

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

**FINANCIAL STATEMENTS
AT 31 DECEMBER 2007
TOGETHER WITH AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT

To the Central Bank of the Republic of Turkey

1. We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Haluk Yalçın, SMMM

Istanbul, 7 March 2008

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS AT 31 DECEMBER 2007

| CONTENTS | | PAGE |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------|-------------|
| BALANCE SHEET | | 1 |
| INCOME STATEMENT | | 2 |
| STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY | | 3 |
| STATEMENT OF CASH FLOW | | 4 |
| NOTES TO THE FINANCIAL STATEMENTS | | 5-45 |
| NOTE 1 | GENERAL INFORMATION | 5 |
| NOTE 2 | BASIS OF PRESENTATION | 6-7 |
| NOTE 3 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES | 7-15 |
| NOTE 4 | FINANCIAL RISK MANAGEMENT | 15-31 |
| NOTE 5 | CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES | 31 |
| NOTE 6 | CASH AND GOLD RESERVES | 32 |
| NOTE 7 | DUE FROM BANKS | 32 |
| NOTE 8 | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | 32 |
| NOTE 9 | LOANS AND ADVANCES TO CUSTOMERS | 33 |
| NOTE 10 | INVESTMENT SECURITIES | 33-34 |
| NOTE 11 | PROPERTY AND EQUIPMENT | 35 |
| NOTE 12 | INTANGIBLE ASSETS | 35 |
| NOTE 13 | OTHER ASSETS | 36 |
| NOTE 14 | CURRENCY IN CIRCULATION | 36 |
| NOTE 15 | DUE TO BANKS | 36 |
| NOTE 16 | OTHER DEPOSITS | 37 |
| NOTE 17 | DUE TO IMF | 37 |
| NOTE 18 | FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE | 38 |
| NOTE 19 | OTHER BORROWED FUNDS | 38 |
| NOTE 20 | OTHER LIABILITIES | 38 |
| NOTE 21 | TAXATION | 38-40 |
| NOTE 22 | RETIREMENT BENEFIT OBLIGATIONS | 40-41 |
| NOTE 23 | NET INTEREST INCOME | 41 |
| NOTE 24 | NET FEE AND COMMISSION EXPENSE | 42 |
| NOTE 25 | DIVIDEND INCOME | 42 |
| NOTE 26 | FOREIGN EXCHANGE GAINS/(LOSSES), NET | 42 |
| NOTE 27 | OTHER OPERATING EXPENSES | 43 |
| NOTE 28 | COMMITMENTS AND CONTINGENT LIABILITIES | 43 |
| NOTE 29 | SHARE CAPITAL | 44 |
| NOTE 30 | RETAINED EARNINGS AND LEGAL RESERVES | 44 |
| NOTE 31 | CASH AND CASH EQUIVALENTS | 45 |
| NOTE 32 | RELATED PARTY BALANCES AND TRANSACTIONS | 45 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEET AT 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

(Amounts are translated into US\$ for convenience purposes only (See Note 2.c))

| | Notes | 2007 thousand TRY | 2006 thousand TRY | 2007 million US\$ (*) | 2006 million US\$ (*) |
|---------------------------------------------------|-------|-------------------------|-------------------------|-----------------------------|-----------------------------|
| ASSETS | | | | | |
| Cash and gold reserves | 6 | 4,131,886 | 3,865,080 | 3,548 | 3,319 |
| Due from banks | 7 | 6,130,108 | 8,610,821 | 5,263 | 7,393 |
| Financial assets at fair value | | | | | |
| through profit or loss | 8 | 95,460,476 | 98,266,146 | 81,961 | 84,370 |
| Loans and advances to customers | 9 | 27,580 | 44,209 | 24 | 38 |
| Investment securities: | | | | | |
| -Available-for-sale | 10 | 244,058 | 259,822 | 210 | 223 |
| -Held-to-maturity | 10 | 161,589 | 434,011 | 140 | 374 |
| Property and equipment | 11 | 234,185 | 235,971 | 201 | 203 |
| Intangible assets | 12 | 2,850 | 3,405 | 2 | 3 |
| Other assets | 13 | 31,814 | 27,635 | 28 | 25 |
| Total assets | | 106,424,546 | 111,747,100 | 91,377 | 95,948 |
| LIABILITIES | | | | | |
| Currency in circulation | 14 | 27,429,389 | 26,815,151 | 23,551 | 23,023 |
| Due to banks | 15 | 39,121,993 | 34,219,288 | 33,590 | 29,380 |
| Other deposits | 16 | 36,170,348 | 43,654,859 | 31,056 | 37,482 |
| Due to International Monetary Fund ("IMF") | 17 | 7,431 | 7,389 | 6 | 6 |
| Financial liabilities designated at fair value | 18 | 993,710 | - | 853 | - |
| Other borrowed funds | 19 | 2,918,776 | 2,417,470 | 2,506 | 2,076 |
| Other liabilities | 20 | 1,072,227 | 1,721,376 | 921 | 1,478 |
| Taxes on income | 21 | 28,224 | 43,851 | 24 | 40 |
| Retirement benefit obligations | 22 | 64,292 | 60,205 | 56 | 52 |
| Total liabilities | | 107,806,390 | 108,939,589 | 92,563 | 93,537 |
| SHAREHOLDERS' EQUITY | | | | | |
| Paid-in share capital | | 47,464 | 47,464 | 41 | 41 |
| (Accumulated deficit)/Retained earnings | | (1,652,086) | 2,521,505 | (1,418) | 2,165 |
| Other reserves | 10 | 222,778 | 238,542 | 191 | 205 |
| Total shareholders' equity | | (1,381,844) | 2,807,511 | (1,186) | 2,411 |
| Total liabilities and shareholders' equity | | 106,424,546 | 111,747,100 | 91,377 | 95,948 |

Commitments and contingent liabilities 28

(*) US dollar ("US\$") amounts presented above are translated from TRY for convenience purposes only, at the official TRY bid rate announced by the Bank at 31 December 2007, and therefore do not form part of these financial statements (Note 2.c).

The notes on pages 5 to 45 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

(Amounts are translated into US\$ for convenience purposes only (See Note 2.c))

| | Notes | 2007 thousand TRY | 2006 thousand TRY | 2007 Million US\$ (*) | 2006 Million US\$ (*) |
|--------------------------------------------------------------------------|-------|-------------------------|-------------------------|-----------------------------|-----------------------------|
| Interest and similar income | 23 | 4,705,469 | 4,154,374 | 4,040 | 3,567 |
| Interest expense and similar charges | 23 | (4,565,766) | (4,033,817) | (3,920) | (3,463) |
| Net interest income | | 139,703 | 120,557 | 120 | 104 |
| Fee and commission income | 24 | 52,164 | 39,896 | 45 | 34 |
| Fee and commission expense | 24 | (170,521) | (153,995) | (146) | (132) |
| Net fee and commission expense | | (118,357) | (114,099) | (101) | (98) |
| Dividend income | 25 | 3,646 | 4,757 | 3 | 4 |
| Net income from financial assets at fair value through profit or loss | | 1,501,308 | 34,823 | 1,289 | 30 |
| Foreign exchange (losses)/gains, net | 26 | (4,587,244) | 4,403,175 | (3,939) | 3,781 |
| Other operating income | | 5,023 | 7,699 | 4 | 7 |
| Impairment losses on loans and advances | 9 | 247,191 | (182,389) | 212 | (157) |
| Other operating expenses | 27 | (402,748) | (388,645) | (346) | (334) |
| Operating (loss)/profit | | (3,211,478) | 3,885,878 | (2,758) | 3,337 |
| Monetary gain | | - | - | - | - |
| (Loss)/profit before income tax | | (3,211,478) | 3,885,878 | (2,758) | 3,337 |
| Income tax expense | 21 | (41,081) | (43,851) | (35) | (38) |
| (Loss)/profit for the year | | (3,252,559) | 3,842,027 | (2,793) | 3,299 |

(*) US dollar ("US\$") amounts presented above are translated from TRY for convenience purposes only, at the official TRY bid rate announced by the Bank at 31 December 2007, and therefore do not form part of these financial statements (Note 2.c).

The notes on pages 5 to 45 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

| | <u>Share capital</u> | | | Other reserves | Retained earnings/ (accumulated deficit) | Total |
|---------------------------------------------------------------|----------------------|-----------------------------|-----------------------------|----------------|---------------------------------------------|--------------------|
| | Share capital | Adjustment to share capital | Total paid-in share capital | | | |
| Balance at 1 January 2006 | 25 | 47,439 | 47,464 | 205,965 | (1,320,778) | (1,067,349) |
| Available-for-sale securities' net fair value gains (Note 10) | - | - | - | 32,577 | - | 32,577 |
| Gains on demonetized banknotes (Note 14) | - | - | - | - | 256 | 256 |
| Net profit for the year | - | - | - | - | 3,842,027 | 3,842,027 |
| Balance at 31 December 2006 | 25 | 47,439 | 47,464 | 238,542 | 2,521,505 | 2,807,511 |
| Balance at 1 January 2007 | 25 | 47,439 | 47,464 | 238,542 | 2,521,505 | 2,807,511 |
| Available-for-sale securities' net fair value gains (Note 10) | - | - | - | (15,764) | - | (15,764) |
| Cash dividends paid | - | - | - | - | (921,491) | (921,491) |
| Gains on demonetized banknotes (Note 14) | - | - | - | - | 459 | 459 |
| Net loss for the year | - | - | - | - | (3,252,559) | (3,252,559) |
| Balance at 31 December 2007 | 25 | 47,439 | 47,464 | 222,778 | (1,652,086) | (1,381,844) |

The notes on pages 5 to 45 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

| | Notes | 2007 | 2006 |
|-------------------------------------------------------------------------------------------------------|-----------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Net (loss)/profit for the year | | (3,252,559) | 3,842,027 |
| Adjustment for: | | | |
| Depreciation of property and equipment | 11 | 12,804 | 13,668 |
| Amortization of intangible assets | 12 | 808 | 942 |
| Impairment losses on loans and advances | 9 | (247,191) | 182,389 |
| Foreign exchange losses on provision for loan losses | 9 | 345,079 | (84,616) |
| Foreign exchange (gains)/losses on equity participation | | - | (1,978) |
| Retirement benefit obligations | 22 | 10,455 | 11,821 |
| Interest income, net | 23 | (139,703) | (120,557) |
| Interest received | | 4,616,757 | 4,065,499 |
| Interest paid | | (4,718,315) | (4,133,363) |
| Dividend income | 25 | (3,646) | (4,757) |
| Commission expense, net | 24 | 118,357 | 114,099 |
| Commission received | | 51,448 | 39,896 |
| Commission paid | | (167,742) | (141,491) |
| Increase in reserves due to demonetized banknotes | 14 | 459 | 256 |
| Income tax expense | 21 | 41,081 | 43,851 |
| Cash flows (used in)/from operating profits before changes in operating assets and liabilities | | (3,331,908) | 3,827,686 |
| Changes in operating assets and liabilities: | | | |
| Net decrease/(increase) in financial assets | | | |
| at fair value through profit or loss | | 2,805,670 | (17,329,397) |
| Net decrease in loans and advances to customers | | 11,140 | 2,415 |
| Net (increase)/decrease in other assets | | (4,253) | 990 |
| Net increase in currency in circulation | | 614,238 | 7,203,510 |
| Net increase in due to banks | | 4,838,002 | 6,093,569 |
| Net (decrease)/increase in other deposits | | (7,267,258) | 6,917,212 |
| Net (decrease)/increase in other liabilities | | (715,004) | 12,577 |
| Net cash (used in)/from operating activities | | (3,049,373) | 6,728,562 |
| Cash flows from investing activities | | | |
| Purchase of property, equipment and intangible assets, net | 11,12 | (11,271) | (7,551) |
| Redemption of securities | | 272,422 | 2,475 |
| Dividends received | | 4,022 | 4,564 |
| Net cash from/(used in) investing activities | | 265,173 | (512) |
| Cash flows from financing activities | | | |
| Repayments of borrowed funds and due to IMF | | 1,495,057 | (3,594,720) |
| Dividends paid | | (921,491) | - |
| Net cash from/(used in) financing activities | | 573,566 | (3,594,720) |
| Net increase in cash and cash equivalents | | (2,210,634) | 3,133,330 |
| Cash and cash equivalents at beginning of year | 31 | 12,469,556 | 9,336,226 |
| Cash and cash equivalents at the end of year | 31 | 10,258,922 | 12,469,556 |

The notes on pages 5 to 45 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law No. 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches, four foreign representatives and one liaison office abroad. As at 31 December 2007, the Bank employed 4,536 people (2006: 4,598).

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

The fundamental duties of the Bank are;

- a) to carry out open market operations,
- b) to take necessary measures in order to protect the domestic and international value of the New Turkish Lira ("TRY") and to establish the exchange rate policy in determining the parity of TRY against gold and foreign currencies jointly with the government; to execute transactions such as spot and forward purchases and sales of foreign exchange and banknotes, foreign exchange swaps and other derivatives transactions in order to determine the value of TRY against other currencies,
- c) to determine the procedures and conditions of reserve requirements by taking into consideration the liabilities of banks and other financial institutions to be deemed appropriate by the Bank,
- d) to conduct rediscount and advance transactions,
- e) to manage the gold and foreign exchange reserves of the country,
- f) to regulate the volume and circulation of the TRY, to establish payment, securities transfer and settlement systems and to set forth regulations to ensure the uninterrupted operation and supervision of the existing or future systems, to determine the methods and instruments including electronic environment for payments,
- g) to take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets,
- h) to monitor the financial markets, and
- i) to determine the terms and types of deposits in banks and the terms of participation funds in special finance houses.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION

(a) New Turkish Lira financial statements

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

The financial statements are presented in the national currency of the Republic of Turkey.

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

Amendments to published standards and interpretations to existing standards effective 1 January 2007

Effective from 1 January 2007, the Bank adopted the following revised IFRS, which are relevant to its operations. The 2006 accounts have been amended in accordance with the relevant requirements, where necessary.

- IFRS 7 - Financial instruments: Disclosures
- IFRIC 8 - Scope of IFRS 2
- IFRIC 10 - Interim financial reporting and impairment
- IFRS 4 - Insurance contracts
- IFRIC 7 - Applying the restatement approach under IAS 29
- IFRIC 9 - Re-assessment of embedded derivatives
- IFRIC 11 - IFRS 2 - Group and treasury share transactions

The adoption of IFRS 4, IFRS 7, IFRIC 8, IFRIC 10, IFRIC 7, IFRIC 9 and IFRIC 11 has been made in accordance with the transition provisions in the respective standards and did not result in substantial changes to the Bank’s accounting policies. In summary:

- IFRS 7 has affected the presentation and disclosures related with the financial instruments.
- IFRIC 7, IFRS 4, IFRIC 8, IFRIC 10, IFRIC 9 and IFRIC 11 have no material effect on the Bank’s policies.

There was no impact on the opening retained earnings at 1 January 2007 and 2006 from the adoption of any of the above-mentioned standards.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION (Continued)

Standards and interpretations to existing standards issued in 2007 but not yet effective

The following standards amendments and interpretations to existing standards are not yet effective, and have not been early adopted by the Bank:

- IAS 23 (revised) - Borrowing costs
- IFRS 8 - Operating segments
- IFRIC 14 - IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IFRIC 13 - Customer loyalty programmes
- IFRIC 12 - Service concession arrangements
- IAS 27 (revised) - Consolidated and Separate Financial Statements
- IFRS 3 (revised) - Business combinations

(b) Accounting for the effect of hyperinflation

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

(c) US\$ translation

US\$ amounts shown in the financial statements are translated from TRY for convenience purposes only, at official bid rates announced by the Bank on 31 December 2007 of TRY1.1647 = US\$1 and therefore, do not form a part of financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Exchange rates

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

| | 2007 | 2006 |
|---------|--------|--------|
| US\$ | 1.1647 | 1.4056 |
| EUR | 1.7102 | 1.8515 |
| CHF | 1.0273 | 1.1503 |
| GBP | 2.3259 | 2.7569 |
| JPY | 0.0103 | 0.0118 |
| SDR (*) | 1.8457 | 2.1242 |

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

(b) Derivative financial instruments and hedge accounting

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

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

As of 31 December 2007, the national amount of futures contracts (Note 28) undertaken by the Bank amounts to TRY157,311 thousand (2006: none).

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

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

(c) Interest income and expense

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Fee and commission income

Unless included in the effective interest calculation, fees and commissions are generally recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Other loan commitment fees are recognized over the term of the commitment.

(e) Income taxes

(i) *Income taxes currently payable*

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

Taxes other than on income are recorded within other operating expenses (Note 27).

(ii) *Deferred income taxes*

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

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank. Deferred income tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 21).

(f) Gold

(i) *Gold bullion*

Gold bullion consists of the stocks of gold bars of international standard and non-international standard held at the Bank and held with correspondents. Gold is held by the Bank as part of its foreign reserves and presently represents 4.2% (2006: 3.8%) of aggregate foreign reserves. The Bank has no present intention to dispose of any of its existing gold reserve stocks as the Bank maintains the gold reserve as a part of its foreign reserve management. Gold bullion is recorded in physical weight in troy ounces.

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

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

The exchange rate of gold bullion to TRY as at 31 December 2007 was TRY974 per troy ounce (2006: TRY894 per troy ounce).

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Gold coins

Gold coins which are no longer legal tender typically have an artistic or collectors' premium such that they are bought and sold at prices which are higher than the intrinsic value of the metal from which they are formed. However, it is unlikely that such a premium could be realized if the Bank were to release a significant quantity of the coins it holds. Consequently coins are valued at the market value of the gold content and included within gold bullion in the balance sheet. Gains and losses on gold coins are treated and reported consistently with those for gold bullion.

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

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

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

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

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

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

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

(i) Investment securities

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment securities are initially recognized at transaction prices, which normally reflect their fair values.

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

Gains and losses arising from changes in foreign exchange rates are recognized in the income statement in the case of debt securities and are included with the fair value movement in the case of equities.

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

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

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

Interest earned whilst holding investment securities is reported as interest income. Dividends on available-for-sale equity instruments are recognized in the income statement when the entity's right to receive payment is established.

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

(j) Offsetting financial instruments

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Sale and repurchase agreements

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

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

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

(l) Money issuance

The Bank produces currency banknotes. Inventories of work-in progress notes which are produced in the Bank's own printing facilities are stated at cost and included in Other Assets. Expenses associated with the banknotes are initially capitalized and are charged to the income statement upon transfer of the banknotes to reserve funds of the Bank. Finished goods and work-in progress costs include direct costs of conversion and production overheads, including depreciation of machinery, staff costs, other production costs and costs for transportation of banknotes. The unit cost of raw materials is determined on the moving weighted average basis.

When notes are returned to the Bank by the commercial banks they are removed from notes in circulation and depending on their condition or legal tender status, are either sent for destruction or held under the reserve funds of the Bank.

(m) Financial liabilities

Financial liabilities are measured at amortized cost except for financial liabilities designated at fair value through profit and loss.

Financial liabilities are initially recognized at fair value less, in the case of liabilities carried at amortized cost (including due to banks, due to International Monetary Fund other deposits and other funds borrowed), transaction costs incurred and any difference between the proceeds net of transaction costs and the redemption amount is recognized in the income statement as interest expense over the period to maturity using the effective interest rate method. Financial liabilities which are repayable on demand are recorded at nominal value. Financial liabilities are derecognized when they are extinguished. Due to banks represents reserve deposits of depository institutions' participants and current accounts of the Bank.

Management has designated the liquidity bills issued as financial liabilities at fair value through profit and loss. These securities are used to withdraw excess liquidity from the market. In accordance with the Central Bank Law, the Bank may issue liquidity bill, whose maturity shall not exceed 91 days and that shall be tradable in the secondary market, for its own account and behalf.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|------------------------------|----------|
| Buildings | 50 years |
| Equipment and motor vehicles | 5 years |

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

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

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

(o) Intangible assets

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

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

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

(p) Banknotes and coins in circulation

(i) Currency in Circulation - New Turkish Lira

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

Through the enactment of the Law No. 5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 30 January 2004, the TRY and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The sub-unit of the TRY is the YKr (1 TRY=100 YKr). The prior currency, Turkish Lira, values are converted into TRY, one million TL is equivalent to 1 TRY. Accordingly, the currency of the Republic of Turkey is simplified by removing six zeroes from the TL.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Demonetized Currency - Turkish Lira

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

The Bank has recorded gain under equity reserves in the amount of TRY459 thousand (2006: TRY256 thousand) thousand since the legal redemption period of the banknotes in the same amount has been expired as of 31 December 2007.

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

(q) Provisions

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

(r) Retirement benefit obligations

Retirement benefit obligations represent the present value of the estimated total reserve for the future probable obligation of the Bank arising from the retirement of the employees, calculated in accordance with the Turkish Labor Law (Note 22).

(s) Related parties

For the purpose of these financial statements the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties (Note 32).

(t) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including, cash, gold reserves and current accounts with banks (Note 31).

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Appropriations

In accordance with the Central Bank Law article 60, the appropriation of the statutory net annual profit of the Bank is as follows:

- i) 20% to the reserve fund,
- ii) 6% to the shareholders as an initial dividend,
- iii) after deducting the above-stated percentages a maximum of 5% of the remaining amount to the Bank personnel in an amount not exceeding the total of two months' salaries, and 10% percent to the extraordinary reserve fund,
- iv) 6% as a secondary dividend to the shareholders, with the decision of the General Assembly.

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

As the Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Commercial Practice and Tax Legislation and the Central Bank Law; the statutory net profit of the Bank is the basis for appropriation, in accordance with the Central Bank Law.

(v) Comparatives

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

(w) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and financial institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank. Fiduciary capacity at 31 December 2007 and 2006 is as follows:

| | 2007 | 2006 |
|----------------------------|--------------------|--------------------|
| Securities held in custody | 272,225,752 | 263,714,791 |
| | 272,225,752 | 263,714,791 |

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

By nature, the Bank's activities necessitate the use of financial instruments, including derivatives. The Bank accepts deposits from other banks and public institutions; the required reserves from banks and participation banks operating in Turkey; and foreign exchange deposits from Turkish workers resident abroad. The Bank also accepts or places short-term funds/securities through open market operations in order to achieve the inflation target and influence short-term interest rates; the primary tool of monetary policy to establish price stability.

Foreign exchange deposits placed with the Bank and foreign exchange acquired by the Bank through regular auctions and direct purchases constitute the sources of foreign exchange reserves of the Bank. The Bank, along with its own foreign exchange liabilities, also holds foreign exchange reserves for the purposes of rendering foreign debt service with the capacity of the financial agent of the Government of the Republic of Turkey, maintaining foreign exchange liquidity against external shocks, underpinning implementations of monetary and exchange rate policies, and providing confidence to the markets. In view of the Bank's priorities of safe investment, liquidity and return, respectively, as stipulated by the Central Bank Law, the Bank, with a prudent approach, subjects its foreign exchange reserves to investments in international markets.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

In this framework, almost all the financial risks to which the Bank is exposed arise while fulfilling its legal duties, such as implementing monetary and exchange rate policies, managing foreign exchange reserves and rendering certain banking services to the banking sector and the Government of the Republic of Turkey. The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. The financial risks to which the Bank, as a monetary authority, is exposed in the process of the implementation of monetary and exchange rate policies are the consequences of the selected policy targets. On the other hand, financial risks that arise during the management of foreign exchange reserves are the outcome of an investment choice. Nevertheless, the Bank endeavors to minimize such risks by managing them with a conservative approach. Foreign exchange reserves are managed by observing the investment criteria defined in the Foreign Exchange Reserve Management Guidelines ("the Guideline") approved by the Board and in compliance with the targets and limits stipulated in the Strategic Benchmark Portfolio ("SBP"), which is set at the end of each year by the Foreign Exchange Risk and Investment Committee and put into force the following year upon the approval of the Executive Committee.

(b) Credit risk

During its financial operations, the Bank is exposed to credit risk, defined as the probability of a complete or partial failure of counterparty to fulfill its obligations arising from a financial transaction. The credit risk basically originates from the open market operations carried out in order to provide short-term liquidity to banks within the framework of monetary policy implementations, the funds extended to banks under the Intra-Day Liquidity Facility in order to ensure the proper functioning of payment systems, and the investments made during foreign exchange reserve management. Although the credit risk faced during the implementation of monetary policy and Intra-Day Limit transactions is an inevitable risk, such risks are managed by securing the entire transaction amount, also including a certain amount of margin by assets that have high credit quality and are tradable in secondary markets (foreign exchange deposits, government securities and securities issued by the treasuries of developed countries), and through monitoring the existing risks regularly and requesting additional collateral, when necessary.

The management of the credit risk that the Bank is exposed to during the foreign exchange reserve management is based on the principle of minimizing default probabilities of the counterparties and the financial loss in case of default. In this framework, the Bank implements a three-stage risk management process in order to minimize the credit risk arising from foreign exchange reserve management operations. In the first stage, the Bank confines its investments to leading international financial institutions and debtors that meet the minimum credit rating criteria specified in the Guideline based on the credit ratings given by the international credit rating agencies. Accordingly, the Bank can take on exposure to banks having at least A1 or an equivalent credit rating, with a maturity of up to one year; while it can invest in securities issued or directly guaranteed by foreign governments which have at least Aa2 or an equivalent credit rating, in their domestic currencies as long as the remaining maturity is 10 years at the most. The Bank can also invest in securities issued by the World Bank, the Bank of International Settlements and the European Investment Bank, regardless of the credit rating criteria. In the second stage, the total transaction limit, expressed as a percentage of total reserves, is specified in order to control all credit risks including settlement risk arising from transactions with financial institutions. By setting this overall credit risk limit within the scope of the SBP, the Bank aims to prevent non-sovereign credit risk from exceeding its risk tolerance. In the third stage, the institutions eligible for transactions are chosen among those institutions meeting the minimum credit rating limitation set in the Guideline, using the fundamental and the financial analysis methods and each institution is granted a certain credit risk limit in view of their capital size and credit quality. In all transactions executed with these institutions, credit risk exposure amounts that are calculated on the basis of transaction type are immediately reflected on their limits, and the use of these limits are regularly monitored and reported.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

In conclusion, the credit risk assumed during reserve management remains at quite low levels as a great portion of reserves are invested in assets issued or directly guaranteed by foreign governments as well as by supranational institutions such as the World Bank, the European Investment Bank and the Bank for International Settlements. Total assets of the Bank exposed to credit risk as of 31 December 2007 and 2006 are presented in the table below according to the classification of assets (classification according to external credit ratings is done based on the credit ratings published by Moody's):

| | 31 December 2007 | | 31 December 2006 | |
|--------------------------------------------------------------|--------------------|--------------|--------------------|--------------|
| | TRY | Share(%) | TRY | Share(%) |
| Due from banks | 6,130,108 | 6 | 8,610,821 | 8 |
| - Demand Deposits | 1,963,759 | 2 | 1,863,948 | 2 |
| Central Banks | 1,748,542 | 2 | 1,681,471 | 2 |
| Supranational Institutions | 58,757 | <1 | 27,314 | <1 |
| Foreign Commercial Banks | 156,460 | <1 | 155,163 | <1 |
| - Time Deposits | 4,166,349 | 4 | 6,746,873 | 6 |
| Central Banks | 398,360 | <1 | 233,433 | <1 |
| Supranational Institutions | 2,122,221 | 2 | 84,595 | <1 |
| Foreign Commercial Banks | 1,645,768 | 2 | 2,923,557 | 3 |
| Aaa | 1,643,338 | 2 | 722,484 | 1 |
| Aa1 | - | - | 953,523 | 1 |
| Aa2 | 2,430 | <1 | 1,247,550 | 1 |
| Turkish Commercial Banks | - | - | 3,505,288 | 3 |
| Financial assets at fair value through profit or loss | 95,460,476 | 94 | 98,266,146 | 91 |
| Foreign Country | | | | |
| Treasury | 75,262,625 | 74 | 79,264,003 | 74 |
| Aaa | 69,711,741 | 68 | 76,731,360 | 71 |
| Aa1 | 5,517,747 | 6 | 2,532,643 | 3 |
| Aa2 | 33,137 | <1 | - | - |
| Supranational Institutions | 3,270,912 | 3 | 190,270 | <1 |
| Turkish Treasury | 16,926,939 | 17 | 18,811,873 | 17 |
| Loans and advances to customers | 27,580 | <1 | 44,209 | <1 |
| Investment securities | 405,647 | <1 | 693,833 | 1 |
| Available-for-sale | 244,058 | <1 | 259,822 | <1 |
| Held-to-maturity | 161,589 | <1 | 434,011 | 1 |
| Other assets | 6,082 | <1 | 5,958 | <1 |
| Total | 102,029,893 | 100 | 107,620,967 | 100 |

Although the Turkish Government bonds issued by the Turkish Treasury are included in the above table, the Bank does not consider its receivables from the Turkish Treasury as risky in terms of credit risk and therefore does not take these assets into account when calculating its credit risk exposures. Similarly, the deposits placed with domestic commercial banks for the purpose of monetary policy implementations are also excluded when calculating credit risk exposures because of the fully collateralized nature of these transactions as previously explained. As of 31 December 2007 the Bank has no deposits placed with domestic commercial banks (2006: TRY3,505,288 thousand). The fair value of the security collateral taken against the placed deposit as of 31 December 2006 is TRY4,237,103 thousand.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The sectoral classification of the Bank's credit exposure as of 31 December 2007 and 2006 is as follows:

| | 31 December 2007 | | | | | |
|-------------------------------------------------------|--------------------------|-------------------------------------------|--------------------------------|--------------------------------|-------------------|--------------------|
| | Foreign Country Treasury | Major Supranational Financial Institution | Domestic Financial Institution | Foreign Financial Institutions | Turkish Treasury | Total |
| Due from banks | 2,146,902 | 2,180,978 | - | 1,802,228 | - | 6,130,108 |
| Financial assets at fair value through profit or loss | 75,262,625 | 3,270,912 | - | - | 16,926,939 | 95,460,476 |
| Loans and advances to customers | 27,206 | - | 374 | - | - | 27,580 |
| Investment securities: | | | | | | |
| - Available-for-sale | - | 244,058 | - | - | - | 244,058 |
| - Held-to-maturity | 161,589 | - | - | - | - | 161,589 |
| Other assets | - | 2,924 | 3,158 | - | - | 6,082 |
| Total | 77,598,322 | 5,698,872 | 3,532 | 1,802,228 | 16,926,939 | 102,029,893 |
| | 31 December 2006 | | | | | |
| | Foreign Country Treasury | Major Supranational Financial Institution | Domestic Financial Institution | Foreign Financial Institutions | Turkish Treasury | Total |
| Due from banks | 1,914,903 | 111,910 | 3,505,288 | 3,078,720 | - | 8,610,821 |
| Financial assets at fair value through profit or loss | 79,264,003 | 190,270 | - | - | 18,811,873 | 98,266,146 |
| Loans and advances to customers | 43,454 | - | 755 | - | - | 44,209 |
| Investment securities: | | | | | | |
| - Available-for-sale | - | 259,822 | - | - | - | 259,822 |
| - Held-to-maturity | 434,011 | - | - | - | - | 434,011 |
| Other assets | - | 3,557 | 2,401 | - | - | 5,958 |
| Total | 81,656,371 | 565,559 | 3,508,444 | 3,078,720 | 18,811,873 | 107,620,967 |

As indicated above credit risk is mainly concentrated on foreign and domestic governments and major international and foreign financial institutions as of 31 December 2007 and 2006.

Geographical concentrations of assets, liability and off-balance sheet items of the Bank as of 31 December 2007 and 2006 are as follows:

| | 31 December 2007 | | | | | |
|-------------------------------------------------------|---------------------|--------------------------|-------------------|------------------|-----------------|--------------------|
| | Turkey | Other European Countries | Canada and US | South-East Asia | Other Countries | Total |
| Cash and gold reserves | 1,225,554 | 1,872,659 | 1,033,457 | 4 | 212 | 4,131,886 |
| Due from banks | - | 3,002,238 | 1,937,813 | 1,183,562 | 6,495 | 6,130,108 |
| Financial assets at fair value through profit or loss | 16,926,939 | 46,828,217 | 31,705,320 | - | - | 95,460,476 |
| Loans and advances to customers | 374 | 4,050 | - | - | 23,156 | 27,580 |
| Investment securities: | | | | | | |
| - Available-for-sale | - | 244,058 | - | - | - | 244,058 |
| - Held-to-maturity | - | - | 161,589 | - | - | 161,589 |
| Property and equipment | 234,185 | - | - | - | - | 234,185 |
| Intangible assets | 2,850 | - | - | - | - | 2,850 |
| Other assets | 28,285 | 3,529 | - | - | - | 31,814 |
| Total assets | 18,418,187 | 51,954,751 | 34,838,179 | 1,183,566 | 29,863 | 106,424,546 |
| Currency in circulation | 27,429,389 | - | - | - | - | 27,429,389 |
| Due to banks | 39,113,464 | 4 | - | 8,525 | - | 39,121,993 |
| Other deposits | 16,781,346 | 19,389,002 | - | - | - | 36,170,348 |
| Due to IMF | - | - | 7,431 | - | - | 7,431 |
| Financial liabilities designated at fair value | 993,710 | - | - | - | - | 993,710 |
| Other borrowed funds | 2,918,776 | - | - | - | - | 2,918,776 |
| Other liabilities | 61,913 | 320,981 | 687,470 | 24 | 1,839 | 1,072,227 |
| Taxes on income | 28,224 | - | - | - | - | 28,224 |
| Retirement benefit obligations | 64,292 | - | - | - | - | 64,292 |
| Shareholders' equity | (1,381,844) | - | - | - | - | (1,381,844) |
| Total liabilities and shareholders' equity | 86,009,270 | 19,709,987 | 694,901 | 8,549 | 1,839 | 106,424,546 |
| Net balance sheet position | (67,591,083) | 32,244,764 | 34,143,278 | 1,175,017 | 28,024 | - |
| Off-balance sheet commitments | 12,486,495 | 55,371 | 157,311 | - | - | 12,699,177 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2006 | | | | | Total |
|-------------------------------------------------------|---------------------|--------------------------|-------------------|------------------|-----------------|--------------------|
| | Turkey | Other European Countries | Canada and US | South-East Asia | Other Countries | |
| Cash and gold reserves | 1,496,946 | 1,543,945 | 824,189 | - | - | 3,865,080 |
| Due from banks | 3,500,000 | 2,952,586 | 944,104 | 1,214,131 | - | 8,610,821 |
| Financial assets at fair value through profit or loss | 18,811,872 | 46,186,722 | 33,267,552 | - | - | 98,266,146 |
| Loans and advances to customers | 755 | 4,902 | - | - | 38,552 | 44,209 |
| Investment securities: | | | | | | |
| - Available-for-sale | - | 259,822 | - | - | - | 259,822 |
| - Held-to-maturity | - | - | 434,011 | - | - | 434,011 |
| Property and equipment | 235,971 | - | - | - | - | 235,971 |
| Intangible assets | 3,405 | - | - | - | - | 3,405 |
| Other assets | 22,190 | 4,706 | 300 | 439 | - | 27,635 |
| Total assets | 24,071,139 | 50,952,683 | 35,470,156 | 1,214,570 | 38,552 | 111,747,100 |
| Currency in circulation | 26,815,151 | - | - | - | - | 26,815,151 |
| Due to banks | 34,211,732 | 5 | 7,155 | 396 | - | 34,219,288 |
| Other deposits | 20,390,549 | 23,264,310 | - | - | - | 43,654,859 |
| Due to IMF | - | - | 7,389 | - | - | 7,389 |
| Financial liabilities designated at fair value | - | - | - | - | - | - |
| Other borrowed funds | 2,417,470 | - | - | - | - | 2,417,470 |
| Other liabilities | 66,003 | 493,521 | 1,160,580 | 59 | 1,213 | 1,721,376 |
| Taxes on income | 43,851 | - | - | - | - | 43,851 |
| Retirement benefit obligations | 60,205 | - | - | - | - | 60,205 |
| Shareholders' equity | 2,807,511 | - | - | - | - | 2,807,511 |
| Total liabilities and shareholders' equity | 86,812,472 | 23,757,836 | 1,175,124 | 455 | 1,213 | 111,747,100 |
| Net balance sheet position | (62,741,333) | 27,194,847 | 34,295,032 | 1,214,115 | 37,339 | - |
| Off-balance sheet commitments | 10,449,982 | 63,726 | - | - | - | 10,513,708 |

The Bank provides specific allowances for possible loan losses on a case by case basis that are approved by the Board and actual allowances established take into account the value of any collateral or third party guarantees. Allowances for possible loan losses are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and assessed collateral, discounted at the original effective interest rate of the loan.

Restructuring activities mainly include extended an/or rescheduled payment arrangements or arrangement of terms of loan such as modification and deferral of payments. Restructuring arrangements signed between the Bank and the counterparties are regulated by the Board.

No assets are past due but not impaired at 31 December 2007 and 2006.

There are no collaterals held against certain of the past due or impaired financial assets as of 31 December 2007 and 2006.

As of 31 December 2007 and 2006, the Bank has no assets held for resale.

(c) Market risk

Market risk signifies the probability of incurring a loss as a result of fluctuations in financial market prices. The most significant sources of market risk, from the Central Bank's perspective are interest rates pertaining to TRY and reserve currencies, foreign exchange rates and gold prices. The Bank, in its capacity as the monetary authority of Turkey, does not actively manage TRY interest rate risk stemming from government domestic borrowing securities, which the Bank utilizes mainly for open market operations. Putting aside this TRY interest rate risk, it is possible to say that the remaining market risk exposed by the Bank arises essentially from the foreign exchange assets and liabilities included on its balance sheet.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

For the purpose of managing market risk, the Bank has adopted the "Asset/Liability Matching" approach in view of its policy targets and its objectives for holding reserves. Nevertheless, unlike the commercial banks, the liabilities addressed within the context of this approach contain estimated off-balance sheet cash flows such as foreign debt payments to be effected on behalf of the Treasury, in addition to foreign exchange liabilities on the Bank's balance sheet. Within the framework of this approach, the SBP is set each year to reflect the Bank's risk tolerance. The Bank strives to minimize the market risk by setting targets for currency composition and duration which are the basic variables of the SBP and by setting limits to control deviations from these targets.

(d) Currency risk

The Bank is exposed to currency risk as it holds a foreign exchange position for the purpose of implementing exchange rate policy and achieving other policy targets. Exchange rate risk, which arises from exchange rate volatilities between TRY and foreign currencies on the balance sheet, is directly related to the size of the net balance sheet position in foreign currency. Moreover, the overall net foreign currency position on the balance sheet is the consequence of monetary and exchange rate policies implemented. However, the distribution of net positions in terms of currencies also affects the foreign exchange rate risk exposure of the Bank as a result of volatilities in cross rates.

Within this framework, the Bank controls currency risk through foreign exchange composition targets set for foreign exchange reserves and limits of deviation from these targets within the scope of the SBP. The net foreign currency position of the Bank as of 31 December 2007 and 2006 is summarized below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

| | 31 December 2007 | | | | | | | | | Total |
|---------------------------------------------------|-------------------|-------------------|------------------|----------------|------------------|----------------|---------------|-------------------|---------------------|--------------------|
| | US\$ | EUR | JPY | CHF | GBP | SDR | Other | Total | TRY | |
| Cash and gold reserves | 3,870,683 | 180,297 | 4 | 4,500 | 4,418 | - | 825 | 4,060,727 | 71,159 | 4,131,886 |
| Due from banks | 1,855,475 | 2,675,971 | 1,183,690 | 106,267 | 215,704 | 58,868 | 12,272 | 6,108,247 | 21,861 | 6,130,108 |
| Financial assets at fair value | | | | | | | | | | |
| through profit or loss | 32,896,924 | 44,110,045 | - | - | 1,526,568 | - | - | 78,533,537 | 16,926,939 | 95,460,476 |
| Loans and advances to customers | 27,206 | 374 | - | - | - | - | - | 27,580 | - | 27,580 |
| Investment securities: | | | | | | | | | | |
| -Available-for-sale | - | 36 | - | - | - | 244,022 | - | 244,058 | - | 244,058 |
| -Held-to-maturity | 161,589 | - | - | - | - | - | - | 161,589 | - | 161,589 |
| Property and equipment | - | - | - | - | - | - | - | - | 234,185 | 234,185 |
| Intangible assets | - | - | - | - | - | - | - | - | 2,850 | 2,850 |
| Other assets | - | 639 | - | - | - | 2,924 | - | 3,563 | 28,251 | 31,814 |
| Total assets | 38,811,877 | 46,967,362 | 1,183,694 | 110,767 | 1,746,690 | 305,814 | 13,097 | 89,139,301 | 17,285,245 | 106,424,546 |
| Currency in circulation | - | - | - | - | - | - | - | - | 27,429,389 | 27,429,389 |
| Due to banks | 3,783,548 | 15,675,864 | 2 | - | 300,196 | - | - | 19,759,610 | 19,362,383 | 39,121,993 |
| Other deposits | 7,385,472 | 24,180,597 | - | 70,167 | 10,915 | - | - | 31,647,151 | 4,523,197 | 36,170,348 |
| Due to IMF | - | - | - | - | - | 7,431 | - | 7,431 | - | 7,431 |
| Financial liabilities designated | | | | | | | | | | |
| at fair value | - | - | - | - | - | - | - | - | 993,710 | 993,710 |
| Other borrowed funds | - | - | - | - | - | - | - | - | 2,918,776 | 2,918,776 |
| Other liabilities | 711,611 | 282,192 | 23 | 776 | 11,830 | - | 3,931 | 1,010,363 | 61,864 | 1,072,227 |
| Taxes on income | - | - | - | - | - | - | - | - | 28,224 | 28,224 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | 64,292 | 64,292 |
| Shareholders' equity | - | - | - | - | - | - | - | - | (1,381,844) | (1,381,844) |
| Total liabilities and shareholders' equity | 11,880,631 | 40,138,653 | 25 | 70,943 | 322,941 | 7,431 | 3,931 | 52,424,555 | 53,999,991 | 106,424,546 |
| Net balance sheet position | 26,931,246 | 6,828,709 | 1,183,669 | 39,824 | 1,423,749 | 298,383 | 9,166 | 36,714,746 | (36,714,746) | - |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2006 | | | | | | | | | |
|-------------------------------------------------------|-------------------|--------------------|------------------|----------------|------------------|----------------|----------------|-------------------|---------------------|--------------------|
| | Foreign currency | | | | | | Other | Total | TRY | Total |
| US\$ | EUR | JPY | CHF | GBP | SDR | | | | | |
| Cash and gold reserves | 3,578,127 | 187,548 | 25 | 7,853 | 21,298 | - | 1,779 | 3,796,630 | 68,450 | 3,865,080 |
| Due from banks | 936,927 | 2,627,205 | 1,050,521 | 124,359 | 157,556 | 17,260 | 170,534 | 5,084,362 | 3,526,459 | 8,610,821 |
| Financial assets at fair value through profit or loss | 33,056,675 | 44,407,320 | - | - | 1,990,278 | - | - | 79,454,273 | 18,811,873 | 98,266,146 |
| Loans and advances to customers | 43,805 | 404 | - | - | - | - | - | 44,209 | - | 44,209 |
| Investment securities: | | | | | | | | | | |
| - Available-for-sale | - | 38 | - | - | - | 259,784 | - | 259,822 | - | 259,822 |
| - Held-to-maturity | 434,011 | - | - | - | - | - | - | 434,011 | - | 434,011 |
| Property and equipment | - | - | - | - | - | - | - | - | 235,971 | 235,971 |
| Intangible assets | - | - | - | - | - | - | - | - | 3,405 | 3,405 |
| Other assets | 49 | 1,331 | 439 | - | 69 | 3,557 | - | 5,445 | 22,190 | 27,635 |
| Total assets | 38,049,594 | 47,223,846 | 1,050,985 | 132,212 | 2,169,201 | 280,601 | 172,313 | 89,078,752 | 22,668,348 | 111,747,100 |
| Currency in circulation | - | - | - | - | - | - | - | - | 26,815,151 | 26,815,151 |
| Due to banks | 3,384,717 | 15,773,703 | 2 | - | 257,771 | - | - | 19,416,193 | 14,803,095 | 34,219,288 |
| Other deposits | 8,639,423 | 33,130,622 | 63 | 97,061 | 14,525 | - | 6 | 41,881,700 | 1,773,159 | 43,654,859 |
| Due to IMF | - | - | - | - | - | 7,389 | - | 7,389 | - | 7,389 |
| Financial liabilities designated at fair value | - | - | - | - | - | - | - | - | - | - |
| Other borrowed funds | - | - | - | - | - | - | - | - | 2,417,470 | 2,417,470 |
| Other liabilities | 1,198,805 | 447,587 | 49 | 909 | 15,177 | - | 5,508 | 1,668,035 | 53,341 | 1,721,376 |
| Taxes on income | - | - | - | - | - | - | - | - | 43,851 | 43,851 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | 60,205 | 60,205 |
| Shareholders' equity | - | - | - | - | - | - | - | - | 2,807,511 | 2,807,511 |
| Total liabilities and shareholders' equity | 13,222,945 | 49,351,912 | 114 | 97,970 | 287,473 | 7,389 | 5,514 | 62,973,317 | 48,773,783 | 111,747,100 |
| Net balance sheet position | 24,826,649 | (2,128,066) | 1,050,871 | 34,242 | 1,881,728 | 273,212 | 166,799 | 26,105,435 | (26,105,435) | - |

In order to measure the sensitivity of the foreign exchange gain/loss against volatility in exchange rates, foreign currency net position values were re-calculated under the assumption that TRY appreciated by 10% against all foreign currencies. The hypothetical loss that would occur in the total market value of the net foreign exchange positions of the Bank as of 31 December 2007 and 2006 under such an assumption is presented in the tables below;

Sensitivity of the net foreign exchange position;

| | 31 December 2007 | | | | | | | | | |
|--------------------------------------------|--------------------|--------------------|------------------|----------------|------------------|-----------------|-----------------|--------------------|---------------------|--------------------|
| | Foreign currency | | | | | | Other | Total | TRY | Total |
| US\$ | EUR | JPY | CHF | GBP | SDR | | | | | |
| Total assets | 38,811,877 | 46,967,362 | 1,183,694 | 110,767 | 1,746,690 | 305,814 | 13,097 | 89,139,301 | 17,285,245 | 106,424,546 |
| Total liabilities | 11,880,631 | 40,138,653 | 25 | 70,943 | 322,941 | 7,431 | 3,931 | 52,424,555 | 53,999,991 | 106,424,546 |
| Net balance sheet position | 26,931,246 | 6,828,709 | 1,183,669 | 39,824 | 1,423,749 | 298,383 | 9,166 | 36,714,746 | (36,714,746) | - |
| Scenario of 10% appreciation of TRY | (2,693,125) | (682,871) | (118,367) | (3,982) | (142,375) | (29,838) | (917) | (3,671,475) | - | (3,671,475) |
| | 31 December 2006 | | | | | | | | | |
| | Foreign currency | | | | | | Other | Total | TRY | Total |
| US\$ | EUR | JPY | CHF | GBP | SDR | | | | | |
| Total assets | 38,049,594 | 47,223,846 | 1,050,985 | 132,212 | 2,169,201 | 280,601 | 172,313 | 89,078,752 | 22,668,348 | 111,747,100 |
| Total liabilities | 13,222,945 | 49,351,912 | 114 | 97,970 | 287,473 | 7,389 | 5,514 | 62,973,317 | 48,773,783 | 111,747,100 |
| Net balance sheet position | 24,826,649 | (2,128,066) | 1,050,871 | 34,242 | 1,881,728 | 273,212 | 166,799 | 26,105,435 | (26,105,435) | - |
| Scenario of 10% appreciation of TRY | (2,482,665) | 212,807 | (105,087) | (3,424) | (188,173) | (27,321) | (16,680) | (2,610,543) | - | (2,610,543) |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

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

The tables below summarize the Bank’s exposure to interest rate risk at 31 December 2007 and 2006, for TRY and foreign currency denominated assets and liabilities. Included in the tables are the Bank’s assets and liabilities in carrying amounts classified in terms of periods remaining to contractual re-pricing dates.

| | 31 December 2007 | | | | | | | | | | | | | | |
|-------------------------------------------------------|------------------|--------------------|--------------------|-------------------|-------------------|----------------------|-------------------|---------------------|--------------------|--------------------|-------------------|-------------------|----------------------|---------------------|--------------------|
| | Foreign currency | | | | | | TRY | | | | | | | | |
| | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Total | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Total | TOTAL |
| Cash and gold reserves | - | - | - | - | - | 4,060,727 | 4,060,727 | - | - | - | - | - | 71,159 | 71,159 | 4,131,886 |
| Due from banks | 4,166,349 | - | - | - | - | 1,941,898 | 6,108,247 | - | - | - | - | - | 21,861 | 21,861 | 6,130,108 |
| Financial assets at fair value through profit or loss | 2,788,683 | 10,114,432 | 23,548,762 | 42,081,660 | - | - | 78,533,537 | - | - | 2,632,399 | 14,294,540 | - | - | 16,926,939 | 95,460,476 |
| Loans and advances to customers | - | 2,024 | 2,190 | 13,344 | 10,022 | - | 27,580 | - | - | - | - | - | - | - | 27,580 |
| Investment securities: | | | | | | | | | | | | | | | |
| -Available-for-sale | - | - | - | - | - | 244,058 | 244,058 | - | - | - | - | - | - | - | 244,058 |
| -Held-to-maturity | - | - | 161,589 | - | - | - | 161,589 | - | - | - | - | - | - | - | 161,589 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | 234,185 | 234,185 | 234,185 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | 2,850 | 2,850 | 2,850 |
| Other assets | - | - | 2,924 | - | - | 639 | 3,563 | 5,759 | 568 | 1,815 | - | - | 20,109 | 28,251 | 31,814 |
| Total assets | 6,955,032 | 10,116,456 | 23,715,465 | 42,095,004 | 10,022 | 6,247,322 | 89,139,301 | 5,759 | 568 | 2,634,214 | 14,294,540 | - | 350,164 | 17,285,245 | 106,424,546 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | 27,429,389 | 27,429,389 | 27,429,389 |
| Due to banks | 6,566,306 | 13,193,304 | - | - | - | - | 19,759,610 | 18,911,634 | 441,800 | - | - | - | 8,949 | 19,362,383 | 39,121,993 |
| Other deposits | 802,152 | 1,233,170 | 7,615,106 | 9,738,572 | - | 12,258,151 | 31,647,151 | 3 | - | - | - | - | 4,523,194 | 4,523,197 | 36,170,348 |
| Due to IMF | - | 1,385 | - | - | - | 6,046 | 7,431 | - | - | - | - | - | - | - | 7,431 |
| Financial liabilities designated at fair value | - | - | - | - | - | - | - | - | 993,710 | - | - | - | - | 993,710 | 993,710 |
| Other borrowed funds | - | - | - | - | - | - | - | - | 2,918,776 | - | - | - | - | 2,918,776 | 2,918,776 |
| Other liabilities | 74,970 | - | 863,844 | - | - | 71,549 | 1,010,363 | - | 37,904 | - | 4,112 | - | 19,848 | 61,864 | 1,072,227 |
| Taxes on income | - | - | - | - | - | - | - | - | - | - | 28,224 | - | - | 28,224 | 28,224 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | 64,292 | 64,292 | 64,292 |
| Shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | (1,381,844) | (1,381,844) | (1,381,844) |
| Total liabilities and shareholders' equity | 7,443,428 | 14,427,859 | 8,478,950 | 9,738,572 | - | 12,335,746 | 52,424,555 | 18,911,637 | 4,392,190 | - | 32,336 | - | 30,663,828 | 53,999,991 | 106,424,546 |
| Net repricing gap | (488,396) | (4,311,403) | 15,236,515 | 32,356,432 | 10,022 | (6,088,424) | 36,714,746 | (18,905,878) | (4,391,622) | 2,634,214 | 14,262,204 | - | (30,313,664) | (36,714,746) | - |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2006 | | | | | | | | | | | | | | TOTAL |
|-------------------------------------------------------|---------------------|-------------------|--------------------|-------------------|-------------------|----------------------|-------------------|---------------------|--------------------|--------------------|-------------------|----------------------|---------------------|---------------------|--------------------|
| | Foreign currency | | | | | | TRY | | | | | | | Total | |
| | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | | | |
| Cash and gold reserves | - | - | - | - | - | 3,796,630 | 3,796,630 | - | - | - | - | - | 68,450 | 68,450 | 3,865,080 |
| Due from banks | 3,241,586 | - | - | - | - | 1,842,776 | 5,084,362 | 3,505,287 | - | - | - | - | 21,172 | 3,526,459 | 8,610,821 |
| Financial assets at fair value through profit or loss | 5,218,191 | 13,622,315 | 16,064,152 | 44,162,515 | 387,100 | - | 79,454,273 | 2,009 | - | 1,856,874 | 16,952,990 | - | - | 18,811,873 | 98,266,146 |
| Loans and advances to customers | - | 2,849 | 2,496 | 17,944 | 20,920 | - | 44,209 | - | - | - | - | - | - | - | 44,209 |
| Investment securities: | | | | | | | | | | | | | | | |
| -Available-for-sale | - | - | - | - | - | 259,822 | 259,822 | - | - | - | - | - | - | - | 259,822 |
| -Held-to-maturity | 95,879 | 111,726 | 226,406 | - | - | - | 434,011 | - | - | - | - | - | - | - | 434,011 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | 235,971 | 235,971 | 235,971 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | 3,405 | 3,405 | 3,405 |
| Other assets | 1,550 | 457 | 3,438 | - | - | - | 5,445 | 6,574 | - | - | - | - | 15,616 | 22,190 | 27,635 |
| Total assets | 8,557,206 | 13,737,347 | 16,296,492 | 44,180,459 | 408,020 | 5,899,228 | 89,078,752 | 3,513,870 | - | 1,856,874 | 16,952,990 | - | 344,614 | 22,668,348 | 111,747,100 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | 26,815,151 | 26,815,151 | 26,815,151 |
| Due to banks | 19,416,193 | - | - | - | - | - | 19,416,193 | 14,795,359 | - | - | - | - | 7,736 | 14,803,095 | 34,219,288 |
| Other deposits | 1,056,773 | 1,430,447 | 8,970,598 | 11,806,542 | - | 18,617,340 | 41,881,700 | - | - | - | - | - | 1,773,159 | 1,773,159 | 43,654,859 |
| Due to IMF | - | - | - | - | - | 7,389 | 7,389 | - | - | - | - | - | - | - | 7,389 |
| Financial liabilities designated at fair value | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other borrowed funds | - | - | - | - | - | - | - | 2,417,470 | - | - | - | - | - | 2,417,470 | 2,417,470 |
| Other liabilities | 50,153 | - | 1,589,836 | - | - | 28,046 | 1,668,035 | 13,436 | - | - | - | - | 39,905 | 53,341 | 1,721,376 |
| Taxes on income | - | - | - | - | - | - | - | - | - | 43,851 | - | - | - | 43,851 | 43,851 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | 60,205 | 60,205 | 60,205 |
| Shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | 2,807,511 | 2,807,511 | 2,807,511 |
| Total liabilities and shareholders' equity | 20,523,119 | 1,430,447 | 10,560,434 | 11,806,542 | - | 18,652,775 | 62,973,317 | 17,226,265 | - | 43,851 | - | - | 31,503,667 | 48,773,783 | 111,747,100 |
| Net repricing gap | (11,965,913) | 12,306,900 | 5,736,058 | 32,373,917 | 408,020 | (12,753,547) | 26,105,435 | (13,712,395) | - | (1,813,023) | 16,952,990 | - | (31,159,053) | (26,105,435) | - |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

As the Bank is the monetary authority in Turkey, the interest rate sensitive balance sheet positions in the tables should be interpreted carefully. For example, the relatively high interest rate sensitive position of the Bank in the 0-3 month maturity group mostly emanates from the TRY and foreign currency reserve requirements that are shown in this maturity bucket. However, as reserve requirements are one of the policy tools of the Bank, the required reserve ratios and the rates of interest paid on them are determined by the Bank to attain the related policy targets, regardless of the self-induced interest rate risk. Similarly, active management of interest rate risks stemming from TRY assets is not preferred considering that it might contradict the monetary policy implementations of the Bank, which uses short-term interest rates as the main policy tool. Nevertheless, the tables are prepared using all assets and liabilities including asset and liabilities denominated in TRY to show the overall interest rate risk that the Bank is exposed to regardless of whether such risk are actively managed or not.

The Bank controls interest rate risk arising from foreign reserve assets by setting maturity targets for the major reserve currencies within the scope of the SBP. While setting targets for maturities, the Bank makes use of the "duration" values that are considered to be an important indicator of the level of interest rate risk. Meanwhile, the SBP duration targets, which show the general level of tolerance of the Bank to interest rate risk, are determined based on the maturity composition of the on-balance sheet liabilities and the off-balance sheet estimated cash flows, and some limits are specified for deviations from these duration targets.

For measuring the sensitivity of the Bank's foreign exchange reserves to interest rate risk, it is possible to forecast the effect of changes in the related interest rates on the market value of assets by using the average modified duration figures of assets denominated in major foreign reserve currencies (US\$ and EUR).

Within this framework, based on the average modified duration figures of foreign currency assets as of 31 December 2007 and 2006, the prospective decline in the market values of the assets in case of a 1% rise in the related interest rates are presented below. The 1% rise scenario is based on the assumption that the yield curves for the related currencies shift 1% upwards in all maturities simultaneously.

Sensitivity of the market value of foreign currency assets;

| | 31 December 2007 | | | 31 December 2006 | | |
|--------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | US\$ | EUR | TOTAL | US\$ | EUR | TOTAL |
| Market value of the foreign currency assets | 34,913,988 | 46,786,016 | 81,700,004 | 34,427,613 | 47,034,525 | 81,462,138 |
| Effect of the scenario of 1% increase in interest rates | (326,775) | (579,815) | (906,590) | (364,913) | (537,985) | (902,898) |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The tables below summarize the range for effective average interest rates by major currencies for monetary financial instruments at 31 December 2007 and 2006:

| | 31 December 2007 | | |
|-------------------------------------------------------|------------------|---------|---------|
| | US\$ (%) | EUR (%) | TRY (%) |
| Assets | | | |
| Due from banks | 4.22 | 3.46 | - |
| Financial assets at fair value through profit or loss | 4.30 | 4.04 | 9.47 |
| Loans and advances to customers | 5.64 | 4.66 | - |
| Investment securities | 3.61 | - | - |
| Liabilities | | | |
| Due to banks | 1.95 | 1.85 | 11.81 |
| Other deposits | 4.00 | 3.32 | - |
| Financial liabilities designated at fair value | - | - | 17.35 |
| Other borrowed funds | - | - | 15.75 |

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

(f) Liquidity risk

Liquidity risk is defined as having difficulty in finding sufficient cash to meet the commitments that are due or being compelled to convert assets into cash at a price lower than their fair value. Since the Bank functions as the lender of last resort of the Turkish banking system, it is not relevant to mention TRY liquidity risk. In order to manage liquidity risk stemming from assets and liabilities denominated in foreign currencies, the Bank tries to match its cash flows in currencies and invests only in highly liquid assets in order to avoid any problems meeting unexpected payments.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The table below shows the breakdown of assets and liabilities of the Bank in terms of their relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date, including both TRY and foreign currency denominated assets and liabilities;

| | 31 December 2007 | | | | | | | | | | | | | | | | TOTAL |
|---------------------------------------------------|--------------------|------------------|--------------------|--------------------|-------------------|-------------------|--------------------|-------------------|--------------------|---------------------|------------------|--------------------|-------------------|-------------------|---------------------|---------------------|--------------------|
| | Foreign currency | | | | | | | | TRY | | | | | | | | |
| | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total | |
| Cash and gold reserves | 4,060,727 | - | - | - | - | - | - | 4,060,727 | 71,159 | - | - | - | - | - | - | 71,159 | 4,131,886 |
| Due from banks | 1,941,898 | 4,166,349 | - | - | - | - | - | 6,108,247 | - | - | - | - | - | - | 21,861 | 21,861 | 6,130,108 |
| Financial assets at fair value | | | | | | | | | | | | | | | | | |
| through profit or loss | - | 2,788,683 | 10,114,432 | 23,548,762 | 42,081,660 | - | - | 78,533,537 | - | - | - | 2,632,399 | 14,294,540 | - | - | 16,926,939 | 95,460,476 |
| Loans and advances to customers | - | - | 2,024 | 2,190 | 13,344 | 10,022 | - | 27,580 | - | - | - | - | - | - | - | - | 27,580 |
| Investment securities: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| -Available-for-sale | - | - | - | - | - | - | 244,058 | 244,058 | - | - | - | - | - | - | - | - | 244,058 |
| -Held-to-maturity | - | - | - | 161,589 | - | - | - | 161,589 | - | - | - | - | - | - | - | - | 161,589 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 234,185 | 234,185 | 234,185 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,850 | 2,850 | 2,850 |
| Other assets | - | - | - | 2,924 | - | - | 639 | 3,563 | - | 5,759 | 568 | 1,815 | - | - | 20,109 | 28,251 | 31,814 |
| Total assets | 6,002,625 | 6,955,032 | 10,116,456 | 23,715,465 | 42,095,004 | 10,022 | 244,697 | 89,139,301 | 71,159 | 5,759 | 568 | 2,634,214 | 14,294,540 | - | 279,005 | 17,285,245 | 106,424,546 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 27,429,389 | 27,429,389 | 27,429,389 |
| Due to banks | - | 6,566,306 | 13,193,304 | - | - | - | - | 19,759,610 | 8,529 | 18,911,634 | 441,800 | - | - | - | 420 | 19,362,383 | 39,121,993 |
| Other deposits | 10,515,361 | 802,152 | 1,233,170 | 7,615,106 | 9,738,572 | - | 1,742,790 | 31,647,151 | 4,430,786 | 3 | - | - | - | - | 92,408 | 4,523,197 | 36,170,348 |
| Due to IMF | - | - | 1,385 | - | - | - | 6,046 | 7,431 | - | - | - | - | - | - | - | - | 7,431 |
| Financial liabilities designated at fair value | - | - | - | - | - | - | - | - | - | 993,710 | - | - | - | - | - | 993,710 | 993,710 |
| Other borrowed funds | - | - | - | - | - | - | - | - | - | 2,918,776 | - | - | - | - | - | 2,918,776 | 2,918,776 |
| Other liabilities | 7,388 | 74,970 | - | 863,844 | - | - | 64,161 | 1,010,363 | - | 37,904 | - | 4,112 | - | - | 19,848 | 61,864 | 1,072,227 |
| Taxes on income | - | - | - | - | - | - | - | - | - | - | - | 28,224 | - | - | - | 28,224 | 28,224 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 64,292 | 64,292 | 64,292 |
| Shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,381,844) | (1,381,844) | (1,381,844) |
| Total liabilities and shareholders' equity | 10,522,749 | 7,443,428 | 14,427,859 | 8,478,950 | 9,738,572 | - | 1,672,583 | 52,424,555 | 4,439,315 | 22,862,027 | 441,800 | 32,336 | - | - | 26,224,513 | 53,999,991 | 106,424,546 |
| Net liquidity gap | (4,520,124) | (488,396) | (4,311,403) | 15,236,515 | 32,356,432 | 10,022 | (1,427,886) | 36,714,746 | (4,368,156) | (22,856,268) | (441,232) | 2,601,878 | 14,294,540 | - | (25,945,508) | (36,714,746) | - |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira (“TRY”) unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2006 | | | | | | | | | | | | | | | | |
|-------------------------------------------------------|---------------------|------------------|-------------------|--------------------|-------------------|-------------------|----------------|-------------------|--------------------|---------------------|---------------------|--------------------|-------------------|-------------------|---------------------|---------------------|--------------------|
| | Foreign currency | | | | | | | TRY | | | | | | | | | |
| | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total | TOTAL |
| Cash and gold reserves | 3,796,630 | - | - | - | - | - | - | 3,796,630 | 68,450 | - | - | - | - | - | - | 68,450 | 3,865,080 |
| Due from banks | 1,841,723 | 3,241,586 | - | - | - | - | 1,053 | 5,084,362 | - | 3,505,287 | - | - | - | - | 21,172 | 3,526,459 | 8,610,821 |
| Financial assets at fair value through profit or loss | - | 5,218,191 | 13,622,315 | 16,064,152 | 44,162,515 | 387,100 | - | 79,454,273 | - | 2,009 | - | 1,856,874 | 16,952,990 | - | - | 18,811,873 | 98,266,146 |
| Loans and advances to customers | - | - | 2,849 | 2,496 | 17,944 | 20,920 | - | 44,209 | - | - | - | - | - | - | - | - | 44,209 |
| Investment securities: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| -Available-for-sale | - | - | - | - | - | - | 259,822 | 259,822 | - | - | - | - | - | - | - | - | 259,822 |
| -Held-to-maturity | - | 95,879 | 111,726 | 226,406 | - | - | - | 434,011 | - | - | - | - | - | - | - | - | 434,011 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 235,971 | 235,971 | 235,971 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,405 | 3,405 | 3,405 |
| Other assets | - | 1,550 | 457 | 3,438 | - | - | - | 5,445 | - | 6,574 | - | - | - | - | 15,616 | 22,190 | 27,635 |
| Total assets | 5,638,353 | 8,557,206 | 13,737,347 | 16,296,492 | 44,180,459 | 408,020 | 260,875 | 89,078,752 | 68,450 | 3,513,870 | - | 1,856,874 | 16,952,990 | - | 276,164 | 22,668,348 | 111,747,100 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 26,815,151 | 26,815,151 | 26,815,151 |
| Due to banks | - | 6,499,993 | 12,916,200 | - | - | - | - | 19,416,193 | 7,556 | 27,711,559 | (12,916,200) | - | - | - | 180 | 14,803,095 | 34,219,288 |
| Other deposits | 18,617,340 | 1,056,773 | 1,430,447 | 8,970,598 | 11,806,542 | - | - | 41,881,700 | 1,773,159 | - | - | - | - | - | - | 1,773,159 | 43,654,859 |
| Due to IMF | - | - | - | - | - | - | 7,389 | 7,389 | - | - | - | - | - | - | - | - | 7,389 |
| Financial liabilities designated at fair value | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other borrowed funds | - | - | - | - | - | - | - | - | - | 2,417,470 | - | - | - | - | - | 2,417,470 | 2,417,470 |
| Other liabilities | 7,420 | 50,153 | - | 1,589,836 | - | - | 20,626 | 1,668,035 | - | 13,436 | - | - | - | - | 39,905 | 53,341 | 1,721,376 |
| Taxes on income | - | - | - | - | - | - | - | - | - | - | - | 43,851 | - | - | - | 43,851 | 43,851 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 60,205 | 60,205 | 60,205 |
| Shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,807,511 | 2,807,511 | 2,807,511 |
| Total liabilities and shareholders' equity | 18,624,760 | 7,606,919 | 14,346,647 | 10,560,434 | 11,806,542 | - | 28,015 | 62,973,317 | 1,780,715 | 30,142,465 | (12,916,200) | 43,851 | - | - | 29,722,952 | 48,773,783 | 111,747,100 |
| Net liquidity gap | (12,986,407) | 950,287 | (609,300) | 5,736,058 | 32,373,917 | 408,020 | 232,860 | 26,105,435 | (1,712,265) | (26,628,595) | 12,916,200 | 1,813,023 | 16,952,990 | - | (29,446,788) | (26,105,435) | - |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The gross contractual cash flows of non-derivative financial liabilities are shown in the table below. The payments include amounts of both principal and interest on an undiscounted basis and therefore the totals will not agree to the totals presented in the balance sheet.

| | 31 December 2007 | | | | | | | Total |
|------------------------------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|--------------------|
| | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | |
| Currency in circulation | - | - | - | - | - | - | 27,429,389 | 27,429,389 |
| Due to banks | 8,529 | 25,477,940 | 13,635,104 | - | - | - | 420 | 39,121,993 |
| Other deposits | 14,946,146 | 803,171 | 1,239,655 | 7,760,703 | 10,359,133 | - | 1,835,199 | 36,944,007 |
| Due to IMF | - | - | 1,385 | - | - | - | 6,046 | 7,431 |
| Financial liabilities designated at fair value | - | 1,000,000 | - | - | - | - | - | 1,000,000 |
| Other borrowed funds | - | 2,918,776 | - | - | - | - | - | 2,918,776 |
| Total financial liabilities | 14,954,675 | 30,199,887 | 14,876,144 | 7,760,703 | 10,359,133 | - | 29,271,054 | 107,421,596 |

| | 31 December 2006 | | | | | | | Total |
|------------------------------------------------|-------------------|-------------------|------------------|--------------------|-------------------|-------------------|-------------------|--------------------|
| | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | |
| Currency in circulation | - | - | - | - | - | - | 26,815,151 | 26,815,151 |
| Due to banks | 7,556 | 34,211,552 | - | - | - | - | 180 | 34,219,288 |
| Other deposits | 20,390,499 | 1,061,116 | 1,437,253 | 9,232,917 | 12,438,264 | - | - | 44,560,049 |
| Due to IMF | - | - | - | - | - | - | 7,389 | 7,389 |
| Financial liabilities designated at fair value | - | - | - | - | - | - | - | - |
| Other borrowed funds | - | 2,420,991 | - | - | - | - | - | 2,420,991 |
| Total financial liabilities | 20,398,055 | 37,693,659 | 1,437,253 | 9,232,917 | 12,438,264 | - | 26,822,720 | 108,022,868 |

(g) Operational risk

Operational risk is the risk of loss due to human or system errors, incompatibility or failure of internal business processes, or external events.

The Bank seeks to minimize losses from operational risk by establishing effective internal control systems which prevent or detect all errors and situations which might cause loss through failure of people or processes in such a way that losses are avoided or reduced to the minimum possible extent.

The Bank has assigned the responsibility for managing operational risks to the managements of the departments. According to the decrees of the Board, financial losses occurring as a result of operational risks are reported to the appropriate management levels depending on the amount of the financial loss. The limits associated with losses are updated by the Board whenever deemed necessary. The financial loss is recorded under the non-deductible expenses account upon the approval of the authorized management level. The recorded losses are quarterly reported to the Board.

The assessment of risks in terms of their effects and probabilities (including operational risks) and the adequacy, effectiveness and efficiency of the controls established to mitigate the risks are made via audits conducted by the Internal Audit Department ("IAD") of the Bank that reports directly to the Governor.

IAD performs risk assessment in two phases. The first phase of the risk assessment is made in order to prepare the Annual Audit Plan. IAD reviews the fundamental business processes throughout the Bank at the end of the each year. Business processes to be audited are ranked according to risk-based assessments. Each business process is evaluated in terms of financial risks, operational risks, legal risks and reputation risks. Business processes with the highest-ranking risks are included in the following year's Annual Audit Plan.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

In the second phase, in every audit assignment processes with higher risks are examined in more detail in terms of risks and controls. Risks that may arise due to human error, system failure, insufficient/ineffective procedures and/or sub-processes are determined. The audited business process is assessed with regard to business continuity procedures, physical safety, system safety, conformity to legal arrangements and written rules, sufficiency of human resources and information safety. In addition, the financial risks and reputation risks are also determined. Controls that are designed to reduce these risks to acceptable levels are assessed in terms of sufficiency and effectiveness; additional controls are proposed in order to increase effectiveness.

Following the audits, the major risks and recommendations are regularly reported to the Executive Committee. Action plans that are taken to reduce the risks to acceptable levels are monitored.

h) Fair value of financial instruments

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

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

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

| | <u>Carrying value</u> | | <u>Fair value</u> | |
|------------------------------------------------|-----------------------|------------|-------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Financial assets | | | | |
| Cash and gold reserves | 4,131,886 | 3,865,080 | 4,131,886 | 3,865,080 |
| Due from banks | 6,130,108 | 8,610,821 | 6,130,108 | 8,610,821 |
| Loans and advances to customers | 27,580 | 44,209 | 23,398 | 38,172 |
| Investment securities (held-to-maturity) | 161,589 | 434,011 | 161,326 | 440,011 |
| Financial liabilities | | | | |
| Currency in circulation | 27,429,389 | 26,815,151 | 27,429,389 | 26,815,151 |
| Due to banks | 39,121,993 | 34,219,288 | 39,121,993 | 34,219,288 |
| Other deposits | 36,170,348 | 43,654,859 | 35,915,824 | 43,441,337 |
| Financial liabilities designated at fair value | 993,710 | - | 993,710 | - |
| Other borrowed funds | 2,918,776 | 2,417,470 | 2,918,776 | 2,417,470 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

(i) *Financial assets*

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

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

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

(ii) *Financial liabilities*

The fair value of currency in circulation represents the face value of the notes in issue.

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

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

i) **Capital management**

The Bank's equity capital at 31 December 2007 and 2006 comprises:

| | 2007 | 2006 |
|-------------------|--------------------|------------------|
| Share capital | 47,464 | 47,464 |
| Retained earnings | (1,652,086) | 2,521,505 |
| Other reserves | 222,778 | 238,542 |
| Equity | (1,381,844) | 2,807,511 |

Movements in equity capital during the year are explained in the Statement of Changes in Shareholder's Equity in the financial statements.

The Bank is not subject to any regulatory requirements concerning the level of capital it must maintain, although the Central Bank Law sets out how the statutory annual net profit for the year shall be allocated. The principal source of capital increase is through retention of the undistributed element of the profit.

The Bank is not a not-for-profit organization, nor does it seek profit maximization. Instead it seeks to make a profit commensurate with normal market returns in areas where it conducts normal commercial operations.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Capital is not actively managed and the relatively low risk nature of most of the Bank's activities means that it is not capital intensive. Its purpose is to cover unexpected losses. The most significant unexpected losses are likely to arise out of support operations and the Bank's role as lender of last resort or from losses on the foreign exchange reserves should the TRY depreciate significantly against other world currencies.

Managing the foreign exchange reserves of Turkey, net foreign exchange position of the Bank increased as of 31 December 2007 as compared to the previous year. Accordingly, the equity of the Bank turned out to be negative as of 31 December 2007, due to the increase in the foreign exchange losses as TRY appreciated against other foreign currencies in 2007.

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

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

(a) Impairment losses on loans and advances

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

(b) Impairment of available-for-sale equity investments

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

(c) Held-to-maturity investments

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 6 - CASH AND GOLD RESERVES

| | 2007 | 2006 |
|--------------------------------------------|------------------|------------------|
| Gold bullion - international standards | 3,636,780 | 3,335,423 |
| Cash in hand | 395,394 | 437,978 |
| Gold bullion - non-international standards | 97,236 | 89,409 |
| Gold coins | 2,476 | 2,270 |
| | 4,131,886 | 3,865,080 |

Gold coins and bullion in the amount of TRY10,825 thousand (2006: TRY9,928 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury.

NOTE 7 - DUE FROM BANKS

| | 2007 | 2006 |
|--------------------------------------------------|------------------|------------------|
| Funds lent under reverse repurchase transactions | - | 3,505,288 |
| Time deposits | 4,166,349 | 3,241,585 |
| Demand deposits | 1,963,759 | 1,863,948 |
| | 6,130,108 | 8,610,821 |

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

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

| | 2007 | | 2006 | |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Cost | Carrying value | Cost | Carrying value |
| Turkish government bonds and treasury bills | 16,719,932 | 16,926,939 | 18,561,493 | 18,811,873 |
| Foreign government bonds and treasury bills | 75,866,874 | 76,690,259 | 79,139,157 | 79,268,162 |
| Foreign corporate bonds | 1,803,829 | 1,843,278 | 184,940 | 186,111 |
| | 94,390,635 | 95,460,476 | 97,885,590 | 98,266,146 |

Foreign corporate bonds are coupon and discount securities mainly issued by the European Investment Bank, KfW Bankengruppe and BIS.

The breakdown of carrying values of foreign government bonds, corporate bonds and treasury bills by country is as follows at 31 December 2007:

| Country of origin | 2007 |
|-------------------|-------------------|
| United States | 32,959,774 |
| France | 10,759,571 |
| Germany | 18,718,218 |
| The Netherlands | 3,237,791 |
| Spain | 1,727,258 |
| Other | 11,130,925 |
| | 78,533,537 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

| | 2007 | 2006 |
|----------------------------------------------|------------------|------------------|
| Loans to corporate entities: | | |
| Foreign country loans | 1,741,987 | 2,005,426 |
| Domestic loans | 374 | 755 |
| Total loans and advances to customers | 1,742,361 | 2,006,181 |
| Less: Allowance for loan losses | (1,714,781) | (1,961,972) |
| Net loans and advances to customers | 27,580 | 44,209 |

Movement in the allowance for loan losses is as follows:

| | 2007 | 2006 |
|-----------------------------------------|------------------|------------------|
| Balance at 1 January | 1,961,972 | 1,779,583 |
| Impairment losses on loans and advances | 97,888 | 97,773 |
| Monetary gain | - | - |
| Foreign exchange (gain)/loss | (345,079) | 84,616 |
| At 31 December | 1,714,781 | 1,961,972 |

As of 31 December 2007 and 2006, the restructured loans and advances of the Bank amount to TRY27,206 thousand (2006: TRY43,453 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TRY5,489 thousand (US\$4,712,511) of its interest receivable which will accrue again if the counterparty fails to meet the conditions stated in the restructuring agreement. As of 31 December 2007, the Bank provided allowance over such contingent interest receivable (2006: none).

NOTE 10 - INVESTMENT SECURITIES

| | 2007 | 2006 |
|--------------------------------------------|----------------|----------------|
| Securities available-for-sale | | |
| Equity shares | | |
| - unlisted | 244,058 | 259,822 |
| Total securities available-for-sale | 244,058 | 259,822 |
| Securities held-to-maturity | | |
| Government bonds | 161,589 | 434,011 |
| Total securities held-to-maturity | 161,589 | 434,011 |
| Total investment securities | 405,647 | 693,833 |

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 10 - INVESTMENT SECURITIES (Continued)

The Bank owns shares issued by the Bank for International Settlements ("BIS"). The shares have a par value of SDR5,000 each and are paid up to SDR1,250 each. The balance of SDR3,750 per share is callable at three months' notice by the decision of the BIS Board and is disclosed under contingencies and commitments (Note 28).

The Bank's investment in shares issued by the BIS is valued at fair value, which is calculated as being 70% of the Bank's interest in BIS's net asset value in SDR, as of 31 December 2007, converted to TRY at the year end TRY/SDR exchange rate. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in BIS share.

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

| Name | Nature of business | Ownership (%) | | Amount | |
|------------|-----------------------------------|---------------|-------|----------------|----------------|
| | | 2007 | 2006 | 2007 | 2006 |
| BIS | Banking Supervision | 1.5 | 1.5 | 244,022 | 259,784 |
| S.W.I.F.T. | Electronic Fund Transfer Services | 0.007 | 0.007 | 36 | 38 |
| | | | | 244,058 | 259,822 |

The movement in investment securities is as follows:

| | Available-for-sale | Held-to-maturity | Total |
|----------------------------|--------------------|------------------|----------------|
| At 1 January 2007 | 259,822 | 434,011 | 693,833 |
| Purchases | - | 161,589 | 161,589 |
| Fair value changes | (12,977) | - | (12,977) |
| Redemptions | - | (434,011) | (434,011) |
| Foreign exchange gain | (2,787) | - | (2,787) |
| At 31 December 2007 | 244,058 | 161,589 | 405,647 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 11 - PROPERTY AND EQUIPMENT

| | Land and buildings | Equipment and vehicles | Construction in progress | Total |
|------------------------------------|-----------------------|------------------------------|-----------------------------|----------------|
| At 31 December 2005 | | | | |
| Cost | 321,292 | 36,053 | 3,240 | 360,585 |
| Accumulated depreciation | (103,930) | (13,525) | - | (117,455) |
| Net book value | 217,362 | 22,528 | 3,240 | 243,130 |
| Year ended 31 December 2006 | | | | |
| Opening net book value | 217,362 | 22,528 | 3,240 | 243,130 |
| Additions | 1,442 | 4,477 | 686 | 6,605 |
| Disposals (net) | (74) | (22) | - | (96) |
| Depreciation charge (Note 27) | (6,732) | (6,936) | - | (13,668) |
| Closing net book value | 211,998 | 20,047 | 3,926 | 235,971 |
| At 31 December 2006 | | | | |
| Cost | 322,312 | 40,383 | 3,926 | 366,621 |
| Accumulated depreciation | (110,314) | (20,336) | - | (130,650) |
| Net book value | 211,998 | 20,047 | 3,926 | 235,971 |
| Year ended 31 December 2007 | | | | |
| Opening net book value | 211,998 | 20,047 | 3,926 | 235,971 |
| Additions | 2,490 | 8,344 | 425 | 11,259 |
| Disposals (net) | (117) | (124) | - | (241) |
| Depreciation charge (Note 27) | (6,770) | (6,034) | - | (12,804) |
| Closing net book value | 207,601 | 22,233 | 4,351 | 234,185 |
| At 31 December 2007 | | | | |
| Cost | 324,630 | 44,463 | 4,351 | 373,444 |
| Accumulated depreciation | (117,029) | (22,230) | - | (139,259) |
| Net book value | 207,601 | 22,233 | 4,351 | 234,185 |

NOTE 12 - INTANGIBLE ASSETS

| | Cost | Accumulated amortisation | Net book value |
|------------------------------------|--------------|-----------------------------|-------------------|
| Opening balance at 1 January 2006 | 7,242 | (3,937) | 3,305 |
| Additions | 1,042 | (942) | 100 |
| Balance at 31 December 2006 | 8,284 | (4,879) | 3,405 |
| Opening balance at 1 January 2007 | 8,284 | (4,879) | 3,405 |
| Additions | 253 | (808) | (555) |
| Balance at 31 December 2007 | 8,537 | (5,687) | 2,850 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 13 - OTHER ASSETS

| | 2007 | 2006 |
|-----------------------------------|---------------|---------------|
| Raw material and work in progress | 14,518 | 10,741 |
| Accrued income | 6,042 | 5,959 |
| Tax receivable | 361 | 3,656 |
| Prepaid expenses | 2,789 | 546 |
| Other | 8,104 | 6,733 |
| | 31,814 | 27,635 |

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

NOTE 14 - CURRENCY IN CIRCULATION

| | 2007 | 2006 |
|----------------------------------------------------|-------------------|-------------------|
| Balance at 1 January | 26,815,151 | 19,612,019 |
| Banknotes issued into circulation | 15,650,097 | 13,190,133 |
| Banknotes withdrawn from circulation and destroyed | (15,035,400) | (5,986,745) |
| Demonetized banknotes | (459) | (256) |
| Balance at 31 December | 27,429,389 | 26,815,151 |

NOTE 15 - DUE TO BANKS

| | 2007 | 2006 |
|----------------------------------------------|-------------------|-------------------|
| Deposits for reserve requirement obligations | 32,546,739 | 27,711,560 |
| Current accounts of banks | 6,575,254 | 6,507,728 |
| | 39,121,993 | 34,219,288 |

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 16 - OTHER DEPOSITS

| | 2007 | 2006 |
|------------------------------------------|-------------------|-------------------|
| Deposits by citizens abroad | 19,389,002 | 23,264,310 |
| Deposits of Undersecretariat of Treasury | 14,723,419 | 19,183,538 |
| Deposits of state owned entities | 167,800 | 176,194 |
| Deposits of state owned funds | 1,890,127 | 1,030,817 |
| | 36,170,348 | 43,654,859 |

Deposits by citizens abroad are time deposits with maturities varying from one to three years; other deposits held by government related institutions are interest-free deposits except for the amount TRY17,321 thousand (2006: TRY 68,562 thousand).

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

| | 2007 | | 2006 | |
|------|--------------------------|-------------------|--------------------------|-------------------|
| | Interest rate (*) (%) | TRY amount | Interest rate (*) (%) | TRY amount |
| US\$ | 0.25-3.75 | 991,214 | 0.25-3.75 | 1,390,780 |
| EUR | 0.25-4.50 | 18,316,682 | 0.25-4.50 | 21,766,014 |
| CHF | 0.25-0.75 | 70,408 | 0.25-0.75 | 93,654 |
| GBP | 0.25-4.00 | 10,698 | 0.25-4.00 | 13,862 |
| | | 19,389,002 | | 23,264,310 |

(*) The Bank has two different deposit product types named super deposit accounts and deposits accounts with a credit letter attached. On 6 March 2006, the Bank ceased the application of deposit accounts of one year maturity with a credit letter attached. Accounts denominated in EUR, US\$, GBP and CHF which were opened prior to this date, are rolled over, unless there is a customer request to the contrary, at the rate of 0.25%. Minimum interest rates of the deposit accounts as of 31 December 2007 and 2006 other than the ones that have ceased to be applied are 2.25%, 3.00%, 0.75% and 4.00% for EUR, US\$, CHF and GBP respectively.

NOTE 17 - DUE TO IMF

Due to IMF is denominated in SDR. Due to IMF includes borrowings related to Turkey's IMF quota for the year ending 31 December 2007 and 2006. As of 31 December 2007 and 2006, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

As of 1 November 2006, the country quota of Turkey increased by SDR227,300,000 reaching SDR1,191,300,000. 25% of the quota increase in the amount of SDR56,825,000 has been paid in cash denominated in reserve money and the rest of the increase in the amount of SDR170,475,000 has been paid in securities issued by the Turkish Treasury denominated in TRY.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 18 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

| | 2007 | 2006 |
|-----------------|----------------|----------|
| Liquidity bills | 993,710 | - |
| | 993,710 | - |

In order to withdraw excess liquidity from the market, the Bank issued liquidity bills with a maturity of 60 days and a nominal value of TRY1,000,000 thousand on 16 November 2007.

NOTE 19 - OTHER BORROWED FUNDS

| | 2007 | 2006 |
|-------------------------------------------|------------------|------------------|
| Interbank money market | 2,918,776 | 2,415,470 |
| Funds borrowed from repurchase agreements | - | 2,000 |
| | 2,918,776 | 2,417,470 |

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

NOTE 20 - OTHER LIABILITIES

| | 2007 | 2006 |
|--------------------------------------------------------------|------------------|------------------|
| Import transfer orders and deposits | 858,741 | 1,584,065 |
| Republic of Turkey Gulf Crisis guarantee account | 27,956 | 4 |
| Blocked accounts for pending court cases | 25,859 | 30,353 |
| Taxes and withholdings payable | 101,839 | 53,234 |
| Expense accruals | 26,803 | 19,785 |
| Amount pending waiting for the application of beneficiary | 11,068 | 13,668 |
| Creditors of foreign currencies that were deposited as trust | 506 | 2,247 |
| Other | 19,455 | 18,020 |
| | 1,072,227 | 1,721,376 |

NOTE 21 - TAXATION

| | 2007 | 2006 |
|-----------------------------------|---------------|---------------|
| Taxes on income | 41,081 | 43,851 |
| Prepaid tax | (12,857) | - |
| Income taxes payable - net | 28,224 | 43,851 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 21 - TAXATION (Continued)

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated 21 June 2006, corporation tax is payable at the rate of 20% (31 December 2006: 20%) effective from 1 January 2006 on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and investment and other allowances in accordance with the new tax legislation and the Central Bank Law. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via the issuing of bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set-off against other liabilities to the government.

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

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

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

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

| | 2007 | 2006 |
|-----------------------------------------------|--------------------|------------------|
| (Loss)/Income before tax | (3,211,478) | 3,885,878 |
| Tax calculated at a tax rate of 20% | (642,296) | 771,176 |
| Income/(loss) exempt from taxation | 678,579 | (333,921) |
| Expenses not deductible for tax purposes' net | 4,798 | 14,576 |
| Utilization of brought forward tax losses | - | (413,980) |
| Income tax expense | 41,081 | 43,851 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 21 - TAXATION (Continued)

Deferred taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2007 under the liability method using a principal tax rate of 20%.

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

| | <u>Cumulative</u> <u>temporary differences</u> | | <u>Deferred tax</u> <u>assets/(liabilities)</u> | |
|----------------------------------------------------------------------------------|---------------------------------------------------|------------------|----------------------------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Retirement benefit obligations | 64,292 | 60,205 | - | - |
| Net differences between carrying value and tax base of property and equipment | 46,124 | 47,100 | - | - |
| Transfer of valuation account to income statement | 4,710,587 | 1,243,948 | - | - |
| Other | 10,702 | 2,140 | - | - |
| Total Assets | 4,831,705 | 1,353,393 | - | - |
| Effect of IAS 39 adjustment | 11,802 | 15,880 | - | - |
| Total Liabilities | 11,802 | 15,880 | - | - |
| Net | 4,819,903 | 1,337,513 | - | - |

NOTE 22 - RETIREMENT BENEFIT OBLIGATIONS

Under the Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TRY1,960.69 (31 December 2006: TRY1,857.44) for each year of service.

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 22 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

| | 2007 | 2006 |
|-------------------------------------------------------------|------|------|
| Discount rate (%) | 5.71 | 5.71 |
| Turnover rate to estimate the probability of retirement (%) | 99 | 99 |

Additionally, the principal actuarial assumption is that the maximum liability of TRY2,087.92 for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TRY2,087.92 effective from 1 January 2008 (1 January 2007: TRY1,960.69), has been taken into consideration in calculating the reserve for the retirement benefit obligation of the Bank.

Movement in the liability recognized in the balance sheet:

| | 2007 | 2006 |
|-----------------------|---------------|---------------|
| At 1 January | 60,205 | 53,989 |
| Current year charge | 10,455 | 11,821 |
| Paid during the year | (6,368) | (5,605) |
| At 31 December | 64,292 | 60,205 |

NOTE 23 - NET INTEREST INCOME

| | 2007 | 2006 |
|-------------------------------------------------------|------------------|------------------|
| Interest income: | | |
| Financial assets at fair value through profit or loss | 4,492,515 | 3,958,419 |
| Due from banks | 124,253 | 106,522 |
| Loans and advances to customers | 88,701 | 89,433 |
| | 4,705,469 | 4,154,374 |
| Interest expense: | | |
| Due to banks | 2,054,132 | 1,548,863 |
| Other deposits | 594,319 | 1,106,402 |
| Other borrowed funds | 1,853,605 | 1,369,779 |
| Financial liabilities designated at fair value | 54,548 | - |
| Due to IMF | 9,113 | 8,703 |
| Other | 49 | 70 |
| | 4,565,766 | 4,033,817 |
| Net interest income | 139,703 | 120,557 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 24 - NET FEE AND COMMISSION EXPENSE

| | 2007 | 2006 |
|---------------------------------------|------------------|------------------|
| Fee and commission income: | | |
| Electronic fund transfer ("EFT") | 44,874 | 33,058 |
| Other fund transfer fees | 42 | 648 |
| Open market operations | 3,105 | 3,157 |
| Other | 4,143 | 3,033 |
| | 52,164 | 39,896 |
| Fee and commission expense: | | |
| Correspondent bank accounts | 166,146 | 149,885 |
| Other | 4,375 | 4,110 |
| | 170,521 | 153,995 |
| Net fee and commission expense | (118,357) | (114,099) |

NOTE 25 - DIVIDEND INCOME

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

| | 2007 | 2006 |
|-------------------------------|--------------|--------------|
| Available-for-sale securities | 3,646 | 4,757 |
| | 3,646 | 4,757 |

NOTE 26 - FOREIGN EXCHANGE GAINS/(LOSSES), NET

| | 2007 | 2006 |
|-------------------------------------|--------------------|------------------|
| Foreign exchange gains/(losses),net | | |
| - translation (losses)/gains, net | (3,463,851) | 785,380 |
| - transaction gains, net | (1,123,393) | 3,617,795 |
| | (4,587,244) | 4,403,175 |

As of 31 December 2007 and 2006, translation (losses)/gains include the unrealized foreign exchange (losses)/gains and unrealized gains on gold balances. In the statutory financial statements of the Bank the unrealized foreign exchange (losses)/gains and unrealized gains on gold balances are excluded from the statutory net profit of the Bank and monitored in a temporary account in accordance with the Central Bank Law.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 27 - OTHER OPERATING EXPENSES

| | 2007 | 2006 |
|--------------------------------|----------------|----------------|
| Wages and salaries | 285,565 | 273,668 |
| Administrative expenses | 63,457 | 75,827 |
| Social security costs | 30,082 | 24,128 |
| Depreciation (Notes 11 and 12) | 13,612 | 14,610 |
| Other | 10,032 | 412 |
| | 402,748 | 388,645 |

The average number of persons employed by the Bank during the year 2007 was 4,599 (2006: 4,676).

NOTE 28 - COMMITMENTS AND CONTINGENT LIABILITIES

| | 2007 | 2006 |
|-------------------------------|-------------------|-------------------|
| Guarantees taken | 12,486,495 | 10,449,982 |
| Uncalled BIS shares (Note 10) | 55,371 | 63,726 |
| Futures transactions (*) | 157,311 | - |
| | 12,699,177 | 10,513,708 |

(*) As of 31 December 2007, the Bank has undertaken interest futures contracts with a nominal value of TRY157,311 thousand (2006: none), accounted for under the off-balance sheet liabilities. With reference to these contracts, a valuation is performed on a daily basis with market prices and in the case of profit in favor of the Bank, the profit amount is deposited to the Bank's current account by the counterparty financial institution; in the case of loss, the loss amount is transferred from the current account of the Bank to the account of the counterparty financial institution. The Bank keeps collateral, for the futures contracts, amounting to TRY429 thousand as of 31 December 2007 (2006: none) in the correspondent accounts.

As of 31 December 2007, there are a number of legal proceedings outstanding against the Bank amounting to TRY80,204 thousand, US\$410,099 and EUR352,652 (2006: TRY80,548 thousand, US\$397,357, EUR800,867). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 29 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2007 and 2006 is as follows:

| | 31 December 2007 | | 31 December 2006 | |
|----------------------------------------------|------------------|------------|------------------|------------|
| | TRY | Share % | TRY | Share % |
| T.C. Başbakanlık Hazine Müsteşarlığı | 14 | 55 | 14 | 55 |
| T.C. Ziraat Bankası A.Ş. | 5 | 19 | 5 | 19 |
| Güvenlik Yard. Sandığı Vakfı | 1 | 5 | 1 | 5 |
| Türkiye Garanti Bankası A.Ş. | 1 | 3 | 1 | 3 |
| Türkiye İş Bankası A.Ş. | 1 | 2 | 1 | 2 |
| Other | 3 | 16 | 3 | 16 |
| Historical share capital | 25 | 100 | 25 | 100 |
| Inflation adjustment on share capital | 47,439 | | 47,439 | |
| Total paid-in capital | 47,464 | | 47,464 | |

According to 5th article of the Central Bank Law, the capital of the Bank is TRY25 thousand and is divided into 250,000 shares, with a value of TRY0.1 each. The capital may be increased with the approval of the government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

NOTE 30 - RETAINED EARNINGS AND LEGAL RESERVES

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

The appropriation of the profit after tax of the Bank is as follows;

- i) 20% to the reserve fund,
- ii) 6% to the shareholders as an initial dividend,
- iii) after deducting the above-stated percentages a maximum of 5% of the remaining amount to the Bank personnel in an amount not exceeding the total of two months' salaries, and 10% percent to the extraordinary reserve fund,
- iv) 6% as a secondary dividend to the shareholders, with the decision of the General Assembly.

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

As of the date of this report, no profit appropriation decision has been made by the General Assembly of the Bank for the year 2007 statutory distributable profit of the Bank.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("TRY") unless otherwise indicated)

NOTE 31 - CASH AND CASH EQUIVALENTS

| | 2007 | 2006 |
|---------------------------------------------|-------------------|-------------------|
| Cash and gold reserves | 4,131,886 | 3,865,080 |
| Due from banks (excluding accrued interest) | 6,127,036 | 8,604,476 |
| | 10,258,922 | 12,469,556 |

NOTE 32 - RELATED PARTY BALANCES AND TRANSACTIONS

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

(i) Balances with related parties

| | 2007 | 2006 |
|--------------------------------------------------------------------------------------|------------|------------|
| Assets: | | |
| Financial assets at fair value through profit or loss-issued by the Turkish Treasury | 16,926,939 | 18,811,875 |
| Due from banks | 2,121,067 | 72,167 |
| Liabilities: | | |
| Due to banks | 29,306,779 | 25,581,117 |
| Other deposits | 16,781,346 | 20,390,549 |

(ii) Transactions with related parties

| | | |
|----------------------------------------------------------|-----------|-----------|
| Salaries and other short-term benefits to key management | 2,267 | 2,134 |
| Interest income | 1,699,225 | 1,744,606 |
| Interest expense | 1,470,365 | 893,854 |
| Fee and commission income | 25,878 | 16,679 |
| Fee and commission expense | 163,363 | 147,190 |
| Dividends paid to shareholders | 921,335 | - |

.....