcan is also a Director of ADFIMI and Ziraat Bank International AG Boards, and Chairman of the Boards of Turkish Ziraat Bank Bosnia dd., and Kazakhstan Ziraat Bank International Bank. Özcan speaks English. He is married and the father of three.

Burhanettin AKTAŞ

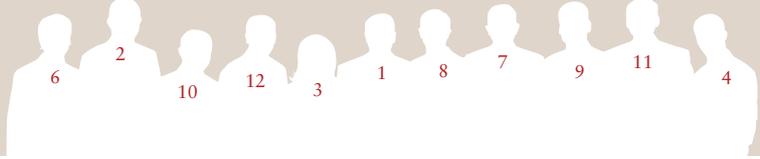
Member of the Board of Directors

He graduated from the Political Sciences Faculty of Ankara University in 1987 and in the same year, he ranked first in the Treasury Controllers exam. After three years of work experience, he ranked first in the Treasury Controllers written and oral proficiency exams in 1991. In 1998, he was appointed Chief Treasury Controller. He received his Master's degree from John Heinz III School of Public Policy and Management, Carnegie Mellon University in 2000. He worked as acting-president of the Board of Treasury Controllers from May 2001 to September 2002. He was appointed chief consultant to the Ministry of State in charge of Treasury in November 2002. He speaks English. He has been a member of the Board since 2003.

MANAGEMENT AND CORPORATE GOVERNANCE CONTINUED

Senior Management

- | | |
|----------------------|------------------------|
| 1 Can Akın ÇAĞLAR | 8 Hüsamettin GÜLHAN |
| 2 Senih BOYACIGİL | 9 Bülent YALIM |
| 3 Aysun YOLTAR | 10 Recep TÜRKAY |
| 4 Dr. Muzaffer ŞAHİN | 11 Dr. Turgay GEÇER |
| 5 Cem ÖZŞEN* | 12 Selim Güray ÇELİK |
| 6 Yusuf BİLMEZ | * (not in the picture) |
| 7 Emin ÇUBIKCI | |



Senih BOYACIGİL

Assistant General Manager in charge of Corporate Banking

He graduated from the Business Administration Faculty of Ankara Academy of Economic and Commercial Sciences. He received his Master's degree from the same faculty. Boyacıgil has been working at Ziraat Bank since 1981. He has worked as Inspector, Assistant Manager, Branch Manager and Head of Department. He has been working as Assistant General Manager since 2001.

Aysun YOLTAR

Assistant General Manager in charge of Strategic Management

After studying at the TED Ankara College, she graduated from the Business Administration Department of Middle East Technical University's Administrative Sciences Faculty. She worked in various positions in Turkey and abroad at an international auditing and consultancy company and as Assistant General Manager at a private bank. Yoltar has been working as Assistant General Manager at Ziraat Bank since 2001.

Dr. Muzaffer ŞAHİN

Assistant General Manager in charge of Loans and Non-Performing Loans

He graduated from the Business Administration Department of Gazi University's Economics and Administrative Sciences Faculty. He received his Master's degree in Business Administration from the Social Sciences Institute of the same university. He received his Ph.D. in Business Administration from the Social Sciences Institute of Istanbul University. Şahin

worked in various positions at Ziraat Bank. He has been working as Assistant General Manager since 2001.

Cem ÖZŞEN

Assistant General Manager in charge of Treasury

He graduated from the Business Administration Department of Ankara University's Political Sciences Faculty. He received his Master's degree in Business Administration from Bentley College. Özşen worked in various positions at private companies, at the Undersecretariat of Treasury and Foreign Trade, and at Ziraat Bank. He has been working as Assistant General Manager since 2002.

Yusuf BİLMEZ

Assistant General Manager in charge of the Board of Inspectors

He graduated from the Business Administration Department of Hacettepe University. Bilmez joined Ziraat Bank in 1983 where he worked as Inspector, Assistant Manager and Branch Manager. He has been working as Assistant General Manager since 2003.

Emin ÇUBIKCI

Assistant General Manager in charge of Human Resources

He graduated from the Econometrics Department of Uludağ University's Economics and Administrative Sciences Faculty. He started his career at Ziraat Bank's Board of Inspectors in 1988 and worked as an Inspector, Assistant Manager and Branch Manager. He has been working as Assistant General Manager since 2003.



Hüsamettin GÜLHAN

Assistant General Manager in charge of Agricultural Banking

He graduated from the Economics and Administrative Sciences Faculty of Çukurova University. Gülhan joined Ziraat Bank in 1984 as Assistant Inspector and worked as an Inspector, Assistant Manager, Branch Manager and Head of Regional Directorate in domestic and international units. He has been working as Assistant General Manager since 2005.

Bülent YALIM

Assistant General Manager in charge of Banking Operations

He graduated from the Political Sciences Faculty of Ankara University. He joined Ziraat Bank in 1987 and worked as an Inspector, Assistant Manager, Branch Manager and Head of Department. Yalim has been working as Assistant General Manager since 2005.

Recep TÜRKAY

Assistant General Manager in charge of Support Services

He graduated from the Business Administration Department of Karadeniz University's Economics and Administrative Sciences Faculty. He started working at the Board of Inspectors of Ziraat Bank in 1987. He worked as an Inspector, Assistant Manager, Branch Manager and Head of Regional Directorate. He has been working as Assistant General Manager since 2005.

Dr. Turgay GEÇER

Assistant General Manager in charge of Internal Control and Risk Management

He graduated from the Business Administration Faculty of Istanbul University. He received his Master's and Ph.D. degrees from the Banking and Insurance Institute of Marmara University. Geçer worked in various positions in the private sector. He has been working as Assistant General Manager since 2005.

Selim Güray ÇELİK

Assistant General Manager in charge of General Accounting and Financial Management

He graduated from the Business Administration Department of Ankara University's Political Sciences Faculty. He received his Master's degree from the University of Illinois. He worked as Auditor and Chief Auditor at the Undersecretariat of Treasury and worked as Head of Department at the Banking Regulation and Supervision Agency. He has been working as Assistant General Manager since 2005.

STATUTORY AUDITORS AND COMMITTEES

The Credit Committee regularly reviews credit risk strategies and lending policies and advises the Board of Directors on changes in such policies and strategies.

>> STATUTORY AUDITORS

Süleyman SAYGI Statutory Auditor

He graduated from the Political Sciences Faculty of Ankara University in 1985. He served on the Board of Auditors of the Ministry of Finance. He has been working as a statutory auditor since 2003.

Abdullah YALÇIN Statutory Auditor

He graduated from the Ankara Economic and Commercial Sciences Academy in 1977. He started his banking career at the Accounting and Financial Affairs Department of Etibank Head Office in 1975. He worked at the Turkish Central Bank and as an inspector, director and branch manager at Vakıfbank. He has been working as a statutory auditor since 2003.

>> THE CREDIT COMMITTEE

The Credit Committee regularly reviews credit risk strategies and lending policies and advises the Board of Directors on changes in such policies and strategies, evaluates authorized credit proposals in conformity with the Banking Law and

applicable legislation, approves credit applications within the limits of its authority, and advises the Board of Directors on approval of credit applications exceeding the limits of its authority, reviews lending regulations and submits applicable regulations to the approval of the Board of Directors, reviews circulars and legislation, decides on restructuring issues regarding credit transactions such as new allocation, extension of term, increase, amendment of terms or interest discount. In 2005, the Credit Committee held 38 meetings and made 311 decisions.

Chairman

General Manager and Board Member

Can Akın ÇAĞLAR

Full Members

Board Member:

Murat ULUS

Board Member:

Mehmet MUMCUOĞLU

Deputy Members

Board Member:

Burhanettin AKTAŞ

Board Member:

Osman ARIOĞLU

**BOARD MEMBER RESPONSIBLE FOR INTERNAL CONTROL,
RISK MANAGEMENT AND THE INTERNAL AUDIT SYSTEM:**

Mehmet Emin ÖZCAN

>> RISK MANAGEMENT COMMITTEES

Senior Risk Committee

The Senior Risk Committee is responsible for developing and improving all kinds of risk management strategies and policies to prevent risks from impacting the financial position of the Bank.

Chairman

Board Member in charge of Internal Control, Risk Management and the Internal Audit System on behalf of the Board of Directors:

Mehmet Emin ÖZCAN

Members:

General Manager and Board Member:

Can Akin ÇAĞLAR

Board Member:

Murat ULUS

Assistant General Manager:

Emin ÇUBIKCI

Assistant General Manager:

Dr. Turgay GEÇER

Bank Risk Committee

The Bank Risk Committee ensures that risk management strategies and policies developed by the Senior Risk Committee are implemented, and also reviews risks taken by the Bank.

Chairman

Assistant General Manager in charge of Internal Control and Risk Management:

Dr. Turgay GEÇER

Members

Assistant General Manager in charge of the Board of Inspectors:

Yusuf BİLMEZ

Head of Internal Control Department:

Mehmet ERTÜRKMEN

Head of Risk Management Department:

M. Aylin ERTEM

Operational Risk Committee

The Operational Risk Committee is responsible for reviewing the decisions and operations of the Risk Management and Internal Audit Group and making recommendations for the development of strategies and policies aimed at mitigating the adverse effects of operational risks on the Bank's financial position.

Chairman

Head of Risk Management Department:

M. Aylin ERTEM

Members

Deputy Chairman of the Board of Inspectors:

Ethem ÇELİK

Head of Internal Control Department:

Mehmet ERTÜRKMEN

PARTICIPATION OF THE BOARD OF DIRECTORS AND COMMITTEE MEMBERS IN RELEVANT MEETINGS

Ziraat Bank Board of Directors convenes upon the request of the Chairman of the Board of Directors, the Deputy Chairman or a Director. The Board of Directors meets at least once a month. Unless decided otherwise (any meeting falling on a holiday etc. may be postponed to another date upon the written motion of the Chairman), ordinary meetings of the Board of Directors are held on the third Tuesday of each month. In 2005, the Board of Directors held 28 meetings and made 420 decisions.

The Credit Committee can only meet if all its members are present. The Chairman of the Board of Directors, the General Manager and members of the Credit Committee may request the meeting of the Credit Committee. The Chairman of the Board of Directors is entitled, at his/her sole discretion, to participate in and chair Credit Committee meetings and vote for motions. Members of the Board of Directors who are not members of the Credit Committee and Statutory Auditors are also entitled to participate in the meetings of the Credit Committee to obtain information and/or make comments. They are not allowed to vote any motion however.

SUMMARY REPORT OF THE BOARD OF DIRECTORS

Ziraat Bank holds almost one fifth of total deposits in Turkey. Total deposits increased 14% over their 2004 figure and reached YTL 51.8 billion. The loan-to-deposit ratio, which was 22% in 2004 increased to 27% by the end of 2005.

Ziraat Bank in 2005

In 2005, Ziraat Bank maintained its position in the banking industry and strengthened its financial position and operations. As a result of its focus on profitability and efficiency, the size of its assets increased to YTL 65 billion and the share of its assets, deposits and loans in the overall banking industry reached 17%, 21% and 9%, respectively.

Among Turkish banks, Ziraat Bank has the most extensive international organization with nine foreign branches, three foreign representation offices and eight foreign subsidiaries. Ziraat Bank operates 1,137 domestic branches, 24 subsidiaries, has 20,299 employees, and is the single bank in 453 towns and counties.

In 2005, Ziraat Bank continued its focus on lending operations. Total loan book, which amounted to YTL 9 billion in 2004, increased 47% in 2005, reaching YTL 13.4 billion. The share of loans in total assets, which was 16% in 2004, increased to 21% in 2005.

Subsidized lending, which had started in 2004 to provide farmers with convenient funding opportunities in limited areas, was further expanded in 2005. As a result of this expansion, the volume of agricultural loans, which was YTL 1.1 billion in 2004, reached YTL 2.2 billion in 2005.

Credits extended to manufacturing industries are an indication of the financial support the Bank provides to industrialization. Commercial loans reached YTL 2.4 billion, while SME loans, which are and will continue to be important for the Bank, reached YTL 740 million, with a 91% increase in 2005.

Ziraat Bank became a major actor in the banking industry thanks to its interest and pricing policy in retail credits, and its ever growing product range. Retail credits reached YTL 4.8 billion with a 90% increase over 2004.

Thanks to loans extended in the form of lump-sum advance payments to the beneficiaries of compulsory savings accounts, the Bank achieved an increase over the banking industry average in housing loans and consumer loans. In 2005, the total amount of housing loans reached YTL 1.3 billion, enjoying an 11% share in the

SUMMARY REPORT OF THE BOARD OF DIRECTORS CONTINUED

market. For the first time in Turkey, consumer loans were extended in the form of lump-sum advance payments to the beneficiaries of compulsory savings accounts, and as a result 1.6 million people were extended YTL 1.6 billion in loans. While the beneficiaries saved time and obtained low-cost loans, the operational burden on the Bank was reduced.

In addition to the increase in lending volume, the share of non-performing loans in total loans decreased significantly as a result of the Bank's prudent lending and collection policies. In accordance with our realistic profit and provisioning policy, provisions have been set aside covering the entire amount of non-performing loans.

Ziraat Bank holds almost one fifth of total deposits in Turkey. Total deposits increased 14% over their 2004 figure and reached YTL 51.8 billion. The loan-to-deposit ratio, which was 22% in 2004 increased to 27% by the end of 2005.

As of December, the capital adequacy ratio was 48%, over the banking industry average.

In order to solve operational problems arising from the extensive service network and high number of transactions, the technological infrastructure has been renewed and a centralized banking application has been launched. To achieve efficiency and effectiveness, the Bank increased the number of its products and services offered on alternative distribution channels and launched an Internet Banking service. In addition to 800 ATMs installed in 2005, 750 ATMs have been purchased.

The share of interest on securities in the total interest income of the Bank continued to decrease in 2005, while the share of the interest on loans continued to increase. Moreover, the increase in net fee and commission income and the coverage ratio of other operating expenses by this income reached banking industry averages by the end of 2005.

Conclusion

As a result of its successful policies, Ziraat Bank posted a YTL 2,640 million gross profit (tax provision totaling YTL 838 million) and a YTL 1,802 million net profit by the end of 2005. The increase in profit was a result of sound lending policies and asset-liability management strategies which have been adopted by the Bank while maintaining its deposit base, the increase in banking service revenues, the sale of redundant property, the cost-saving measures, or to sum it up, of efficiency.

Ziraat Bank, which had recorded one fourth of the entire banking industry's net profit in 2004, increased its share further in 2005 and earned a record profit unprecedented in the history of the Turkish banking industry. The profit of the Bank has almost equaled one third of the total profit of the Turkish banking industry.

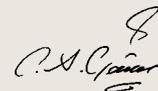
International rating agency Moody's increased Ziraat Bank's rating from "B2" to "B1" on 20 December 2005, while Standard & Poor's and Fitch changed the rating outlook from "stable" to "positive" on 26 January 2006 and 8 December 2005, respectively.

Ziraat Bank is the pioneer and major driving force of the Turkish banking industry, which is in the process of integration with international markets. In 2006, Ziraat Bank aims to improve its quality of service and to continue its profitable and efficient banking operations.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.



Prof. Dr. İlhan ULUDAĞ
Chairman



Can Akın ÇAĞLAR
General Manager

INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT ASSESSMENT REPORT

The Board of Inspectors, which operates in coordination with other control and risk management units of the Bank, develops and updates auditing practices and procedures in light of the best domestic and international practices and in accordance with the organizational structure and risk profile of the Bank.

>> INTERNAL CONTROL SYSTEM

The internal control activities of Ziraat Bank are carried out in conformity with applicable legislation and administrative regulations. The Bank adopts a risk-oriented audit approach.

Ziraat Bank's 24 regional directorates, 146 branches and 11 functional departments are subject to continuous audits, while 1,082 branches and the Bank's Special Transaction Center are subject to periodical on-site and central audits. Audits are performed using specific programs, developed on the basis of a classification which takes into account various factors such as the shares of the relevant units' operations in total transaction volume of the Bank, the operational risks they are exposed to, the impact of such risks on the Bank's overall risk profile, the relevant automation levels, and the ability to control their daily activities from the Head Office.

As a result of these controls, transactions which cause losses, pose risks and/or may result in these are reported, and these reports are forwarded to the relevant units for necessary action.

The Bank adopts a proactive internal control approach which includes applications for controlling IT elements, centralized control activities, on-the-job training activities, job rotations, and revisions on reporting system, all developed in accordance with applicable legislation, the requirements of the Bank and changing conditions.

The rearrangement of the titles of internal controllers has been observed to improve the effectiveness of auditing activities. In parallel with this, the Bank intends to stop assigning internal controllers from among its existing

employees. The Bank will instead recruit new employees, who will have to pass an exam to become internal controller. Thus, the quality of the audit team will be improved and internal controllership will be a part of the career hierarchy.

Important progress has been made in efforts to effectively control risks regarding information systems and data processing technologies, with a view to ensuring that the Bank operates uninterruptedly and potential losses are prevented. The Bank has also been successful in creating a corporate audit culture which ensures that employees at all levels are aware of the importance of internal control and their respective accountability.

Internal control activities were carried out efficiently and in harmony with the Board of Inspectors in 2005. These activities are important in ensuring that the Bank has a robust and healthy structure.

>> BOARD OF INSPECTORS

The Board of Inspectors, which operates in coordination with other control and risk management units of the Bank, develops and updates auditing practices and procedures in light of the best domestic and international practices and in accordance with the organizational structure and risk profile of the Bank. To this end, Ziraat Bank adopts an auditing approach focused on risks, systems and processes, instead of individuals and errors.

Top priorities of the Board of Inspectors include the definition, measurement, quantification and evaluation of the major risks encountered by the Bank during its normal course of business conduct. The Board of Inspectors is committed to making

ZİRAAT BANK RISK MANAGEMENT ASSESSMENT REPORT CONTINUED

explanatory comments and recommendations to the Board of Directors and senior management for the development of early warning and control mechanisms regarding the scope, size and progress of credit, market and operational risks the Bank is exposed to.

Following the recent conversion of the Bank's IT infrastructure from a distributed structure to a centralized one, the Board of Inspectors started to implement centralized auditing procedures. The system designed to evaluate the outcome of data analysis is run in parallel with on-site auditing procedures. Centralized auditing procedures are still at the development stage, and despite the relatively recent launch of such procedures, significant progress has been made.

The Board of Inspectors audits and examines all the units, domestic/foreign branches and subsidiaries. In addition to determining and preventing the risks that the Bank faces, the Board also reports transactions which require the initiation of administrative, financial and penal action against the individuals involved, and warns and guides relevant units on measures to be taken for the collection of receivables and the protection of the Bank's assets.

The Board of Inspectors provides qualified employees to business units of the Bank. Thus, it not only trains candidates for senior management but also strengthens and renews its staff by periodically recruiting new members.

In line with its objectives of establishing the principles of corporate governance at the Bank, creating an audit culture and ensuring that the internal auditing function is performed efficiently, the Board of Inspectors will continue to perform its auditing duty including the appropriateness of internal control and risk management methods at all units and consolidated subsidiaries in accordance with applicable legislation, its internal regulations and the Board of Directors' strategies and policies.

» RISK MANAGEMENT SYSTEM

The primary objective of risk management is to move towards best practices by raising all employees' awareness of risk and continuously improving systems and human resources. The risk management function is composed of the Senior Risk Committee, the Bank Risk Committee, the Operational Risk Committee and the Risk Management Department. Maximum attention is paid to perform risk management activities in coordination with the relevant units.

Activities of the Risk Management Department include market, credit, liquidity, structural interest rate and operational risks. The ultimate goal is to achieve full compliance with the Basel II criteria, which represent the best practices. Activities of the risk management function are summarized below:

Within the scope of Basel II efforts, the Bank participates in "Quantified Impact Studies" that aim to analyze the impact of Basel II requirements on capital needs of the Bank.

With regard to credit risks, the Department closely monitors the credit portfolio composition and monitors and reports on actual or potential risks caused by changes in the portfolio.

With regard to operational risks, the Department defines operational risks, determines where they are concentrated, makes recommendations for preventing them, and performs the necessary reporting.

The Department also makes infrastructure and R&D efforts to ensure that advanced methodologies are employed to measure operational risks and credit risks.

Efforts concerning market risk focus on the measurement and monitoring of risks based on internal modeling, stress tests and scenario analyses. Liquidity, interest and exchange rate risks of the Bank are defined using advanced analysis and measurement methodologies.

A detailed contingency plan has been developed for the information systems, operational transactions and physical security of the Bank. Moreover, Ziraat Bank is working on "Financial Contingency Management Principles" to ensure a more effective crisis management in case of a financial crisis.

Yours sincerely,



Mehmet Emin ÖZCAN
Member of the Board of Directors

RECRUITMENT AND PROMOTIONS

Although the number of the employees decreased during the restructuring process, the growing business volume increased the need for management candidates for the future, as well as for employees who will perform tasks that require special skills, and basic operational and administrative tasks such as tellers' tasks.

>> ZIRAAT BANK RECRUITMENT PROCEDURE

Ziraat Bank's recruitment procedure is determined by the following provisions: Article 2 of Law No. 4603: "... The Council of Ministers shall determine the principles and procedures regarding employees to be recruited by banks that are undergoing a restructuring process, in accordance with the provisions of private law"; Article 2 of Council of Ministers' Resolution numbered 2002/3555, published in the Official Gazette dated 1 February 2002 and numbered 24658: "Boards of Directors of banks are authorized to take all kinds of decisions and perform any transactions regarding the restructuring of the banks and their preparation for privatization"; Article 2 of the Council of Ministers' Resolution dated 9 August 2004 and numbered 2004/7682: "Banks shall recruit new employees possessing the qualifications required for modern banking operations, in line with profitability and efficiency principles and within the scope of the standard staff to be determined by the Board of Directors, taking into consideration organizational analyses, business analyses, business measurements, mission statements, required competencies for such positions and the number of required positions; and qualified candidates who lack sufficient work experience shall be subject to written examinations."

In 2005, new students were enrolled to the 14th and 15th term of the Banking School's assistant specialist program.

Although the number of the employees decreased during the restructuring process, the growing business volume increased the need for management candidates for the future, as well as for employees who will perform tasks that require special skills, and basic operational and administrative tasks such as tellers' tasks. The Bank plans to recruit young employees who have passed the "Public Staff Selection Examination" held by the Student Selection and Placement Center in 2004 and 2005, as well as future oral examinations to be held.

>> ZIRAAT BANK PROMOTION PROCEDURE

In 2005, two examinations were held for promotion purposes. On 30 January 2005, service managers took an exam to become assistant directors, and on 6 February 2005 service officers took an exam to become service managers.

Employees who scored 70 or higher in these exams have been appointed to the units and branches of their choice, starting with those who obtained the highest score; standard staff requirements have been observed during these appointments.

Promotion procedures are carried out in accordance with the Human Resources Regulations, provided that requirements regarding performance level, waiting periods, references and availability of standard staff positions are met.

RELATED PARTY TRANSACTIONS

Pursuant to Article 20 (3) of the Regulations on the Organization and Operations of Banks, since the entire capital of Ziraat Bank is owned by the Turkish Treasury, its risk group includes subsidiaries whose capital, management and strategic direction is directly or indirectly controlled by the Bank.

The relations of Ziraat Bank with organizations that are within its risk group and are controlled by the Bank cover all kinds of banking transactions, which are carried out at arm's length and in conformity with the Banking Law. Lending and deposit taking activities constitute a major portion of such transactions.

The amounts of transactions carried out in 2005 with the Bank's related parties and notes regarding such transactions are provided in Note 29, Section Five of the year-end audited financial statement notes included in this annual report.

T.C. ZİRAAT BANKASI ANONİM ŞİRKETİ
STATUTORY AUDITORS' REPORT

To the General Assembly of
T.C. Ziraat Bankası A.Ş.,

We have audited Ziraat Bank's accounts and transactions for the period between 1 January 2005 and 31 December 2005 in conformity with its Articles of Association, the Banking Law, the Turkish Commercial Code, other applicable legislation and the regulations of the Banking Regulation and Supervision Agency. Accordingly, it has been determined that:

- 1- The books and records which must be kept according to the Turkish Commercial Code, the Banking Law and applicable legislation have been duly kept and the records and supplementary documents have been filed regularly;
- 2- The balance sheet as of 31 December 2005 and the income statement for the year then ended accompanying Ziraat Bank's Annual Report issued by the Board of Directors and notes to the balance sheet and income statement provided in mentioned Annual Report are in conformity with the accounting records;
- 3- Resolutions regarding the management of the Bank have been duly recorded in the Decision Register.

In our opinion, the accompanying balance sheet as of 31 December 2005 and the income statement for the year then ended, which have been subject to independent audit, reflect the actual financial position and results of operations of the Bank in the relevant period.

We kindly ask for the approval of the Bank's balance sheet as of 31 December 2005 and the income statement for the year then ended and the release of the Board of Directors of their responsibilities thereof.

Yours sincerely,

Ankara, 27 March 2006

STATUTORY AUDITORS

Abdullah YALÇIN



Süleyman SAYGI



FINANCIAL STATEMENTS AND RISK MANAGEMENT

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2005

To the Board of Directors of
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.
Ankara

OPINION OF INDEPENDENT AUDITORS

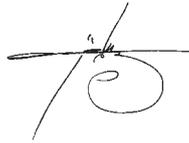
1. We have audited the accompanying balance sheet of T.C. Ziraat Bankası A.Ş. as of 31 December 2005 and the related statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of New Turkish Lira as at 31 December 2005. These financial 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at 31 December 2005 and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards.

Without further qualifying our review report, we draw attention to the following matter:

4. In accordance with an actuarial report prepared for T.C. Ziraat Bankası A.Ş. and T. Halk Bankası A.Ş. Mensupları Emekli ve Yardım Sandığı Vakfı ("the fund") dated February 2006, the Fund has an actuarial surplus of YTL 820 Thousand as at 31 December 2005 using technical interest rate of 8.25%. However, actuarial analyses performed by actuaries in Turkey do not necessarily comply with the methodology required by revised IAS 19. The actuarial results of the funds could differ had an actuarial analysis been performed in accordance with revised IAS 19.

Ankara, April 26, 2006

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU



Bülent Beydüz
Associate, Chief Auditor

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

BALANCE SHEETS AS OF
31 DECEMBER 2005 AND 2004*(All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])*

ASSETS	Note	31 December 2005 YTL 000	31 December 2004 YTL 000
Liquid Assets	4	500,612	340,149
Balances with the Central Bank	5a	2,230,463	931,457
Balances with Banks	6	2,849,863	3,100,340
Interbank Funds Sold		3,628,119	1,882,748
Investments Held for Trading	7	1,009,748	3,889,297
Reserve Deposits at the Central Bank	5b	1,096,373	2,137,307
Loans - Net	8	13,691,314	9,869,867
Investment Securities - Net	9	38,147,903	36,190,182
Premises & Equipment - Net	10	763,783	772,851
Sundry Debtors & Other Assets	11	1,046,363	562,451
Deferred Tax Assets	20a	69,239	108,132
TOTAL ASSETS		65,033,780	59,784,781

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

BALANCE SHEETS AS OF 31 DECEMBER 2005 AND 2004

(All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL (note 3))

LIABILITIES	Note	31 December 2005 YTL 000	31 December 2004 YTL 000
Deposits	12	52,132,098	47,899,143
Obligations to Repurchase Securities	13	502,719	456,703
Borrowings	14	8,486	21,337
Interbank Funds Borrowed	15	-	473,723
Corporation Taxes Payable	20a	905,010	267,840
Taxes & Dues Payable	16	99,311	99,946
Provisions	17	654,893	522,417
Funds	18	4,112,849	3,753,019
Sundry Creditors & Other Liabilities	19	724,725	916,053
		59,140,091	54,410,181
Equity			
Capital	21	6,729,089	6,729,089
Legal Reserves		3,444,113	3,259,999
Revaluation Reserves		258,035	131,954
Accumulated (Loss)		(4,537,548)	(4,767,375)
Minority Interest		-	20,933
		5,893,689	5,374,600
TOTAL LIABILITIES & EQUITY		65,033,780	59,784,781
COMMITMENTS & CONTINGENCIES	24	2,073,403	2,075,518

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

INCOME STATEMENTS FOR THE
PERIODS ENDED 31 DECEMBER 2005 AND 2004*(All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])*

	Note	31 December 2005 YTL 000	31 December 2004 YTL 000
INTEREST INCOME			
Interest on Loans		1,754,772	1,178,131
Interest on Bank Balances		374,806	337,700
Interest on Interbank Funds		172,853	310,756
Interest on Securities Portfolio		5,724,912	7,598,417
Other Interest Income		11,603	30,571
		8,038,946	9,455,575
INTEREST EXPENSE (-)			
Interest on Deposits		(5,064,392)	(5,483,319)
Interest on Borrowings		(1,872)	(3,219)
Interest on Interbank Funds		(66,766)	(108,687)
Other Interest Expenses		(7,907)	(3,179)
		(5,140,937)	(5,598,404)
NET INTEREST INCOME			
		2,898,009	3,857,171
Provision for Loan Losses (-)		(70,447)	(106,198)
Net Interest Income After Provisions		2,827,562	3,750,973
OTHER OPERATING INCOME			
	22	1,340,229	1,020,219
OTHER OPERATING EXPENSES (-)			
	23	(1,421,193)	(1,590,016)
PROFIT BEFORE TAXATION			
		2,746,598	3,181,176
Taxation (-)	20b	(878,392)	(814,013)
NET MONETARY LOSS (-)			
		(201,627)	(837,098)
INCOME			
		1,666,579	1,530,065
Attributable to:			
Equityholders of T.C. Ziraat Bankası A.Ş.		1,666,579	1,530,065
Minority Interest		-	(1,006)
TOTAL			
		1,666,579	1,529,059

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

CASH FLOW STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

(All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

	31 December 2005 YTL 000	31 December 2004 YTL 000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Profit for the Period	1,666,579	1,529,059
Adjustments to Reconcile Net Profit to Net Cash Flows		
From Operating Activities:		
Depreciation	43,879	40,519
Retirement Pay Provision and Other Provisions	158,111	181,622
Loan Loss Provision	70,447	106,198
Deferred Taxes	38,893	(34,995)
Changes in Operating Assets and Liabilities:		
Reserve Deposits	1,040,934	(123,409)
Loans	(3,891,894)	(3,185,222)
Other Assets	(483,912)	343,297
Deposits	4,232,955	7,210,320
Taxes	636,534	(86,174)
Other Liabilities	(690,687)	(659,748)
NET CASH GENERATED BY OPERATING ACTIVITIES	2,821,839	5,321,467
CASH FLOWS FROM INVESTING ACTIVITIES:		
Changes in Investments	(201,172)	50,705
Changes in Marketable Securities	1,249,081	(2,570,118)
Changes in Premises & Equipment - Net	(34,811)	43,562
NET CASH (USED IN)/GENERATED BY INVESTING ACTIVITIES	1,013,098	(2,475,851)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in Borrowings - Net	33,165	(32,005)
Dividends Paid	(1,199,761)	(3,375,094)
Funds	359,830	(463,172)
Changes in Minority Interest	(20,933)	(47,353)
Change in Consolidation Method	-	(5,163)
Other	(52,875)	(7,727)
NET CASH (USED IN) FINANCING ACTIVITIES	(880,574)	(3,930,514)
(DECREASE) / INCREASE IN CASH & CASH EQUIVALENTS	2,954,363	(1,084,898)
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6,254,694	7,339,592
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD	9,209,057	6,254,694

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

(All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

	Paid-In Capital YTL 000	Legal Reserves YTL 000	Accumulated (Loss)/ Period Profit YTL 000	Increase in Value of Securities Available for Sale YTL 000	Minority Interest YTL 000	Total YTL 000
As of January 1, 2004	9,480,584	2,722,888	(5,125,641)	24,643	71,089	7,173,563
Transfers	(386,739)	561,068	(174,329)	-	-	-
Conversion effect of foreign participation	-	(4,778)	(384)	-	-	(5,162)
Decrease in value of securities available for sale	-	-	-	107,311	-	107,311
Changes in minority	-	(206)	3,011	-	(50,156)	(47,351)
Dividends paid	(2,364,756) (*)	-	(1,010,338)	-	-	(3,375,094)
Effect of Başak Sigorta deconsolidation (see Note 2)	-	(18,973)	11,247	-	-	(7,726)
Net profit for the year	-	-	1,529,059	-	-	1,529,059
As of December 31, 2004	6,729,089	3,259,999	(4,767,375)	131,954	20,933	5,374,600
Due to deconsolidation	-	(12,347)	(40,530)	-	(20,933)	(73,810)
Transfers	-	196,461	(196,461)	-	-	-
Dividends	-	-	(1,199,761)	-	-	(1,199,761)
Decrease in value of securities available for sale	-	-	-	126,081	-	126,081
Net profit for the year	-	-	1,666,579	-	-	1,666,579
As of December 31, 2005	6,729,089	3,444,113	(4,537,548)	258,035	-	5,893,689

(*) During the extraordinary General Assembly meeting of the Bank held on June 2, 2004, it has been decided that capital reserves (the indexation effect of capital) amounting to YTL 2,500,000 Thousand would be distributed in accordance with the principals predetermined by Treasury. Out of the total balance subject to distribution YTL 351,390 Thousand has been set as legal reserves, YTL 214,861 Thousand has been paid as dividend and income withholding tax and the remaining YTL 1,933,749 Thousand has been distributed to Treasury in the form of treasury bills and government bonds (balances are expressed in the equivalent purchasing power of Turkish Lira as of June 30, 2004). Hence, "Dividends" shown in the paid-in capital column in the above table represent the dividends paid to Treasury and the related dividend and income withholding tax amounting to YTL 2,364,756 Thousand and the "Transfers" in the paid-in capital column in the above table represent balance of capital reserve set as legal reserve amounting to YTL 386,739 Thousand.

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

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

1. THE BANK

The establishment of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. is based on Homeland Funds founded in 1863. In 1883, Homeland Funds were replaced with Benefit Funds. The Bank was officially established by reorganisation of the Benefit Funds in 1888, to grant loans to farmers, to accept interest-bearing deposits and to act as a moneylender and as an intermediary for agricultural operations. The Bank which was given the authority to perform all banking activities has its head office located in Ankara and all shares of the Bank belong to the Turkish Treasury.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS"). The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Presentation of Financial Statements

The Bank maintains its books of account and prepares its financial statements in New Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, in accordance with the Banking Act, based on accounting principles regulated by the Banking Regulation and Supervision Agency ("BRSA"), the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish tax legislation and relevant accounting rules and regulations. The Bank's equity participations maintain their books of account and prepare their statutory financial statements in accordance with regulations prevailing in their area of specialization, Commercial Practice and Tax Regulations.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for those items measured at fair value, with adjustments and reclassifications for the purposes of fair presentation in accordance with IFRS. These financial statements are presented in New Turkish Lira since that is the currency in which the majority of the Bank's transactions are denominated.

The accompanying IFRS financial statements adopt the accounting principles and policies applied by the BRSA in the Bank's statutory financial statements wherever those do not conflict with IFRS.

The effects of the differences between IFRS and generally accepted accounting principles in other countries than Turkey have not been quantified in the accompanying notes to the financial statements. In the opinion of the Bank's management, all adjustments necessary for the fair presentation of financial position, results of operations and cash flows for the period have been made in the accompanying financial statements.

Certain reclassifications have been made to the prior year figures to comply with the current period presentation.

Adoption of New and Revised IFRSs

In the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for periods beginning 1 January 2005. The adoption of these new and revised Standards and Interpretations has not affected the amounts reported for the current or prior years.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3]

At the date of authorization of these financial statements, additional Standards and Interpretations were in issue but not yet effective. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accompanying financial statements are as follows:

3.1. Accounting Convention

The accompanying financial statements have been prepared in accordance with IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Effect has been given in the financial statements to adjustments and reclassifications which have not been entered in the general books of account of the Bank and its subsidiaries maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

3.2. Financial Reporting in Hyperinflationary Economies

The Bank maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code and tax regulations. Prior to 2004, the statutory books have been kept on historical basis. For the year ended 31 December 2004, adjustments related to the inflation accounting have been included in the legal books in accordance with the Law No: 25524 of Banking Regulation and Supervision Agency dated July 16, 2004.

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

Major characteristics which necessitate the application of IAS 29 are:

- (a) The general population prefers to keep its wealth in nonmonetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) Cumulative three-year inflation rate approaching or exceeding 100%.

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29 restatement, is a cumulative three year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey was 33.9% for the three years ended 31 December 2005 based on the wholesale price index announced by the Turkish State Institute of Statistics. Although the cumulative rate in Turkey is 33.9%, below 100%, for the three years ended 31 December 2005, other characteristics are still valid and improvements in the economic indicators do not yet lead to result in verifying to conclude that the economy is no longer hyperinflationary. Consequently, the accompanying financial statements are adjusted for the effect of changes in the general purchasing power of YTL.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

The restatement has been calculated by means of conversion factors based on the Turkish countrywide wholesale prices index ("WPI") published by the State Institute of Statistics.

The index and corresponding conversion factors for the last five years are as follows:

	Index	Adjustment Factors
31 December 2001	4,951.70	1.7743
31 December 2002	6,478.80	1.3561
31 December 2003	7,382.10	1.1901
31 December 2004	8,403.80	1.0454
31 December 2005	8,785.74	1.0000

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

Year:	2005	2004	2003	2002	2001	2000
Currency Deflation US \$	(0.18)%	(3.8)%	(14.6)%	13.5%	114.3%	24.4%
WPI Inflation	4.54%	13.8%	13.9%	30.8%	88.6%	32.7%

The principal adjustments related with inflation accounting are as follows:

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- Non-monetary assets and liabilities are restated by applying, to the initial acquisition cost and any accumulated depreciation, the change in the general price index from the date of acquisition or initial recording to the balance sheet date. Hence, property, plant and equipment, investments and similar assets are restated from the date of their purchase, not to exceed their market value. Depreciation is similarly restated. The components of shareholders' equity are restated by applying the applicable general price index from the dates when components were contributed or otherwise arose.
- All items in the statement of income are restated by applying the relevant conversion factors, except for restatement of certain specific income statement items which arise from the restatement of non-monetary assets and liabilities like amortization and gain or loss on sale of fixed assets.
- The gain or loss on the net monetary position is the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets, liabilities, shareholders' equity and income statement items. The gain or loss on the net monetary position is included in the statement of income.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

3.3. Basis of Consolidation

As of December 31, 2004 the financial statements of the entities listed below have been consolidated with those of the Bank in the accompanying financial statements. The method of consolidation is set out in note 3. The ownership percentages, listed below, comprise the total of the Bank's direct and indirect holdings. The entities controlled by the Bank:

Subsidiary	Türkiye Cumhuriyeti Ziraat Bankası		
	Sector	Ownership %	
		31 December 2005	31 December 2004
Ziraat International A.G. (Germany)	Banking	100.00	100.00
Ziraat Finansal Kiralama A.Ş. (Turkey)	Leasing	50.00	50.00

The Bank's investment other than those stated above, in which the right to vote is greater than 20%, but not more than 50%, is accounted using the equity method:

Equity Participation	Türkiye Cumhuriyeti Ziraat Bankası		
	Sector	Ownership %	
		31 December 2005	31 December 2004
Banque du Bosphore (France)	Banking	26.00	26.00

Other subsidiaries (Note 9) are not consolidated in the accompanying financial statements as the effect on the financial statements will be immaterial or participation rates are insignificant.

As of 31 December 2005, the Bank's subsidiary Ziraat Finansal Kiralama A.Ş. and equity participations Ziraat International AG and Banque du Bosphore are not consolidated to accompanying financial statements since the effect of their financial statements do not have a material impact on the Bank's financial statements. Consolidated financial statements as at 31 December 2004 are not restated since the impact of consolidation is immaterial.

3.4. Income and Expense Recognition

Interest and other income and expenses are recognized on the accrual basis, except for fees and commissions for various banking services rendered and dividends from equity participations which are recognized as income when received. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

Exchange gains arising from revaluation of New Turkish Lira loans which are indexed to foreign currencies are included as interest income.

3.5. Provisions for Loan Losses

The Bank makes provision for loan losses and losses under guarantees and commitments as a result of the evaluation of the current status of loans given. These provisions are reviewed periodically, and as adjustments become necessary, they are reported in the statement of income in the period in which they become known.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

3.6. Foreign Currency Transactions

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates.

Assets and liabilities of the Bank denominated in foreign currencies are translated at period end Bank exchange rates. For the translation of assets and liabilities of consolidated participations TCMB (Central Bank of Republic of Turkey) rates are used.

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

3.7. Financial Instruments

The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial assets and financial liabilities are recognised on the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are fundamental to the Bank's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Bank's balance sheet. The Bank trades in financial instruments for customer facilitation and as principal.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value as of December 31, ended 2005. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Investments that does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable, are accounted for at cost.

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The Bank's investments primarily represents Turkish Republic Government bonds, Treasury bills and Eurobonds which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Bank are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Bank's accounting policy for borrowing costs.

Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Off-balance sheet commitments and contingencies

The Bank deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Bank's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

Fair value considerations

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Bank may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets. As there are a wide range of valuation techniques, it may be inappropriate to compare the Bank's fair value information to independent markets or to other financial institutions' fair value information.

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For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would not differ significantly from market rates.

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

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.

Securities investments: Fair value is estimated using quoted market prices wherever applicable.

Loans: The major portion of the loans are short-term and have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

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

3.8. Premises and Equipment

Premises and equipment, including the related depreciation have been indexed and are expressed in the period end purchase value of the Turkish Lira.

Premises and equipment are depreciated using rates which write off the assets over their expected useful lives. The assets are depreciated on a straight-line basis mainly at the following rates:

Buildings	2-10%
Vehicles, furniture and office equipment	20-50%
Leasehold improvements	20% or lease term

With the exception of fixed assets to be sold which have been acquired through guarantees received by the Bank for loans given, additions to premises and equipment are based on the purchase prices paid to third parties. Fixed assets to be sold are depreciated using rates based on useful lives of such assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

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3.9. Impairment

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

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

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

Corporate assets are not directly separable and independent from the other assets and operations of the Bank. If there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash generating units. Management of the Bank believes that there is no indication of internal or external factors implying any impairment of corporate assets.

3.10. Provisions for Employee Termination Benefits

Under Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. Such payments are based on number of years' service and final salary at the date of retirement or leaving.

International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19") has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit.

3.11. Pension and Other Post Retirement Obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T.C. Ziraat Bankası A.Ş. ve T. Halk Bankası A.Ş. Mensupları Emekli ve Yardım Sandığı Vakfı ("The Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to fixed contributions.

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The liability to be recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Bank does not have the legal right to access to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the balance sheet in respect of defined benefit pension plans. The defined benefit obligation is calculated annually by independent actuaries. Based on the report of the actuary in accordance with IAS 19 as at February 2005, the Fund does not have an actuarial deficit as using a technical interest rate of 8%.

3.12. Equity Participations

In the accompanying inflation adjusted financial statements equity participations are stated at the lower of inflation adjusted acquisition cost or fair value. Inflation adjusted values are computed by applying indexation as required under IAS 29 from the date of acquisition of the subsidiary.

3.13. Related Parties

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

During the conduct of its business the Bank had transactions and balances with related parties during the year. Certain significant balances and transactions with related parties as at the balance sheet date are set out in note 29.

3.14. Taxation and Deferred Taxes

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income. Taxation on income to be paid can be netted off against prepaid taxes, as they are related. Similarly, deferred tax assets and liabilities can be netted off.

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

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Based on the latest amendments made to the Turkish Tax Code, entities are to calculate their taxation on inflation adjusted financial statements. Therefore, restatement of fixed assets will no longer create a timing difference between the legal books of companies and their inflation adjusted financial statements apart from instances such as the making of useful life adjustments. Deferred taxes have been calculated on tangible and intangible fixed assets based on such differences.

3.15. Securities under Resale or Repurchase Transactions

Purchases or sales of securities under agreements of resale or repurchase are short-term and entirely involve debt (totally government) securities. Sales of securities under agreements of repurchase ("Repos") are retained in the balance sheet under securities portfolio and the corresponding counter party commitment is included separately under liabilities. The net gain or loss on repo transactions is accrued over the period to maturity. Purchases of securities under agreements of resale ("reverse repos") are included in the securities portfolio and interest income on such transactions is accrued on an IRR basis over the period to maturity.

3.16. Financial Leases - the Bank as Lessee

Assets held under finance leases are recognized as assets of the Bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leases of assets under which all risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

3.17. Risk Management

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Bank is exposed to an inevitable degree of mismatch between the maturities of its assets and liabilities.

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

The Bank uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

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Credit risk

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorised at Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Bank places emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The day-to-day management of credit risk is devolved to individual business units, which perform regular appraisals of counter party credit quantitative information.

Market risk

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

The Bank's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

Operational risk

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

3.18. Cash and Cash Equivalents

In the statement of cash flows, cash and cash equivalents consists of liquid assets, balances with the Central Bank and Balances with Banks.

	31 December 2005	31 December 2004
	YTL 000	YTL 000
Cash and cash equivalents		
Liquid assets	500,612	340,149
Balances with the Central Bank	2,230,463	931,457
Interbank funds sold	3,628,119	1,882,748
Balances with banks	2,849,863	3,100,340
	9,209,057	6,254,694

3.19. Offsetting

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

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3.20. Use of Estimates

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

3.21. Business and Geographical Segments

Business segments

For management purposes, the Bank is currently organised into two operating divisions - banking and other financial operations. These divisions are the basis on which the Bank report its primary segment information.

Geographical segments

The Bank's operations are mainly located in Turkey. The results of the members of the Bank outside Turkey are not material in the accompanying consolidated financial statements and accordingly, geographical segment information is not presented.

4. LIQUID ASSETS

	31 December 2005 YTL 000	31 December 2004 YTL 000
Cash - Turkish Lira	418,932	238,527
Cash - Foreign Currency	81,669	101,616
Other	11	6
TOTAL	500,612	340,149

5. BALANCES WITH AND RESERVE DEPOSITS AT THE CENTRAL BANK

a) Balances with the Central Bank:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Demand deposits - Turkish Lira	2,230,463	929,884
Demand deposits - Foreign Currency	-	1,573
TOTAL	2,230,463	931,457

b) Reserve Deposits

	31 December 2005 YTL 000	31 December 2004 YTL 000
Reserve deposits - Turkish Lira	65,210	968,103
Reserve deposits - Foreign Currency	1,031,163	1,169,204
TOTAL	1,096,373	2,137,307

Under the Turkish Central Bank regulations, Banks are required to deposit with the Central Bank a proportion of all domestic liabilities. These reserves are not available funds to finance the operations of the Bank. Such Turkish Lira and foreign currency reserves maintained with the Central Bank earn interest at the interest rates of 10.25% for TRY deposits and (USD 2.03%) (EURO 1.14%) for foreign currency deposits (31 December 2004: 12.50% and [USD 1.04%; EURO 0.985%]; respectively).

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6. BALANCES WITH BANKS

	31 December 2005 YTL 000	31 December 2004 YTL 000
Domestic Banks		
Demand deposits - Turkish Lira	-	19
Demand deposits - Foreign Currency	-	2,868
Time deposits - Turkish Lira	617,000	360,709
Time deposits - Foreign Currency	1,873	158,172
	<u>618,873</u>	<u>521,768</u>
Banks Abroad		
Demand deposits - Turkish Lira	14,586	-
Demand deposits - Foreign Currency	25,626	147,980
Time deposits - Foreign Currency	1,709,001	2,390,093
Time deposits - Turkish Lira	479,000	38,682
	<u>2,228,213</u>	<u>2,576,755</u>
Interest Accrual	<u>2,777</u>	<u>1,817</u>
	<u>2,849,863</u>	<u>3,100,340</u>

The time deposits in New Turkish Lira above mature within 3 month and earn interest at rates in average 11.96% per annum. The time deposits in foreign currency above mature within 6 months and earn interest at rates in average USD 1.82% and 2.11% EURO per annum.

Deposits include TRY 12,936 Thousand placements in the Central Bank of Turkish Republic of Northern Cyprus.

7. INVESTMENTS HELD FOR TRADING

	31 December 2005 YTL 000	31 December 2004 YTL 000
Trading Portfolio		
Eurobonds	581,688	128,410
Treasury Bills and Government Bonds	379,969	3,589,678
Gold	2,487	2,470
Other	-	1,385
Provision for Diminution in Value of Securities	-	(8)
Interest Accruals	45,604	167,362
	<u>1,009,748</u>	<u>3,889,297</u>

Income on debt instruments at fair value is included in the statement of income as interest income. Gains and losses on other investments held for trading are included in the trading income.

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8. LOANS - NET

	31 December 2005 YTL 000	31 December 2004 YTL 000
SHORT-TERM LOANS		
Guaranteed export loans	107,709	112,576
Guaranteed other loans	907,299	836,621
Non-guaranteed other loans	1,715,612	1,480,558
Agricultural loans (Bank sourced)	1,760,488	968,256
Agricultural loans (Fund sourced)	7,679	5,595
Agricultural Credit Co-operative loans (Bank sourced)	76,227	37,985
Agricultural Credit Sales Co-operative loans (Fund sourced)	1,131,248	1,068,171
Rescheduled loans	387	600
Non cash loans turned to cash	315	355
Loans given to financial sector	31,994	573,737
	5,738,958	5,084,454
MEDIUM AND LONG-TERM LOANS		
Guaranteed other investment and operating loans	54,201	113,985
Non Guaranteed other investment and operating loans	315,650	153,524
Guaranteed other loans	1,959,727	1,350,630
Non-guaranteed other loans	757,167	55,271
Agricultural loans (Bank sourced)	320,487	116,087
Agricultural loans (Fund sourced)	353,856	217,625
Housing loans (Bank sourced)	1,359,670	291,926
Housing loans (Fund sourced)	1,068,083	756,441
Agricultural Credit Co-operative loans (Bank sourced)	2,656	1,546
Agricultural Credit Co-operative loans (Fund sourced)	-	1
Agricultural Sales Co-operative loans (Fund sourced)	1,434,281	1,493,156
Rescheduled loans	5,689	272
	7,631,467	4,550,464
OVERDUE LOANS	314,189	407,102
Interest Accruals on Loans	266,102	170,149
TOTAL LOANS	13,950,716	10,212,169
Less: Provision for loan losses (Special Provision)	(259,402)	(342,302)
TOTAL LOANS - NET	13,691,314	9,869,867

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Loans can be analysed by currency as follows:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Turkish Lira Loans		
Short-Term	5,422,698	4,370,473
Medium & Long-Term	7,290,766	4,269,457
Foreign Currency Loans		
Short-Term	316,260	713,982
Medium & Long-Term	340,701	281,005
Overdue Loans	314,189	407,102
TOTAL LOANS	13,684,614	10,042,019
Provision for Loan Losses	(259,402)	(342,301)
	13,425,212	9,699,718
Interest Accruals	266,102	170,149
TOTAL LOANS - NET	13,691,314	9,869,867

YTL 492,034 Thousand of the loans given to the financial sector as of December 31, 2004 are loans given to EximBank and is equal to YTL 258,709 Thousand. Euro 38,346 of the loan has been paid at July 2005. The remaining loans with maturities ending at August, September, October and December 2005 have been replaced since the loans were not stated to be closed by EximBank in the agreement. The total loan amount given to EximBank is YTL 7,115 Thousand as of December 31, 2005.

A summary of the sectoral spread of commercial loans as of December 31, 2005 and December 31, 2004 is as follows:

Sector	As of December 31, 2005		As of December 31, 2004	
	Cash Loans %	Non-Cash Loans %	Cash Loans %	Non-Cash Loans %
Energy	9.26	4.70	4.38	2.71
Services	61.87	45.02	66.01	47.01
Manufacturing	25.98	43.56	26.89	42.05
Construction	1.82	5.63	1.50	6.61
Textile	1.07	1.09	1.22	1.62
	100.00	100.00	100.00	100.00

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A summary of the sectoral spread of agricultural loans as of December 31, 2005 and December 31, 2004 is as follows:

Sector	31 December 2005	31 December 2004
	YTL 000 Agricultural Loans %	YTL 000 Agricultural Loans %
Vegetal Production	44.87	45.77
Stockbreeding	43.89	44.97
Agricultural Tools	0.88	8.25
Water Products	10.36	1.01
TOTAL	100.00	100.00

The Bank has applied the following average interest rates for the stated loan types during 2005 and 2004:

Loan Types	2005 Interest Rates %	2004 Interest Rates %
Agricultural Loans:		
Agricultural Loans Given to Small Scale Industries	20.00	30.16
Agricultural Loans Given to Production with Agreements	20.00	30.16
Agricultural Loans Given to Large Scale Industries	20.00	30.16
Agricultural Loans Given to Farming Industries	20.00	30.16
Commercial Loans:		
Short-Term Commercial Loans (Simple)	23.66	30.92
Short-Term Commercial Loans (Compound)	25.84	34.69
Penalty Interest	30.77	42.97
Annual Consumer Loans (Annual Compound):		
Vehicle	25.69	28.18
Consumer	21.16	32.07

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All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

9. INVESTMENT SECURITIES - NET

	31 December 2005 YTL 000	31 December 2004 YTL 000
Investments Held to Maturity	21,867,056	26,894,120
Investments Available for Sale	16,280,847	9,296,062
	<u>38,147,903</u>	<u>36,190,182</u>
Securities Available For Sale		
Government Bonds and Treasury Bills	4,229,418	5,781,978
Eurobonds	10,493,902	2,658,444
Interest Accrual	1,180,969	679,304
Equity Investments	447,724	216,454
Provision for Diminution in Value of Participations - Net	(70,077)	(39,979)
Provision for Diminution in Value of Securities	(1,089)	(139)
	<u>16,280,847</u>	<u>9,296,062</u>
Securities Held to Maturity		
Eurobonds	2,084,731	1,603,810
Government Bonds Treasury Bills	15,102,975	19,109,918
Repurchase Agreements	494,667	445,914
Blocked as Collateral	3,764,444	4,366,587
Interest Accrual	420,239	1,367,891
	<u>21,867,056</u>	<u>26,894,120</u>
TOTAL	<u>38,147,903</u>	<u>36,190,182</u>

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

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The Bank's available for sale equity investments are as follows:

	31 December 2005		31 December 2004	
	Participation Rate %	Indexed Value YTL 000	Participation Rate %	Indexed Value YTL 000
Banks				
İMKB Takas Bank A.Ş.	4.86	9,803	4.86	9,803
T.C. Merkez Bankası A.Ş.	19.18	2,108	19.18	2,108
Uzbekistan Turkish Bank (USD)	50.00	5,409	50.00	5,644
Turkmen Turkish Joint Stock Commercial Bank (USD)	50.00	3,344	50.00	3,490
Azer Türk Bank Açık Tıp Anonim Şirketi (USD)	46.00	3,145	50.00	2,444
Ziraatbank (Moscow) CJSC	99.22	9,882	99.22	10,312
Turkish Ziraat Bank Bosnia d.d. (EUR)	68.00	28,026	100.00	49,349
Kazakhstan Ziraat Int. Bank (USD)	93.88	21,708	93.88	22,653
Banque Du Bosphore (EUR) (*)	26.00	6,562	26.00	10,453
Arap Türk Bankası A.Ş.	4.86	33,413	15.00	32,603
Ziraat Bank International AG (*)	100.00	189,753	-	-
Other Financial Institutions				
Bileşim ADK ve Ödeme Sist. A.Ş.	25.00	2,421	32.50	3,256
Ziraat Yatırım Menkul Değerler A.Ş.	50.00	18,611	74.00	21,959
Bankalararası Kart Merkezi A.Ş.	17.98	2,186	17.98	2,186
Kredi Kayıt Bürosu A.Ş.	9.09	2,718	9.09	2,718
Ziraat Portföy Yönetimi A.Ş.	50.00	1,163	50	1,163
Ziraat Finansal Kiralama A.Ş. (*)	50.00	52,120	-	-
Insurance				
Milli Reasürans T.A.Ş.	2.5	7,669	2.5	4,527
AXA Oyak Sigorta A.Ş.	19.65	44,948	19.65	29,128
Other				
		2,735		2,658
		<u>447,724</u>		<u>216,454</u>
Diminution in value of participations - Net		(70,077)		(39,979)
		<u>377,647</u>		<u>176,475</u>

(*) As of December 31, 2005, the Bank's subsidiary Ziraat Finansal Kiralama A.Ş. and equity participations Ziraat International AG and Banque du Bosphore are not consolidated to accompanying financial statements since the effect of their financial statements do not have a material impact on the Bank's financial statements.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3)]

	31 December 2005 YTL 000	31 December 2004 YTL 000
Government Bonds and Treasury Bills	35,949,834	32,616,584
Accrued Interest	1,145,739	2,123,525
Less: Provision for Diminution in Value	-	(6)
Total Book Value	37,095,573	34,740,103
Fair Value of Above Securities	37,095,573	34,828,643

Government bonds and treasury bills mature between July 2006 and September 2010 YTL 236,611 Thousand (EUR 150,000 Thousand and YTL 1 Thousand) of securities is kept as guarantee for İstanbul Stock Exchange transactions, YTL 3,243,903 Thousand (USD 81,144 Thousand, EUR 70,040 Thousand, YTL 3,024,891 Thousand) for Interbank transactions repo guarantees, YTL 283,932 Thousand (EUR 180,000 Thousand) Foreign Currency Transactions guarantee.

10. PREMISES & EQUIPMENT - NET

	31 December 2005 YTL 000	31 December 2004 YTL 000
Land	56,944	59,449
Buildings	1,196,498	1,228,839
Furniture & Fixtures	315,230	326,986
Vehicles	25,265	27,685
Leasehold Improvements	29,933	29,199
Construction in Progress	9,376	7,960
Other Fixed Assets	144,577	102,164
Accumulated Depreciation (-)	(1,014,040)	(1,009,431)
	763,783	772,851

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NOTES TO THE FINANCIAL STATEMENTS
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11. SUNDRY DEBTORS & OTHER ASSETS

	31 December 2005 YTL 000	31 December 2004 YTL 000
Advances Given	1,639	8,905
Prepaid Expenses	2,216	2,362
Prepaid Dues & Taxes	623,030	2,363
Due from Public Institutions	39,670	34,758
Other	82,902	64,644
Total Other Assets	749,457	113,032
Receivables from Banking Services	173,470	157,837
Receivables from Leasing Agreements	-	77,222
"Yuva" Loans	33,000	143,656
Other	90,436	70,704
Total Sundry Debtors	296,906	449,419
	1,046,363	562,451

12. DEPOSITS

	Demand YTL 000	Time YTL 000	31 December 2005 Total YTL 000
TL Deposits			
Saving	2,242,164	23,564,401	25,806,565
Official, Commercial and Other Institutions	7,042,946	8,353,654	15,396,600
Banks	4,988	-	4,988
Foreign Currency Deposits			
Saving	2,087,787	8,324,339	10,412,126
Official, Commercial and Other Institutions	-	-	-
Banks	3,627	154,289	157,916
Interest Accrual	-	353,903	353,903
	11,381,512	40,750,586	52,132,098

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

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	31 December 2004		
	Demand YTL 000	Time YTL 000	Total YTL 000
TL Deposits			
Saving	1,504,925	21,673,660	23,178,585
Official, Commercial and Other Institutions	5,459,083	7,273,918	12,733,001
Banks	9,640	-	9,640
Foreign Currency Deposits			
Saving	2,443,744	8,673,261	11,117,005
Official, Commercial and Other Institutions	10,991	85,521	96,512
Banks	16,286	413,616	429,902
Interest Accrual	-	334,498	334,498
	9,444,669	38,454,474	47,899,143

During 2005, the interest rates the Bank applied for the deposits in terms of maturity are as follows:

	Branch Authority Interest Rates of Deposits (%)
Demand	1
Between 32-44 days	14
Between 45-60 days	14
Between 61-92 days	14
Between 93-119 days	14
Between 120-184 days	14
Between 185-365 days	14

Interest rates presented above are applied to deposits below YTL 10 Thousand. Deposits above YTL 10 Thousand are subject to interest rates presented above plus 1%. It requires General Management authority to apply 1% additional interest to deposits above YTL 5 Thousand and under YTL 10 Thousand and 1,5% additional interest to deposits above YTL 10 Thousand.

As of December 31, 2005, the amounts of saving and official, commercial and other institutions deposits are as follows:

	Saving Deposits	Official, Commercial and Other Institutions Deposits
0-10 Thousand YTL	7,002,138	235,518
11-50 Thousand YTL	12,144,670	422,411
51-250 Thousand YTL	9,465,546	733,036
251-1,000 Thousand YTL	3,368,672	916,060
More than 1,000 Thousand YTL	4,237,665	13,252,479
	36,218,691	15,559,504

Banks deposits amounting YTL 162,904 Thousand is presented in "More Than 1,000 Thousand YTL" line above.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL (note 3))

13. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The securities sold under repurchase agreements and corresponding obligations are as follows:

	2005 Carrying Value of Underlying Securities YTL 000	2005 Carrying Value of Corresponding Liability YTL 000	2005 Repurchase Value YTL 000
Held to Maturity			
Investment securities	502,666	502,316	502,719
	502,666	502,316	502,719

	2004 Carrying Value of Underlying Securities YTL 000	2004 Carrying Value of Corresponding Liability YTL 000	2004 Repurchase Value YTL 000
Held to Maturity			
Investment securities	456,665	456,360	456,703
	456,665	456,360	456,703

The repurchase agreements have maturity periods of 1 day to 14 days. The Bank has applied interest rates of 11.91%. Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounted to TRY 403 Thousand (2004: TRY 328 Thousand).

14. BORROWINGS

Loans used from banks and other institutions are presented below:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Loans Borrowed from Domestic Banks - Turkish Lira	6,353	18,515
Loans Borrowed from Domestic Banks - Foreign Currency	1,287	966
Loans Borrowed from Abroad - Foreign Currency	576	8
Loans Borrowed from Other Domestic Institutions	-	962
Interest Accrual	270	886
	8,486	21,337

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

Borrowings will be repayable as follows:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Within one year	7,376	19,749
Over one year	1,110	1,588
	8,486	21,337

15. INTERBANK FUNDS BORROWED

As at balance sheet date there is no interbank funds borrowed. As of December 31, 2004 Interbank funds borrowed consist of YTL 473,723 Thousand with maturities in January 2006 and interest rates between 1.00% and 1.13%.

16. TAXES AND DUES PAYABLE

	31 December 2005 YTL 000	31 December 2004 YTL 000
Banking and Insurance Transaction Tax	16,297	14,949
Income Tax on Capital Gains	57,777	70,103
Other	25,237	14,894
	99,311	99,946

17. PROVISIONS

	31 December 2005 YTL 000	31 December 2004 YTL 000
Provision For Retirement Pay		
At 1 January	291,267	229,677
Provision for the year - net	(34,879)	71,575
Net effect of indexation	(12,662)	(9,985)
At 31 December	243,726	291,267
General Provision For Loans		
At 1 January	130,331	66,380
Provision for the year - net	(58,923)	66,837
Net effect of indexation	(5,666)	(2,886)
At 31 December	65,742	130,331
Provision For Other Liabilities		
Provision for litigation and other costs	345,425	100,819
	654,893	522,417

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

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Lump sum payments are made to all employees who retire from the Bank or whose employment is terminated as a result of resignation and for reasons other than misconduct. Except in the Bank, the amount payable is 30 days gross pay for each year of service. The rate of pay ruling at 31 December 2005 is subject to a maximum of YTL 1,727.15 per month. The upper limit was raised to YTL 1,770.64 per month as at 1 January 2006. In the Bank, the amount payable depends on position and years of service, as defined in T.C. Emekli Sandığı rules.

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

In the accompanying financial statements the provision has been made on an estimated basis in compliance with International Accounting Standard No 19.

IAS 19 (revised), came into effect for accounting periods beginning on or after 1 January 1999, and accordingly has been applied in the accompanying financial statements. The main change arising from applying the revised standard is that the future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as the net of an expected inflation rate and an appropriate discount rate. Actuarial calculations are not available for the Bank's accrued liability but for the purposes of these financial statements a calculation has been prepared, assuming a real discount rate of 5.45% (the net of inflation of 10% and a discount rate of 16%).

18. FUNDS

	31 December 2005 YTL 000	31 December 2004 YTL 000
Government Incentive and Price Stabilization Fund	2,422,058	2,505,371
Short-Term Funds	384	921
Donation Loan Fund to Agricultural Village Development Co-operatives	40,472	37,090
Other	1,649,935	1,209,637
	4,112,849	3,753,019

A Council of Ministers decision dated 13 October 1988 numbered 88/13384 established a Government Incentive and Price Stabilization Fund. Loans are issued from the Government Incentive and Price Stabilization Fund by means of the Bank to Agricultural Sales Co-operatives Unions, for crop purchases, to subsidize various agricultural products, to protect producers against price movements and to develop the export of agricultural products. A commission of 0.5% is being collected when the loan is issued for loans given after 1 July 2000.

The Bank acts only as an intermediary in issuance of the loans and is therefore not exposed to losses from any failure in collecting the loans.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3)]

19. SUNDRY CREDITORS & OTHER LIABILITIES

	31 December 2005 YTL 000	31 December 2004 YTL 000
Blocked Money	190,158	189,139
Payment Orders	53,949	36,697
Unearned Income	420	2,799
Government Incentive & Price Stabilization Fund	10,528	7,718
Advance to be netted off	50,000	117,570
Other	419,670	562,130
	724,725	916,053

20. TAXATION

Corporate Tax

The Bank is subject to Turkish corporation taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Bank's results for the year.

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

The effective rates of tax are as follows:

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

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, and to 33% for 2004. The applicable rate is determined as 30% for 2005.

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

In Turkey there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for resident companies in Turkey receiving dividends from resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003.

Income withholding tax was also calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not. Such withholding tax has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years.

Tax Computations Based on Inflation Adjusted Balances

In 2003 and previous years, taxation was calculated based on profits not adjusted for inflation accounting, except for the effect of the annual revaluation of the fixed assets and the depreciation calculated thereon. Law 5024 published in the Official Gazette of 30 December 2003 numbered 25332 requires the application of inflation accounting in 2004 and the following periods provided that the inflation rate reaches the limits set out by the Law. Methods for inflation accounting in accordance with the tax legislation do not differ materially from the methodology of IAS 29 "Financial Reporting in Inflationary Economies".

Deferred Tax

The Bank calculates deferred tax assets and liabilities on the temporary timing differences between the legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS. Timing differences are calculated on differences between the values of fixed assets (excluding land), intangible assets, inventory and prepaid expenses in the legal books and the inflation adjusted financial statements and on the discount of receivables, retirement pay provision and investment incentives.

Due to the tax rate being 30% in 2005, 30% has been taken into account in the calculation of deferred taxes.

In previous years, deferred taxes were being calculated on differences between the inflation adjusted net book value of fixed assets and the nominal net book value in the legal books. Due to the Law 5024 published in the Official Gazette of December 30, 2003, it has become mandatory to eliminate the effect of inflation arising from the previous periods and to continue with such inflation adjustments in 2004 and the following periods, provided that the inflation rate is higher than the limits set out in the Law. Therefore, some of the temporary timing differences arising from differences due to the inflation adjustments on fixed assets in accordance with International Financial Reporting Standards will no longer be created. Hence, the calculation of deferred taxes on fixed assets will only arise from the usage of alternate depreciation rates in legal books and financial statements prepared in accordance with IFRS and from other unique cases. Therefore, in the accompanying financial statements, deferred taxes calculated on differences between the historic and inflated values of fixed assets have been reversed in 2003.

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All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

a. Balance Sheet: Corporation Taxes Payable

	31 December 2005 YTL 000	31 December 2004 YTL 000
Corporation taxes & funds - net	905,010	267,840
Deferred tax asset - net	(69,239)	(108,132)

b. Income Statement:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Corporation taxes & funds	906,717	895,542
Deferred tax (benefit) from revaluation reserve (*)	(67,218)	(46,533)
Deffered tax charge	38,893	(34,996)
	(878,392)	814,013

Movement of deferred tax (assets)/liabilities for years ended 31 December 2005 and 2004 as follows:

	2005 YTL 000	2004 YTL 000
Opening balance at 1 January	(108,132)	(73,136)
Deferred tax charge / (benefit)	38,893	(34,996)
Closing balance at 31 December	(69,239)	(108,132)

(*) Amount retrieved from value increase fund of available for sale portfolio multiplied by effective tax rate which is presented in shareholders' equity in balance sheet amounts YTL 67,218 Thousand. This amount is adjusted as tax income due to the temporary timing differences arise from valuation differences and netted off with the value increase fund. As a result, deferred tax provision which should be equal to the difference between deferred tax asset as of December 31, 2005 amounting to YTL 69,239 Thousand and deferred tax asset as of December 31, 2004 amounting to YTL 108,132 Thousand, differs by YTL 67,218 Thousand.

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Deferred tax on temporary differences are as follows:

Bank	31 December 2005 YTL 000	31 December 2004 YTL 000
Restatement of premises & equipment	14,903	4,534
Retirement pay provision	(73,117)	(87,323)
Other provisions	(15,046)	(22,002)
Diminution in value of equity participations	-	(7,790)
Securities portfolio valuation difference	4,021	4,449
	(69,239)	(108,132)
Consolidated Subsidiaries		
Retirement pay provision	-	(56)
Capital lease adjustment	-	3,241
Doubtful receivable provision	-	(8,414)
	-	(5,229)
Allowance for deferred tax asset	-	5,229
Total deferred tax (asset)	(69,239)	(108,132)

Since there is no relevant evidence on the future profitability of Ziraat Finansal Kiralama A.Ş., provision is set for the 5,229 Thousand YTL deferred tax asset as of December 31, 2004.

Taxation can be reconciled to the profit per the statement of income as follows:

	2005 YTL 000	2004 YTL 000
Income Before Tax and monetary loss	2,746,598	3,181,176
Monetary loss	(201,627)	(837,098)
Income Before Tax	2,544,971	2,344,078
Tax at the statutory income tax rate of 30% (2004: 33%)	763,491	773,546
Tax effects:		
Tax effect of other deductions and exemptions	(59,727)	(11,512)
Tax effect of adjustments	(32,095)	(3,473)
Tax effect of undeductible expenses	176,817	138,424
Tax effect of other items	(2,257)	(1,443)
Tax effect of income that is deductible in determining taxable income	60,488	-
Deferred tax charge	(28,325)	(81,529)
Net tax expense / (benefit)	878,392	814,013

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3)]

21. EQUITY

Share Capital

	31 December 2005	31 December 2004
	%	YTL 000
		YTL 000
Turkish Treasury	100	2,221,978
Indexation effect		7,258,606
Effect of distribution of capital reserves		(2,751,495)
Indexed Share Capital		6,729,089

During the extraordinary General Assembly meeting of the Bank held as of June 2, 2004, it has been decided that capital reserves (the indexation effect of capital) amounting to YTL 2,500,000 Thousand would be distributed in accordance with the principals predetermined by Treasury. Out of the total balance subject to distribution YTL 351,390 Thousand has been set as legal reserves, YTL 214,861 Thousand has been paid as dividend and income withholding tax and the remaining YTL 1,933,749 Thousand has been distributed to Treasury in the form of treasury bills and government bonds (balances are expressed in the equivalent purchasing power of Turkish Lira as of June 30, 2004). Hence, "Effect of distribution of capital reserves" shown in the above table is composed of dividends paid to Treasury and the related dividend and income withholding tax amounting to YTL 2,364,756 Thousand and the balance of capital reserve set as legal reserve amounting to YTL 386,739 Thousand.

Revaluation reserves:

	Investments Revaluation Reserve
	YTL 000
Balance at 1 January 2004	24,643
Net effect of indexation	(1,071)
Increase / (decrease) in fair value of available for sale investments	108,382
Balance at 31 December 2004	131,954
Increase / (decrease) in fair value of available for sale investments	193,299
Deferred tax asset in fair value of available for sale investments	(67,218)
Balance at 31 December 2005	258,035

22. OTHER OPERATING INCOME

	31 December 2005	31 December 2004
	YTL 000	YTL 000
Fees & Commissions	540,157	447,318
Dividend	19,047	6,139
Securities Trading Gains - Net	189,445	129,547
Foreign Currency Gains - Net	45,704	160,598
Other	545,876	276,617
	1,340,229	1,020,219

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

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FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

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23. OTHER OPERATING EXPENSES (-)

	31 December 2005 YTL 000	31 December 2004 YTL 000
Personnel Expenses	699,673	743,453
Taxes & Dues Other than on Income	75,779	88,518
Savings Deposit Insurance Fund Premiums	156,101	128,456
Other Provisions	158,111	181,622
Depreciation Expense	43,879	40,519
Commissions and Fees	32,305	29,760
Other	255,345	377,688
	1,421,193	1,590,016

24. COMMITMENTS & CONTINGENCIES

As of December 31, 2005 and December 31, 2004, the Bank's commitments and contingencies are as follows:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Letters of Guarantee	1,283,730	1,094,185
Acceptance Loans	1,122	22,854
Letters of Credit	528,730	632,748
Swap & Forward Agreements	259,821	325,731
	2,073,403	2,075,518

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2005 Assets YTL 000	2005 Liabilities YTL 000	2004 Assets YTL 000	2004 Liabilities YTL 000
Forward foreign exchange contracts	225	229	134	134
Currency swaps	129,310	130,057	91,351	91,351
Options	-	-	-	-
	129,535	130,286	91,485	91,485

The Bank utilises currency derivatives to hedge significant future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts and swaps in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3)]

26. FOREIGN EXCHANGE POSITION

The Bank's (as of December 31, 2004, Türkiye Cumhuriyeti Ziraat Bankası A.Ş. and Ziraat International A.G.'s ["Group"]) foreign exchange position is presented below:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Total assets denominated in foreign currency	10,905,974	12,798,339
Total liabilities denominated in foreign currency	(10,887,521)	(12,614,932)
Net foreign currency position	18,453	183,407
Off Balance Sheet Instruments:		
Forward to buy agreements	225	134
Forward to sell agreements	(229)	(134)
Swap to buy agreements	129,310	165,654
Swap to sell agreements	(130,057)	(159,809)
Net foreign currency position after off balance sheet instruments	17,702	189,252

27. MATURITY ANALYSIS OF ASSETS & LIABILITIES

The maturity analysis for selected balance sheet items as of December 31, 2005 is as follows:

	Up to 1 Month YTL 000	1-3 Months YTL 000	3-12 Months YTL 000	12 + Months YTL 000	Total YTL 000
ASSETS					
Liquid Assets & Banks	5,567,550	13,388	-	-	5,580,938
Interbank Money Market Placements	3,628,119	-	-	-	3,628,119
Investments held for trading & Investment securities	2,451,511	956,700	7,492,438	28,257,002	39,157,651
Reserve Deposits	1,096,373	-	-	-	1,096,373
Loans - Net	2,681,693	1,015,877	6,009,091	3,984,653	13,691,314
	15,425,246	1,985,965	13,501,529	32,241,655	63,154,395
LIABILITIES					
Deposits	35,525,732	10,147,167	3,840,568	2,618,631	52,132,098
Liabilities due to Repo transactions	502,719	-	-	-	502,719
Interbank Funds Borrowed	-	-	-	-	-
Borrowings	-	-	8,486	-	8,486
Funds	2,182,149	47,153	241,297	1,642,250	4,112,849
	38,210,600	10,194,320	4,090,351	4,260,881	56,756,152

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004*All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3]*

The maturity analysis for selected balance sheet items as of December 31, 2004 is as follows:

	Up to 1 Month YTL 000	1-3 Months YTL 000	3-12 Months YTL 000	12 + Months YTL 000	Total YTL 000
ASSETS					
Liquid Assets & Banks	4,345,970	-	22,343	3,633	4,371,946
Interbank Money Market Placements	1,882,748	-	-	-	1,882,748
Investments Held for Trading & Investment Securities	2,871,239	461,588	6,011,790	30,734,862	40,079,479
Reserve Deposits	2,137,307	-	-	-	2,137,307
Loans - Net	2,989,962	625,155	2,362,415	3,892,335	9,869,867
	14,227,226	1,086,743	8,396,548	34,630,830	58,341,347

LIABILITIES

Deposits	15,441,136	23,886,757	3,791,648	4,779,602	47,899,143
Liabilities Due to Repo Transactions	456,703	-	-	-	456,703
Interbank Funds Borrowed	473,723	-	-	-	473,723
Borrowings	20,337	-	1,000	-	21,337
Funds	-	-	-	3,753,019	3,753,019
	16,391,899	23,886,757	3,792,648	8,532,621	52,603,925

28. SEGMENTAL INFORMATION

As of December 31, 2005	Banking YTL 000	Other Financial Institutions YTL 000	Insurance YTL 000	Total YTL 000
Interest Income	8,038,946	-	-	8,038,946
Interest Expense	(5,140,937)	-	-	(5,140,937)
Net Interest Income	2,898,009	-	-	2,898,009
Provision for Loan Losses	(70,447)	-	-	(70,447)
Other Operating Income	1,340,229	-	-	1,340,229
Other Operating Expense	(1,421,193)	-	-	(1,421,193)
Net Operating Income/(Expense)	(80,964)	-	-	(80,964)
Profit Before Taxation and Monetary Loss	2,746,598	-	-	2,746,598

TÜRKİYE CUMHURİYETİ ZİRAAT BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

All amounts are expressed in the equivalent purchasing power of the New Turkish Lira as at 31 December 2005 in Thousand YTL [note 3])

As of December 31, 2004	Banking YTL 000	Other Financial Institutions YTL 000	Insurance YTL 000	Consol. Eliminations YTL 000	Total YTL 000
Interest Income	9,456,867	1,119	-	(2,411)	9,455,575
Interest Expense	(5,599,391)	(1,424)	-	2,411	(5,598,404)
Net Interest Income	3,857,476	(305)	-	-	3,857,171
Provision for Loan Losses	(106,198)	-	-	-	(106,198)
Other Operating Income	1,006,655	11,108	-	2,456	1,020,219
Other Operating Expense	(1,577,040)	(4,837)	-	(8,139)	(1,590,016)
Net Operating Income/(Expense)	(570,385)	6,271	-	(5,683)	(569,797)
Profit Before Taxation and Monetary Loss	3,180,893	5,966	-	(5,683)	3,181,176

29. TRANSACTIONS WITH RELATED PARTIES

The accompanying financial statements include the following balances due from or due to related parties:

	31 December 2005 YTL 000	31 December 2004 YTL 000
Loans	262,348	170,987
Deposits	27,574	19,534
Non-cash loans	539,309	525,864
	2005 YTL 000	2004 YTL 000
Transactions with related parties		
Interest and commission income received	1,514	7,098
Interest expenses and similar charges	204	212

Balances with related parties generally earn or incur interest at the similar rates at normal commercial terms applied to third parties.

30. POST BALANCE SHEET EVENTS

i) The termination indemnity ceiling has increased to YTL 1,771 commencing on 1 January 2006.

FINANCIAL REVIEW

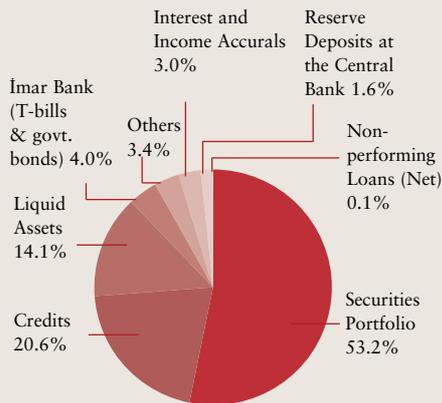
FINANCIAL REVIEW

>> ASSETS

Total assets, which were YTL 56,994 million in 2004, increased 14%, reaching YTL 65,050 million. Excluding İmar Bank (T-Bills and Government Bonds), the securities portfolio has the largest share in total assets with 53%.

Assets (YTL million)	Share		Share		Change (%)
	2005	(%)	2004	(%)	
Liquid Assets	9,204	14	5,845	10	57
Securities Portfolio	34,603	53	31,582	55	10
İmar Bank (T-bills & govt. bonds)	2,585	4	4,438	8	(42)
Loans	13,370	21	9,073	16	47
Non-performing Loans (Net)	55	0	62	0	(11)
Reserve Deposits at the Central Bank	1,038	2	1,987	4	(48)
Interest and Income Accruals	1,976	3	2,363	4	(16)
Others	2,219	3	1,644	3	35
Total	65,050	100	56,994	100	14

2005



Liquid Assets (YTL million)	2005			2004			Change (%)
	TL	FX	Total	TL	FX	Total	
Cash and Turkish Central Bank	2,649	82	2,731	1,118	95	1,213	125
Banks	1,111	1,736	2,847	382	2,450	2,832	1
Money Markets	3,626	0	3,626	1,800	0	1,800	101
Total	7,386	1,818	9,204	3,300	2,545	5,845	57

Ziraat Bank has a risk-focused asset management strategy, and due to its market share, it maintains a high level of liquidity by adopting a prudent policy. The "Money Markets" item has the largest share (35%) in total current assets.

Securities Portfolio (YTL million)	2005			2004			Change (%)
	TL	FX	Total	TL	FX	Total	
Securities- Held-for-Trading	380	584	964	1,167	2,320	3,487	(72)
Securities- Available-for-Sale	10,549	4,228	14,777	5,573	2,543	8,116	82
Securities- Held-to-Maturity	16,777	2,085	18,862	17,799	2,180	19,979	(6)
Total	27,706	6,897	34,603	24,539	7,043	31,582	10

* Excluding İmar Bank (T-Bills and Government Bonds)

Long-term Treasury Bills and Government Bonds, included in the portfolio for investment purposes, had the largest share in the securities portfolio in 2005, as was the case in 2004. The share of bills and bonds received within the context of obligatory duty losses in the TL-denominated balance sheet decreased to 30% by the end of 2005, from 40% by the end of 2004. The rest of the portfolio is comparable to the portfolio of commercial banks. Average compounded yield on the TL portfolio worth YTL 27.7 billion has been 17.3%, while the annual average compounded yield of the FX portfolio worth USD 5 billion has been 5.8%.

Loans (YTL million)	2005			2004			Change (%)
	TL	FX	Total	TL	FX	Total	
Agricultural							
Loans	2,161	0	2,161	1,076	0	1,076	101
Commercial							
Loans	1,732	657	2,389	1,265	809	2,074	15
Retail Loans	4,823	0	4,823	2,536	0	2,536	90
Fund-Sourced							
Loans	3,997	0	3,997	3,387	0	3,387	18
Total	12,713	657	13,370	8,264	809	9,073	47

Since lending operations were carried out in 2005 in accordance with the relevant targets, total amount of loans increased 47% over the previous year.

The subsidized lending system, which was launched in 2004 to provide convenient financing terms and conditions to farmers, was further expanded in 2005. While YTL 413 million in subsidized loans had been extended to 48,000 farmers in 2004, YTL 1,891 million in subsidized loans were extended to 175,000 farmers in 2005.

Current interest rates of subsidized loans extended in 2005 were discounted by between 25% and 60%. As a result of these discounts, interest rates applied to farmers fell to 8-15%.

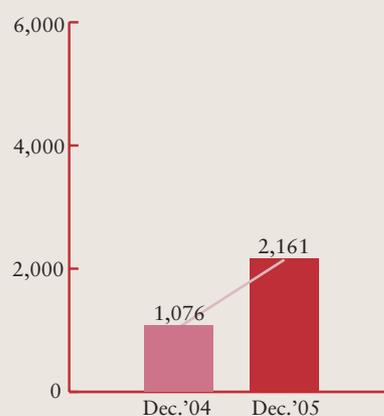
Ziraat Bank has become a major player in the banking industry thanks to its interest and pricing policy in retail loans and its ever-growing product range. Retail loans reached YTL 4.8 billion with a 90% increase over 2004.

As an indication of its increasing financial support to the real sector, Ziraat Bank extends lending facilities to entrepreneurs who undertake production, create jobs and export their products. Commercial loans increased 15% over the previous year. Small business loans, which are and will continue to be

Total Loans (YTL million)



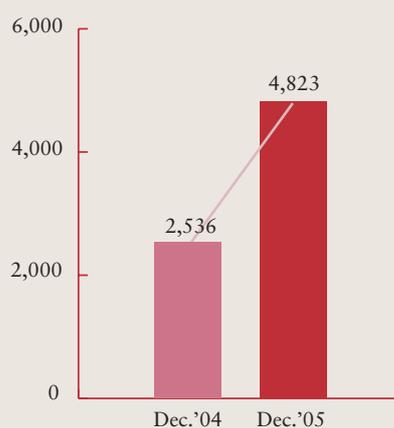
Agricultural Loans (YTL million)



Commercial Loans (YTL million)



Retail Loans (YTL million)



FINANCIAL REVIEW CONTINUED

an important item for the Bank, increased 91% in 2005, reaching YTL 740 million.

Non-performing Loans (YTL million)	2005	2004	Change (%)
Non-performing Loans (Gross)	314	382	(18)
Provision	259	320	(19)
Total (Net)	55	62	(11)

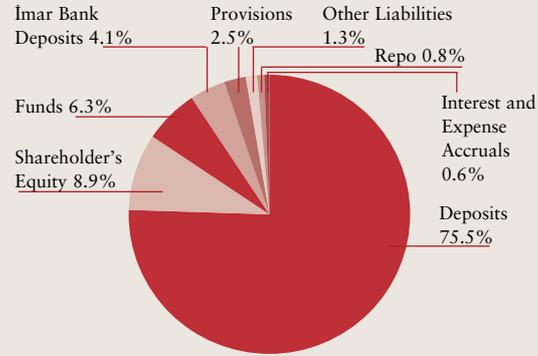
In addition to the increase in total lending volume, the share of non-performing loans in total loans decreased significantly. The gross amount of non-performing loans decreased 18% compared to 2004. In accordance with the Bank's realistic profit and provisioning policy, provision is set aside to cover all non-performing loans.

>> LIABILITIES

In 2005, deposits continued to be the most important item on the liabilities side of the balance sheet. In 2005, the share of deposits in total liabilities was 76%, excluding İmar Bank deposits.

Liabilities (YTL million)	2005	Share (%)	2004	Share (%)	Change (%)
Deposits	49,143	76	40,827	71	20
İmar Bank Deposits	2,635	4	4,555	8	(42)
Interbank Money Market	0	0	453	1	(100)
Repo	502	1	436	1	15
Funds	4,113	6	3,590	6	15
Interest and Expense Accruals	390	1	320	1	22
Provisions	1,639	2	781	1	110
Other Liabilities	832	1	985	2	(16)
Shareholders' Equity	5,796	9	5,047	9	15
Total	65,050	100	56,994	100	14

2005



Deposits * (YTL million)	2005	Share (%)	2004	Share (%)	Change (%)
Banks	163	0	416	1	(61)
Savings	23,176	47	17,621	43	32
Public Entities	6,496	13	3,926	10	65
Commercial Entities	4,787	10	4,682	11	2
Other Entities	4,109	9	3,566	9	15
Foreign Currency Deposits	10,412	21	10,616	26	(2)
Total	49,143	100	40,827	100	20

* Excluding İmar Bank deposits.

Savings deposits constitute an important resource for the Bank and have a 47% share in total deposits.

The share of TL deposits, which constituted 73% of total deposits by the end of 2004, increased to 78% by the end of 2005.

An examination of deposits by their term structure reveals that demand deposits increased from YTL 8.9 billion to YTL 11.3 billion with a 27% increase. Their share in the total deposits increased from 22% to 23%. Time deposits reached YTL 38 billion by the end of 2005, and had a 77% share in total deposits.

Shareholders' Equity (YTL million)	2005	2004	Change (%)
Paid-in capital	2,222	2,222	-
Reserves	1,772	1,294	37
Profit (Loss)	1,802	1,531	18
Total	5,796	5,047	15

By the end of 2005, total shareholders' equity increased 15% over 2004. Year-end net profit increased 18% over 2004 and reached YTL 1,802 million.

At the end of each year, the Bank distributes its profit as a dividend to the Turkish Treasury. In 2004, after deducting legal reserves from the net profit of 2003, which amounted to YTL 1,072 million, the remaining YTL 835 million, and after deducting legal reserves from YTL 2,500 million in capital reserves, the total balance of YTL 1,934 million was transferred to the Turkish Treasury. As a result of this transfer, total government debt has been reduced. In 2005, after deducting legal reserves from the net profit of 2004, which amounted to YTL 1,531 million, the remaining YTL 1,066 million was distributed to the Turkish Treasury as a dividend.

>> INCOME AND EXPENSES

Income Statement (YTL million)	2005	2004
Interest Income	7,924	9,032
Interest Expenses	5,066	5,354
Net Interest Income	2,858	3,678
Net Fees and Commissions	500	408
Fees and Commissions Received	532	438
Fees and Commissions Paid	32	30
Capital Market Trading Profit (Net)	186	124
Foreign Exchange Gains (Net)	46	153
Other Operating Income	532	231
Total Operating Income	4,122	4,594
Provision for Loans and Other Receivables	227	183
Other Operating Expenses	1,274	1,367
Operating Profit	2,621	3,044
Profit (Loss) from Affiliates and Subsidiaries	19	6
Net Monetary Position Profit (Loss)	0	(822)
Pre-Tax Profit (Loss)	2,640	2,228
Provision for Tax	838	697
Net Profit (Loss)	1,802	1,531

Ziraat Bank posted a YTL 1,802 million profit by the end of 2005, compared to YTL 1,531 million in 2004.

Interest Income (YTL million)	2005	2004
Interest from Loans	1,737	1,125
Interest from Reserve Deposits	222	243
Interest from Banks	148	73
Interest from Interbank Money Market	170	297
Interest from Marketable Securities Portfolio	5,276	7,102
İmar Bank Marketable Securities Portfolio	360	162
Other	11	30
Total	7,924	9,032

Interest from the securities portfolio, which has the largest share in the overall interest income of the Bank, decreased 26% as a result of the decline in interest rates in 2005. However, interest from loans increased 54% over the previous year as a result of the increase in the volume of lending operations in 2005.

Interest Expenses (YTL million)	2005	2004
Interest to Deposits	4,630	5,082
Paid to İmar Bank Deposits	360	162
Interest to Interbank Money Market	66	105
Interest to Borrowings	2	2
Others	8	3
Total	5,066	5,354

FINANCIAL REVIEW CONTINUED

Interest paid to deposits has the largest share in total interest expense. The share of interest paid to deposits is 91%. The Bank's interest expense decreased 5% compared to 2004 due to the decrease in borrowing costs.

>> OFF-BALANCE SHEET ACCOUNTS

The off-balance sheet accounts of the Bank increased 4% over the previous year. Letters of guarantee and letters of credit were the most important items in contingencies, while revocable credit limit commitments were the most important item in total commitments.

Off-Balance Sheet Accounts (YTL million)	2005	2004	Change (%)
Contingencies	1,813	1,627	11
Commitments	3,495	3,531	(1)
Derivatives	260	175	49
Total	5,568	5,333	4

>> RATIOS

Financial position, profitability and payment capacity ratios are given below:

	2005	2004
Capital Adequacy		
Capital Adequacy Standard Ratio	48	51
(Shareholders' Equity + Profit) / Total Assets	8.9	8.9
(Shareholders' Equity + Profit) / (Total Assets + Non-Cash Credits)	8.7	8.6
(Shareholders' Equity + Profit) / (Deposits* + Non-Deposit Liabilities)	10.8	11.1
Asset Quality		
Total Loans / Total Assets	20.6	15.9
NPLs (Gross) / Total Loans	2.3	4.0
NPLs (Gross) / (Non-Cash Credits + Cash Credits + NPLs)	2.0	3.4
FX Assets / FX Liabilities	100.2	102.1
Liquidity		
Current Assets / Total Assets	14.1	10.3
Current Assets / (Deposits* + Non-Deposit Liabilities)	17.1	12.9
Profitability		
Net Profit (Loss) / Average Total Assets	3.0	3.0
Net Profit (Loss) / Average Shareholders' Equity	33.2	28.1
Net Profit (Loss) / Average Paid-in Capital	81.1	68.9
Income-Expense Structure		
Interest Income / Interest Expense	156.4	168.7
Non-Interest Income / Non-Interest Expense	85.7	60.3
Total Income / Total Expense	140.0	144.0
Interest Income / Total Income	85.8	90.5
Non-Interest Income / Total Income	14.2	9.5
Interest Expense / Total Expenses	76.8	77.2
Non-Interest Expense / Total Expenses	23.2	22.8

*Imar Bank deposits excluded.

RISK MANAGEMENT POLICIES

An independent unit is responsible for defining, classifying, measuring, monitoring, analyzing, controlling and reporting the risks encountered by the Bank within the context of the principles approved by the Board of Directors.

The Risk Management Department of Ziraat Bank, which was established in November 2001, enjoys the advantage of having a well-educated and experienced staff compared to peer group banks.

>> RISK MANAGEMENT METHODS

Risk management efforts are based on international best practices and Banking Regulation and Supervision Agency regulations.

While the statutory reports concerning market risk are prepared using standard methods, senior management is e-mailed daily internal reports based on the "VaR –Value-at-Risk" model developed by the Bank. The Bank employs standard methods concerning credit and operational risk measurements in accordance with Basel II. Moreover, the Bank continues developing a database to enable the utilization of advanced methods, reviewing literature on the implementation of such methods, and preparing the necessary infrastructure. During the transition to the fully centralized computer system by the end of 2004, Basel II-compliant parameters were defined in the system, which in turn contributed to data gathering efforts.

>> RATING SYSTEM

Within the framework of the harmonization with Basel II norms, Ziraat Bank developed a rating model for manufacturing, marketing and service companies in 2004, and for agriculture, construction-contracting and finance (leasing, factoring) companies in 2005. Two scorecards have been developed for marketing and service companies as well.

The scorecard models developed for companies operating in the above-mentioned areas have two sections: non-financial and financial. The hybrid method which combines statistical and judgmental methodologies forms the basis of internal rating models.

The biggest challenge faced by banks and similar institutions in developing a rating model in conformity with Basel II standards is the creation of a database. Ziraat Bank is successfully continuing to compile data and to make such data available for use.

Existing models are currently under revision to ensure conformity with Basel II standards. The relevant employees attend training sessions and seminars on this issue.

It is planned that after the development of models, a project group will make the final touches on rating models by calculating statistical values such as PD, LGD, EAD and adding pricing and collateralization criteria to ensure that Basel II requirements are fully met.

RISK MANAGEMENT POLICIES CONTINUED

>> RISK MANAGEMENT POLICIES BY RISK TYPE

Market Risk

Ziraat Bank employs the standard method to separately calculate interest rate risk, exchange rate risk, share certificate risk and specific risks on a monthly basis, ultimately obtaining total Value-at-Risk used in calculating Capital Adequacy Standard Ratio.

The Bank refrains from carrying short or long positions in foreign currencies, and in addition to monthly and quarterly market risk reports, weekly exchange risk analyses are performed for each foreign currency and forwarded to the Banking Regulation and Supervision Agency. Moreover, daily "Value-at-Risk" estimations are made for amounts in the trading accounts of the Bank and these are reported to senior management and relevant units for information purposes.

Liquidity Risk

The basic analysis performed regarding the liquidity risk of the Bank is the "Liquidity Gap Analysis". Also a "Behavioral Liquidity Gap Analysis" is performed based on deposit turnover rates of the Bank.

The "Liquid Assets/Total Assets Ratio" is reported for both Turkish Lira and foreign currencies, and resources which may be used in case of an extraordinary liquidity shortage are monitored.

Interest Rate Risk

In order to assess the potential impact of interest rate sensitivity and interest rate fluctuations on profit and loss, balance sheet items that are vulnerable to interest rate changes are determined and the terms or pricing periods of these items are analyzed.

Also scenario analyses are performed to evaluate the future impact of current interest rates on the net interest margin of the Bank.

Credit Risk

The Bank conducts various R&D studies to use internationally-accepted models and methods for credit risk measurement, and to determine the most appropriate risk measurement models and techniques. The Bank also works on "Quantified Impact Studies", the "Standard Approach" and the "Internal Ratings Based Approach" to analyze the impact of Basel II on capital adequacy, reviews best international practices in risk management and develops the database that will be required for the employment of advance methodologies in the future.

Credits are also monitored in various scenarios and from different aspects to assess risk, and the results are reported to senior management.

Operational Risk

The basic indicator determined by the Basel Committee for operational risk involves an assessment of the impact of operational risk on the capital adequacy ratio, by adopting the "Standard Approach" and the "Alternative Standard Approach". As such, in order to switch to the "Advanced Measurement Approach", the Bank is developing a loss database using appropriate resources.

For the purpose of defining operational risks and establishing a risk culture, the Bank prepared an "Operational Risks Catalogue" defining points of operational risk. The Bank is still working on the "Self-Assessment Method" to determine the impact and frequency of potential operational risks.

As a result of studies on the prevention and mitigation of operational risks, proposals approved by competent authorities are submitted to the relevant units and evaluated by the Senior Risk Committee.

Reports on loss data, key operational risk indicators and proposals for the mitigation of operational risks are also forwarded to the Bank's senior management.

The Bank's "Contingency Plan" has been published on its portal and has also been sent to all branches and Head Office units.

Ziraat Bank uses operational risk data to assess the operational risk levels of its branches, and ultimately to determine and monitor operational risk concentration areas.

Domestic and international regulations and literature regarding operational risk are reviewed, and relevant employees are sent to training sessions and seminars on operational risk.

RATINGS

(as of 31 January 2006)	Rating	Explanation	
Standard & Poor's	Counterparty Credit Certificate of Deposit	BB- / B BB- / B	Ziraat Bank's ratings reflect its stable individual funding base, good balance sheet liquidity, fairly distributed risks and ongoing restructuring process.
	Outlook	Positive	Same with the country's outlook. The positive outlook indicates S&P's expectations that the decline in the funding costs of the Bank will continue and, with the improvement in macroeconomic conditions, the Bank will be able to seize better business opportunities. An improvement in the country's ratings will mean an improvement in the Bank's ratings.
	FitchRatings	Foreign Currency LT / ST	BB- / B
	Outlook	Positive	Long-term FX and national currency ratings are the same.
	National LT / Outlook	A / Stable	
Moody's	Bank Deposit	B1 / NP	When Turkish banks' FX deposit rating was improved, Ziraat Bank's FX deposit rating was upgraded from "B2/NP" to "B1/NP" in December 2005.
	Financial Strength Outlook	E+ Stable	The outlooks of all the Bank's ratings are stable.

FIVE-YEAR FINANCIAL HIGHLIGHTS

>> SUMMARY BALANCE SHEETS 2001-2005

Assets (YTL million)	2001	2002	2003	2004	2005
Liquid Assets	3,629	4,198	6,079	5,845	9,204
Securities	15,698	20,615	28,133	36,020	37,188
Loans	4,279	4,063	5,430	9,073	13,370
Non-Performing Loans (Net)	1,060	701	68	62	55
Subsidiaries and Affiliates	234	406	384	340	308
Reserve Deposits at the Central Bank	1,131	1,498	1,624	1,987	1,038
Interest and Income Accruals	2,065	4,717	3,111	2,363	1,976
Fixed Assets (Net)	298	620	693	732	723
Other Assets	660	871	1,133	572	1,188
Total	29,054	37,689	46,655	56,994	65,050

Liabilities and Shareholders' Equity (YTL million)	2001	2002	2003	2004	2005
Deposits	20,525	27,957	33,852	45,382	51,778
Money Markets	1,072	1,106	1,204	889	502
Funds	2,551	2,743	3,543	3,590	4,113
Interest and Expense Accruals	481	429	351	320	390
Provisions	568	682	1,065	781	1,639
Other Liabilities	639	611	807	985	832
Shareholders' Equity	3,218	4,161	5,833	5,047	5,796
Total	29,054	37,689	46,655	56,994	65,050

>> SUMMARY INCOME STATEMENTS 2001-2005

(YTL million)	2001	2002	2003	2004	2005
Interest Income	11,831	11,656	10,562	9,032	7,924
Interest Expense	7,279	8,464	7,071	5,354	5,066
Net Interest Income	4,552	3,192	3,491	3,678	2,858
Net Fees and Commissions	171	275	239	408	500
Capital Market Transaction Profit (Net)	(1,522)	65	547	124	186
Foreign Exchange Gain (Net)	(144)	107	44	153	46
Other Operating Income	146	180	196	231	532
Total Operating Income	3,203	3,819	4,517	4,594	4,122
Provision for Loans and Other Receivables	1,285	687	692	183	227
Other Operating Expenses	1,051	1,599	1,472	1,367	1,274
Operating Margin	867	1,533	2,353	3,044	2,621
Profit (Loss) from Affiliates and Subsidiaries	8	20	13	6	19
Net Monetary Position Gain (Loss)	0	(933)	(547)	(822)	0
Profit Before Taxes	875	620	1,819	2,228	2,640
Tax Provision	349	464	747	697	83
Net Profit (Loss) for the Year	526	156	1,072	1,531	1,802

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Turkish Ziraat Bank Bosnia dd

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Fax : (387 33) 254 051
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Ziraat Bank (Moscow) CJSC

Mosalarko Plaza One 16
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Bank Service A.D.

Bankservice Joint Stock Company
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Uzbekistan-Turkish Bank (UT-Bank)

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(998 71) 173 83 25
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(998 71) 120 63 62
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