ISSN 1013 - 6193

CENTRAL BANK OF
THE REPUBLIC OF TURKEY

Annual Report 2007

CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY

2007 ANNUAL REPORT DRAWN UP BY THE BOARD FOR

THE SEVENTY-SIXTH ACCOUNTING YEAR

Submitted to

THE GENERAL ASSEMBLY OF SHAREHOLDERS

on April 24, 2008

ANKARA
2008

Annual Report 2007

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

Telephone
(+90 312) 310 36 46

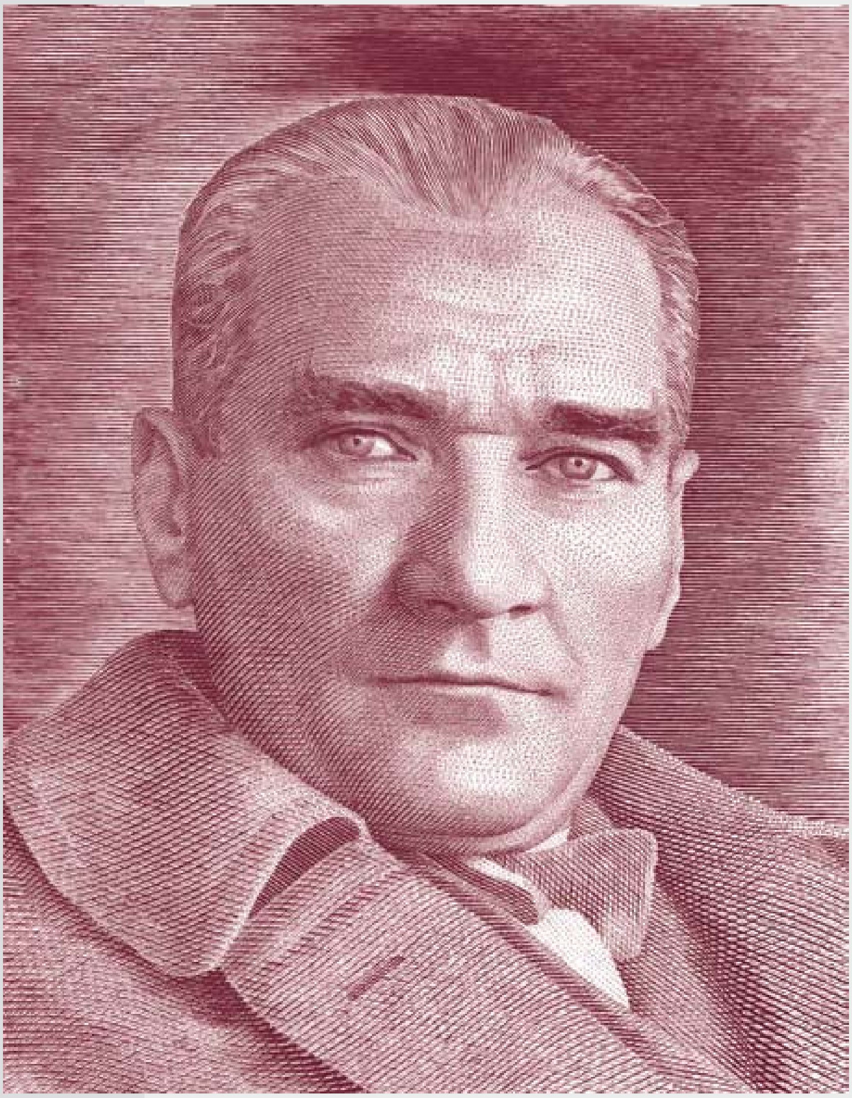
Fax
(+90 312) 310 74 34

E-mail
iletisimbilgi@tcmb.gov.tr

Website
http://www.tcmb.gov.tr

ISSN 1013 – 6193 (printed)
ISSN 1305 – 8762 (online)

ISBN 978 - 605 - 5758 - 02 - 8 (printed)
ISBN 978 - 605 - 5758 - 03 - 5 (online)



Portrait by the E-8 Emission Group Depicted
on the front of denominations of YTL 50 and YTL 100 from Series 1.

CHARTS

TABLES

CBRT ART COLLECTION

The Exhibition of "Contemporary Turkish Paintings from the Art Collection of the Central Bank of the Republic of Turkey" was shown from October 21, 2007 to January 18, 2008 at the Art Gallery of the Federal Reserve Bank in Washington, D.C.

A selection from the collection on show

ABBREVATIONS

BIS	Bank for International Settlements
BİMER	Communication Center for Prime Ministry
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CIA	Certified Internal Auditor
CIAS	Committee for International Accounting Standards
CISA	Certified Information Systems Auditor
CLS	Continuous Linked Settlement
Committee	Monetary Policy Committee
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
ESSIM	European Summer Semposium in International Macroeconomics
EU	European Union
FSAP	Financial Sector Assessment Programme
FSSA	Financial System Stability Assessment Report
GDBS	Government Domestic Borrowing Securities
GDP	Gross Domestic Product
GNP	Gross National Product
FXRIC	Foreign Exchange Risk and Investment Committee
ICHC	Interbank Clearing Houses Center
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISOM	International Seminar on Macroeconomics
RTGS	Real Time Gross Settlement
SCA	Special CPI Aggregates
SB	Strategic Benchmark
SEPA	Single European Payment Area OK
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIC-ESTS	Turkish Interbank Clearing – Electronic Security Settlement System
TIC-RTGS	Turkish Interbank Clearing – Real-Time Gross Settlement System
TL	Turkish lira
TURKSTAT	Turkish Statistical Institute
US	United States
YTL	New Turkish lira

Adnan Çoker
“Towards the Sphere”
1989, Acrylic on Canvas, 180x180 cm.

FOREWORD

"To ensure further gains, it is of particular importance that not only the Central Bank continues to take the necessary measures to meet the target over the medium term, but also that all spheres of society strengthen the support they have given so far in recognition that the Bank is committed to combating inflation for the sake of all individuals"

In pursuance of its primary objective and responsibility, to achieve and maintain price stability, the Central Bank of Turkey has adopted a monetary policy framework based on inflation targeting. This medium-term-oriented policy framework has been implemented since 2006. As an indicator of our commitment to fight inflation, we maintained our target of lower single-digit inflation rates and developed our monetary policy decisions with a medium-term perspective in pursuit of reaching the said target in 2007.

The monetary tightening implemented since mid-2006 has succeeded in keeping inflation in check. However, the dramatic escalation in food, energy and commodity prices worldwide, which is beyond the control of monetary policy, has been a critical factor that overshadowed the success of our monetary policy. Moreover, fiscal policy has made a modest contribution to disinflation, driven by the rebound in government spending and the increased special consumption tax on tobacco and fuel products in 2007. Consequently, inflation ended 2007 substantially above the year-end target determined with the Government. The Bank submitted an open letter to the Government disclosing the reasons of the deviation and the measures taken to bring inflation back on target, and publicized that letter in terms of its accountability.

It should be bourne in mind that the maintenance of price stability is not only the primary objective of monetary policy, but also of the macroeconomic stability program. Therefore, in order to achieve our inflation target over the medium term, we now need, in addition to a monetary policy, more inflation-target-oriented fiscal and incomes policies and effective arrangements to improve competitiveness and productivity. In fact, the solid and consistent implementation of macroeconomic policies in previous periods has enabled us to take a huge step on the road to price stability. The single-digit inflation rates attained today are the most important consequences of this mutual effort. Nevertheless, we should bear in mind that price stability has not yet been fully maintained. The fight against inflation is a lengthy and tough process that requires the persistence of the above-mentioned mutual effort. To ensure further gains, it is of particular importance that not only the Central Bank continues to take the necessary measures to meet the target over the medium term, but also that all spheres of society strengthen the support they have given so far in recognition that the Bank is committed to combating inflation for the sake of all individuals.

Great progress has been made in the communication policy of our Bank, regarding the main principles of our monetary policy strategy, i.e. accountability, transparency and predictability. In this context, apart from our diversified and enriched reporting system, press releases and national/international conferences and presentations are also among instruments that have improved our communication with the public. Furthermore, advances in the information technology structure of the Bank have made our data network more up-to-date and more easily accessible. In view of these considerations, I hereby present to you, our esteemed shareholders, the Annual Report, in which the activities and balance sheet details of the year are published.

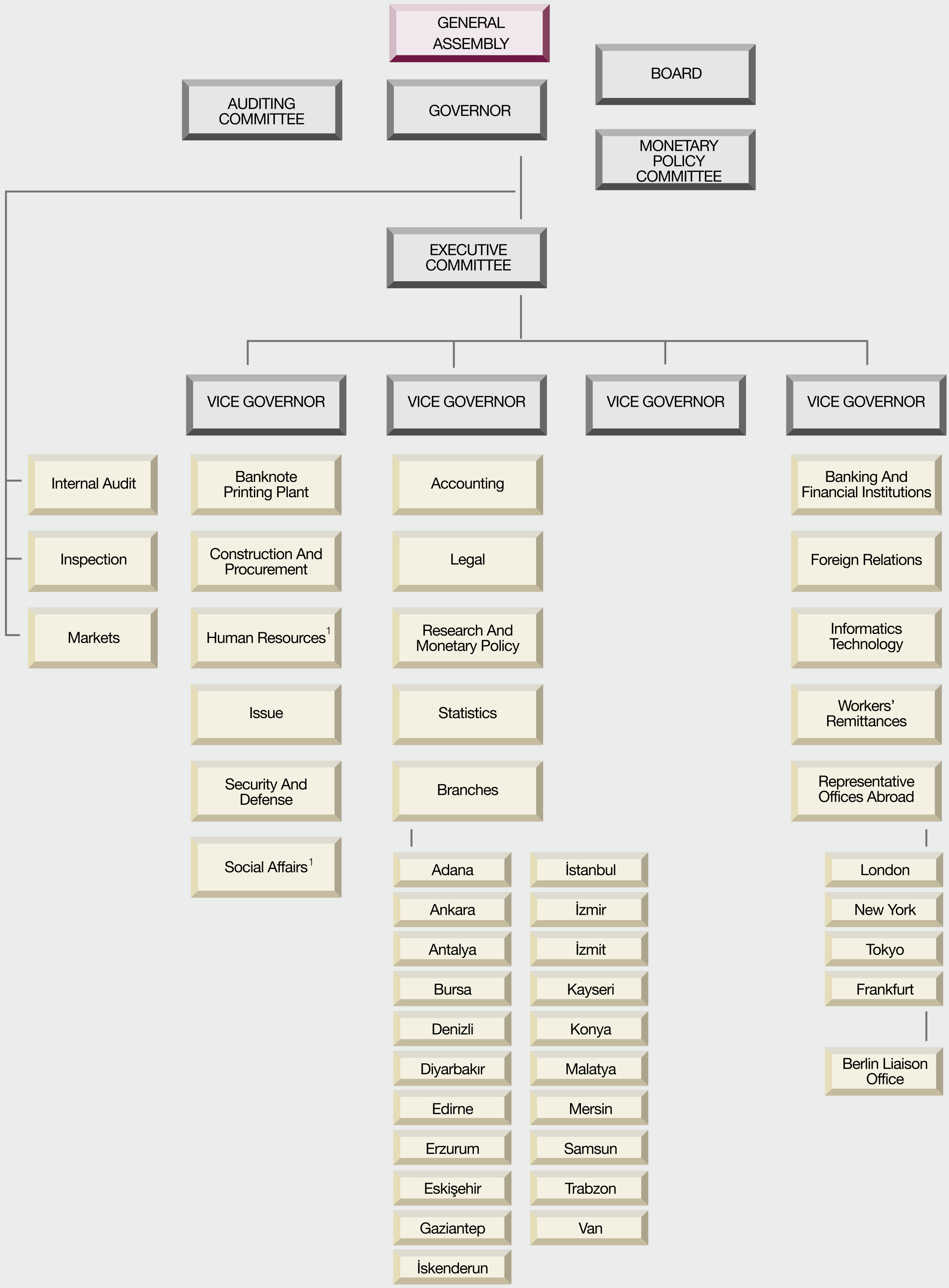
The Central Bank of Turkey strongly believes that price stability is a sine qua non for sustainable and high growth rates. Along with this belief and our responsibility, we will continue to take thenecessary measures to achieve price stability in the period ahead. I would also like to emphasize that the success we witness today is built upon the strong corporate structure of our bank and the professional skills of our staff. I am grateful to all my colleagues for their present contributions and future support.

Durmuş YILMAZ
Governor
(Signature)

Fikret Mualla
Flowers”
1952, Oil on Canvas, 46x38 cm.

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

1.1. ORGANIZATION CHART



[1] The Social Affairs Department was separated from the organizational structure of the Bank and the relevant duties were integrated into the Departments of Human Resources and Construction and Procurement in 2008.

1.2. BOARD

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

Making decisions concerning monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations on banknotes in circulation; making regulations regarding open market operations, foreign exchange operations, interest rates relating to rediscount and advance operations, reserve requirements and instruments, the management of gold and foreign exchange reserves of the country; preparing the budget, annual report, balance sheet, income statements and the agenda of the General Asssembly of the Bank and approving regulations regarding the administration, organization, services and personnel of the Bank are among the duties and powers of the Board. Within this framework, the Board made 146 decisions at 17 meetings in 2007.

Governor Durmuş YILMAZ

Prof. M. İlker PARASIZ

Necati ŞAHİN

Dr. M. İbrahim TURHAN

M. Vehbi ÇITAK

Assoc. Prof. Lokman GÜNDÜZ

Prof. Necdet ŞENSOY

As of December 31, 2007 Governor Durmuş Yılmaz has been the Chairman of the Board and its members are: Prof. M. İlker Parasız, Necati Şahin, Dr. M. İbrahim Turhan, M. Vehbi Çıtak, Assoc. Prof. Lokman Gündüz, Prof. Necdet Şensoy. At the regular General Assembly meeting of the Central Bank of the Republic of Turkey (CBRT) held on April 6, 2007, Board members Dr. M. İbrahim Turhan and Necati Şahin, whose memberships were due on April 30, 2007, were re-elected as members for a three-year period from May 1, 2007 to April 30, 2010.

1.3. MONETARY POLICY COMMITTEE

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

In 2007, the Monetary Policy Committee held 12 regular meetings.

Assoc. Prof. Mehmet YÖRÜKOĞLU | Assoc. Prof. Erdem BAŞÇI | Durmuş Yılmaz | Burhan Göklemez | Dr. M. İbrahim Turhan

As of December 31, 2007, Governor Durmuş Yılmaz has been the Chairman of the Monetary Policy Committee and members[2] are Assoc. Prof. Erdem Başçı, Burhan Göklemez, and Assoc. Prof. Mehmet Yörükoğlu, Vice Governors, and Board member Dr. M. İbrahim Turhan.

[2] Pursuant to amended Article 22/A of the Central Bank of the Republic of Turkey Law No. 1211, Prof. Abdullah Yavaş was appointed to the vacant monetary policy membership on 12 March, 2008

1.4. AUDITING COMMITTEE

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

Mustafa Saim UYSAL

Abdullah YALÇIN

As of December 31, 2007 members of the Auditing Committee are Mustafa Saim Uysal, Abdullah Yalçın, Mehmet Tüfekçi and Prof. Ekrem Yıldız. Abdullah Yalçın who is a member of Class (B) and Class (C) was re-elected by Class (B) and Class (C) shareholders, and Mustafa Saim Uysal who is a member of Class (D) was re-elected by Class (D) Shareholders to serve for two years from May 1, 2007 to April 30, 2009.

Mehmet Tüfekçi was elected to Class (A) Membership, and Prof. Ekrem Yıldız was elected to Class (B) and (C) Membership to serve for two years from May 1, 2007 to April 30, 2009.

Mehmet TÜFEKÇİ

Prof. Ekrem YILDIZ

1.5. EXECUTIVE COMMITTEE

The Executive Committee is composed of Vice-Governors under the chairmanship of the Governor. The Governor is appointed by the Council of Ministers to serve for five years. Vice-Governors are appointed for five years by a joint decree on the recommendation of the Governor. Decisions of the Executive Committee are taken by a majority of all members. When considered appropriate by the Governor, the Committee prepares proposals to be submitted to the Board, by examining issues subject to Board decision in advance, and draws up regulations on the administration, organization and services of the Bank. In addition, the Committee is also responsible for ensuring the coordination of the operations of the Bank and performing duties related to the appointment, remuneration, dismissal and retirement of personnel other than those appointed by the Board.

Durmuş YILMAZ

Assoc. Prof. Erdem BAŞÇI

Burhan GÖKLEMEZ

Assoc. Prof. Mehmet YÖRÜKOĞLU

As of December 31, 2007, members of the Executive Committee are Governor Durmuş Yılmaz, the Chairman, Assoc. Prof. Erdem Başçı, Burhan Göklemez and Assoc. Prof. Mehmet Yörükoğlu.

1.6. HEAD OFFICE DEPARTMENTS

Back (left to right): İrfan Yanar, Selahattin Akkaş, Dr. N. Ahmet Kıpıcı, Halit Yıldırım, Mehmet Sertbudak, Rifat Günay, Dr. Bilal San, Ömer Öztürk, H. Cahit Özcet, Ahmet Aktaş
Front (left to right): Jale Ataman, E. Gülten Tınaz, Çiğdem Tunçtürk Köse, Akil Özçay

As of December 31, 2007,

Accounting Department	General Manager, Dr.Bilal San
Banking and Financial Institutions Department	General Manager, Rifat Günay
Banknote Printing Plant	General Manager, Selahattin Akkaş
Communication and Foreign Relations Department	Deputy General Manager, İ. İlhan Koçaker
Construction and Procurement Department	General Manager, Ahmet Aktaş
Human Resources Department	General Manager, E. Gülten Tınaz
Informatics Technology Department	General Manager, Ömer Öztürk
Inspection Unit	Executive Director Assignee, İrfan Yanar
Internal Audit Department	General Manager, Akil Özçay
Issue Department	General Manager, Mehmet Sertbudak
Legal Department	General Manager, M. Kudret Mennan
Markets Department	General Manager, Çiğdem Tunçtürk Köse
Research and Monetary Policy Department	General Manager, H. Cahit Özcet
Security and Defense Secretariat	Security and Defense Secretary, Halit Yıldırım
Social Affairs Department	General Manager, Leyla Öney
Statistics Department	General Manager, Dr. N. Ahmet Kıpıcı
Workers' Remittances Department	Deputy General Manager, Jale Ataman

1.7. BRANCHES

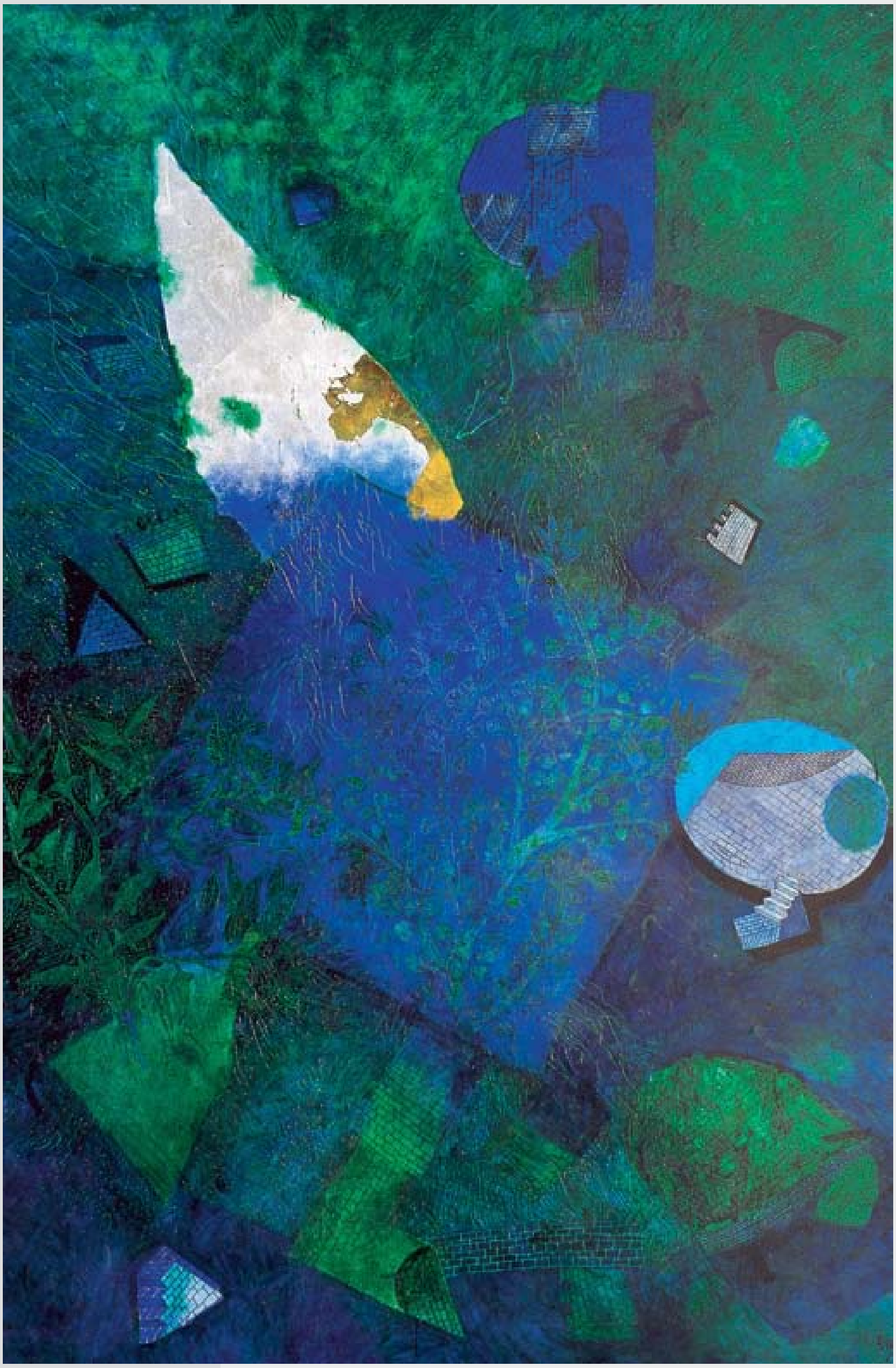
As of December 31, 2007,

ADANA BRANCH	Manager, M. Ali Tuğlu
ANKARA BRANCH	Manager, M. Ali Koca
ANTALYA BRANCH	Manager, MineTopçu
BURSA BRANCH	Manager, İsmail Yürümez
DENİZLİ BRANCH	Manager, Kadriye Ay
DİYARBAKIR BRANCH	Manager, Eyüp Kütük
EDİRNE BRANCH	Manager, Muharrem Zengin
ERZURUM BRANCH	-
ESKİŞEHİR BRANCH	Manager, Seniha Özer
GAZİANTEP BRANCH	Manager, Ahmet İnci
İSKENDERUN BRANCH	Manager, Tufan Sonek
İSTANBUL BRANCH	Manager, L. Ümit Fındıkoğlu
İZMİR BRANCH	Manager, T. Hayati Boyalı
İZMİT BRANCH	Manager, Atanur Dursun
KAYSERİ BRANCH	Manager, Meral Kiper
KONYA BRANCH	Manager, Şerafettin Baydaş
MALATYA BRANCH	Manager, A. Cengiz Sağdıç
MERSİN BRANCH	Manager, Rıdvan Songör
SAMSUN BRANCH	Manager, Süleyman Koruyucu
TRABZON BRANCH	Manager, Nevzat Gülen
VAN BRANCH	Manager, Süleyman Miçooğulları

1.8. REPRESENTATIVE BRANCHES AND THE LIAISON OFFICE

As of December 31, 2007;

Frankfurt Representative Office	Vice-Representative, Nesrin Tokoğlu
Berlin Liaison Office	Chief, Şenay Bozkurt
London Representative Office	Representative, İ. Hakkı Arslan
New York Representative Office	Representative, M. Aydın Özmen
Tokyo Representative Office	Representative, Çetin Özbek



Erol Akyavaş
"Locus of Extremity"
1982, Oil and Silver Leaf on Canvas, 265x178 cm.

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

Kemal Önsoy
"Rumeli Caravanserai VII"
1989, Oil on Canvas 187x205 cm.

2.1. STRATEGIC PLAN

Mission

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

Vision

stands for a Central Bank that:
- achieves and maintains price stability so as to promote the prosperity of society,
- contributes to financial stability,
- pursues an efficient communication policy,
- is independent, transparent, accountable and credible.

Values

- Transparency, Accountability, Credibility, Good Governance, Effective Communication, Giving Priority to Public Benefit.

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

1) Maintaining Trust in the National Currency

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

2) Maintaining Convergence to the European Union and Developing Relations with other International Organizations

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

3) Developing an Adequate and Effective Communication

To improve and play an active role in domestic and international communication in order to increase the efficiency of policies applied through the principles of accountability, credibility and transparency.

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

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

5) Developing Corporate Governance

To provide a functional, secure and flexible working environment within the Bank. Thus, to set a good example of corporate governance by enhancing transparency and accountability. To develop a corporate culture in which the personnel can participate efficiently in processes.

2.2. PRICE STABILITY AND MONETARY POLICY

2.2.1. Overview

In previous periods, Turkey's economy became relatively stable thanks to the consistent and firm implementation of monetary and fiscal policies, resulting in a significantly reduced volatility in growth and inflation figures. In addition to strong growth rates, inflation fell to single-digit levels during this period. Moreover, the reduced debt burden of the public sector facilitated the deepening of financial markets, whereby the increased confidence of consumers and investors was translated into economic activities. As the sharp increase in private-sector consumption and investment expenditures resulted in a savings deficiency, the boom in economic activities was financed largely through foreign savings, primarily long-term borrowing and direct capital inflows. This development led to the widening of the current account deficit and a surge in the private sector's foreign debt stock. At this point, reducing inflation to single-digit levels depends, to a large extent, on continued implementation of the recent tight monetary and fiscal policies, as well as on new reforms that will further strengthen the market mechanism, improve the intermediation function of the financial sector so as to meet the source requirement of the real sector, increase total factor productivity and competitiveness, and make the public sector more efficient.

The lagged effects of monetary tightening since the mid-2006, the significant contraction in the agricultural sector, and the decline in confidence of consumers and investors due to global financial turbulence in August 2007, lowered the rate of increase in total domestic demand. The contraction in the agricultural sector has not only affected growth but also caused inflation to rise temporarily. Moreover, after the turbulence in May-June 2006, the contribution of net exports to growth turned positive, which continued into the first half of 2007. However, as imports grew faster than exports in quantity, net exports contributed negatively to growth in the second half of 2007. The compensation paid to drought-hit farmers, the inter-temporal change of public expenditures due to elections, higher-than-expected health care expenditures, and the slowdown in indirect tax revenues driven by the weakening of domestic demand had a negative impact on the primary surplus performance of the program-defined budget. Therefore, the support of the public sector to disinflation was quite limited in 2007 compared to previous years. Likewise, the decline in productivity gains since the second quarter of 2007 and the upward trend in real wages reduced the contribution of unit labor costs to disinflation. In addition, the steep rise in crude oil prices since mid-2007 also added to the pressure on inflation.

Within the framework of a medium-term monetary policy strategy that defines price stability as the main objective, the explicit inflation-targeting regime, effective since early 2006, was further implemented in 2007. The inflation target, which is identified as the annual percentage change in the Consumer Price Index (CPI), was set at 4 percent for 2007, with a three-month inflation path consistent with the year-end target and an uncertainty band of 2 percentage points around the target. Motivated by this target, the Central Bank left policy rates unchanged until end-August in response to potential changes in global liquidity conditions and in the global risk appetite, the relatively continued rigidity of services inflation, ongoing supply shocks and lagged effects of the increase in the exchange rate. However, the lagged impacts of the strong monetary tightening, which has been implemented since mid-2006, caused a weakening in domestic demand and significant decrease in basic inflation indicators, primarily services and consumer durables. As a result, policy rates were reduced slightly starting from September, by a cumulative 175 basis points by the end of 2007. As emphasized above, the sharp increase in food, energy and administered prices, which is beyond the control of monetary policy, restrained the disinflation process, and inflation was realized above the year-end upper limit of the uncertainty band of 6 percent.

2.2.2. Macroeconomic Developments

Supply and Demand Developments

The steady growth of the Turkish economy since 2002, continued into 2007, with a Gross Domestic Product (GDP) growth of 4.5 percent in 2007 (Table 1). GDP increased by 7.6 and 4.0 percent in the first two quarters of 2007, respectively, while in the second half of the year it grew by only 3.4 percent.

Annual GDP growth in 2007 hit the lowest rate since 2002, largely because of the decrease in the value added of the agricultural sector due to the drought, the uncertainty surrounding the general elections, turbulences in global markets and the strong monetary tightening implemented since mid-2006.

1 GDP Developments by Expenditures (At 1998 Prices, Annual Percentage Change)

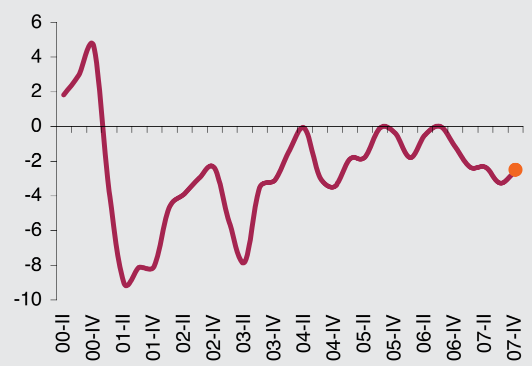
	2005	2006					2007				
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
1-Consumption Expenditures	7.2	6.8	9.6	3.9	0.8	5.1	5.5	1.7	7.6	2.7	4.4
Public	2.5	8.6	14.5	11.2	2.0	8.4	4.7	2.1	3.3	1.6	2.8
Private	7.9	6.6	9.0	2.9	0.6	4.6	5.6	1.6	8.2	2.9	4.6
2-Fixed Capital Investments	17.4	19.3	14.4	12.6	8.2	13.3	2.8	1.2	2.1	7.2	3.3
Public	25.0	5.4	2.2	-1.2	4.7	2.6	4.3	8.4	15.9	2.2	7.6
Private	16.2	21.0	16.3	14.9	8.9	15.0	2.6	0.2	0.0	8.1	2.7
Machinery-Equipment	21.4	23.8	12.8	10.7	3.6	12.2	-3.2	-3.7	-1.6	11.9	0.7
Construction	7.6	16.4	24.0	23.0	18.2	20.3	12.9	8.2	2.8	2.2	6.3
3- Stock Change [1,2]	0.1	-2.5	-0.2	0.5	1.4	-0.1	1.9	1.8	0.0	3.2	1.7
4- Exports of Goods and Services	7.9	6.5	8.5	4.1	7.9	6.6	12.5	9.3	4.2	2.5	6.7
5- Imports of Goods and Services	12.2	11.5	12.4	3.3	1.6	6.9	8.6	5.6	14.4	15.7	11.1
Net Exports [1]	-1.4	-1.7	-1.6	0.2	1.5	-0.3	0.4	0.5	-2.6	-3.7	-1.5
6-Total Domestic Demand	9.5	7.3	10.8	6.1	4.1	7.0	6.8	3.2	5.9	7.0	5.7
7-Total Final Domestic Demand	9.4	9.5	10.8	5.9	2.5	7.0	4.8	1.6	6.3	3.8	4.1
8-GDP	8.4	5.9	9.7	6.3	5.7	6.9	7.6	4.0	3.4	3.4	4.5

[1] Contribution to GDP Growth, percent.
[2] Stock changes include the statistical error.
Source: TURKSTAT.

In 2007, final domestic demand made a larger contribution to growth in the second half than in the first half, buoyed by the recovery in private sector demand. In contrast, the contribution of net foreign demand to growth, which became negative in the third quarter of 2007 for the first time after the second quarter of 2006, again displayed a deficit in the last quarter of 2007.

Public expenditures accelerated significantly during the third quarter, boosted by public investments. However, in the last quarter they made a modest contribution to growth compared with the preceding quarters. Having slowed down since the second half of 2006, domestic demand rebounded gradually in 2007, whereas aggregate demand conditions continued to support disinflation (Chart 1).

1 Output Gap (Percent)

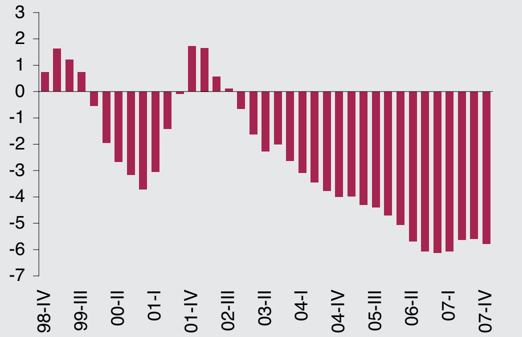


Source: CBRT.

Balance of Payments Developments

In 2007, total exports of goods grew by 23.1 percent over the previous year, amounting to USD 113.2 billion, while total imports of goods increased by 20.6 percent to USD 160.7 billion. Accordingly, the foreign trade deficit equaled USD 47.5 billion. Exports grew at a robust pace on the back of strong performance of traditional sectors such as textiles and clothing and other industries, such as motor vehicles and iron and steel. Although terms of trade were in favor of exports over the entire year, the rebound in imports, following the recovery in domestic demand and the strengthening of YTL, widened the foreign trade deficit.

2 **Current Account Balance / GDP* (Percent)**



*Annualized data

Source: CBRT.

The positive performance of exports, strong industrial production and oil prices above the levels of 2006 since September are the factors underlying the rapid increase in imports of intermediate goods. Moreover, as tourism revenues amounted to USD 18.5 billion in 2007, services revenues grew, but the income deficit widened. In view of all these developments, the current account deficit widened to USD 38 billion. The ratio of current account deficit to GDP fell to 5.8 percent at end-2007, from 6.1 percent at end-2006 (Chart 2).

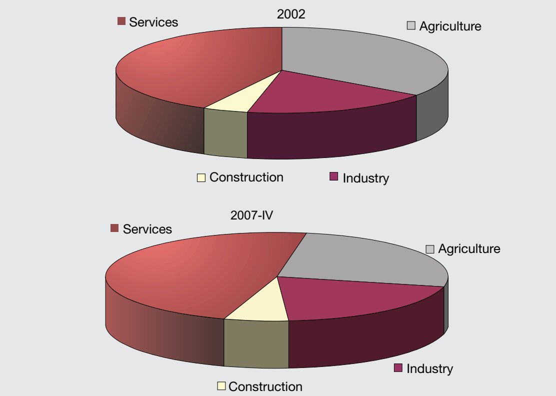
The rise in Turkey's current account deficit in recent years was largely driven by the shift in rising private investments towards industries using more imported inputs such as automotive, machinery-equipment and electronics. The sharp rise in prices of energy imports, especially in crude oil, contributed to the widening of the current account deficit. However, financing of the current account deficit improved notably, particularly during 2006-2007. Direct investments and long-term borrowings were enough to cover the whole current account deficit. The weight of portfolio investments and short-term credits in sources of financing declined significantly. All these developments are critical for the sustainability of the current account deficit.

Employment, Labor Productivity and Energy Prices Developments

The Turkish economy achieved high rates of growth in recent years, which also led to fundamental changes in employment structure. While in 2002, 35 percent of total employees were employed in agricultural sector, this ratio dropped to 25 percent in the last quarter of 2007 (Chart 3). One of the main reasons for the fast decline in agricultural employment was the rising demand for employment in non-agricultural sectors.

The shift in labor from low-productivity agricultural sectors towards higher-productivity non-agricultural sectors is considered favorable in terms of economic development. This, however, is also one of the main reasons why there has not been a significant decline in unemployment rates despite high growth rates after 2001. An important change in the employment structure, parallel to the decline in agricultural employment, during this period was the decrease in the unregistered employment ratio. In 2002, unregistered employment equaled 52 percent of total employment, which, however, ended 2007 at 45 percent.

3 ***Total Employment by Sectors***



Source: TURKSTAT.

The slowdown in economic activities in 2007 restrained the rate of increase in non-agricultural employment, while the drop in agricultural employment accelerated owing to drought (Chart 4). As the rate of increase in non-agricultural employment fell to 2.3 percent and agricultural employment declined to 2 percent, total employment grew by a mere 1.1 percent.

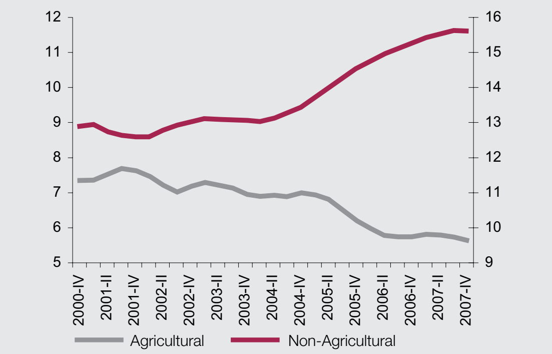
In 2007, the number of unemployed people increased by an average 1.6 percent year-on-year, to 2.3 million. In 2007 the unemployment rate remained unchanged from 2006, at 9.9 percent. However, employment in the manufacturing industry and construction fell year-on-year in the last quarter of 2007, whereby unemployment increased by 0.5 points compared with the same period in 2006 to 10.1 percent. The slowdown in total demand and the sharp increase in real wages that prevailed during the third quarter of 2007 contributed to the decline in manufacturing industry employment.

Thanks to productivity gains in the manufacturing industry, real unit wages dropped without interruption after 2001. However, This trend slowed down in the second quarter of 2007 and real wages in the manufacturing industry recorded an increase of 2.5 percent in the third quarter (Chart 5).

Despite the increase in manufacturing industry production by 3.2 percent, the increase in the real wage per hour by 3.5 percent and increase in hours worked by 2.2 percent had an impact onthe increase in real unit wages. The continued decline in real unit wages is of great importance regarding its contribution to both manufacturing industry competitiveness and to disinflation. In the last quarter of 2007, real wages declined by 2.3 percent (Chart 5).

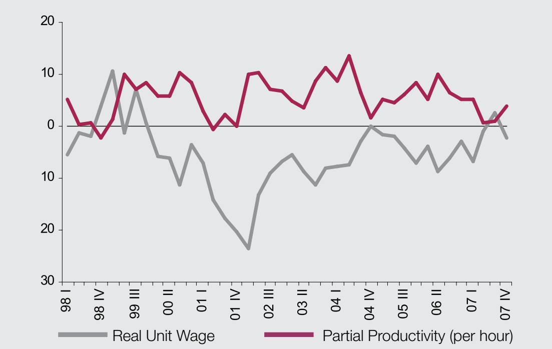
The robust global growth in recent years, the drop in both crude oil and product inventories, the reduced amount of excess capacity and the increased net long positions held by non-commercial investors who trade in futures markets have all put pressure on prices in crude oil markets. However, fears about a US recession heightened as the US subprime mortgage crisis that emerged in August further deepened. Crude oil prices thus saw a partial decline at end-2007. International crude oil prices amounted to USD 93.9 per barrel as of December

4 ***Agricultural, Non-Agricultural Employment (12-Month Average, Million People)***



Source: TURKSTAT.

5 ***Productivity and Real Unit Wage in Manufacturing Industry (Annual Percentage Change)***



Source: TURKSTAT, CBRT.

Credit Developments

The comprehensive reforms that were implemented after the economic crisis in 2001 helped to improve the quality and effectiveness of the credit mechanism. As expectations of both the banking sector and individuals turned positive, maturities in financial contracts became longer and amounts specified in the said contracts increased. As a result, credit volume has grown significantly starting from the second quarter of 2003. Supported by the continued foreign capital inflow into the banking sector and the ongoing fiscal discipline, credit expansion continued in 2007. Consumer loans also continued to follow an upward trend, albeit at a slower pace in the last quarter of 2007 due to reduced financing sources amid global financial turbulence and heightened uncertainties.

The “other loans” item that covers personal loans played a major role in the growth of consumer loans in 2007. Housing loans continued to grow, while automobile loans further declined despite the fourth-quarter rebound (Table 2).

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

	2006		2007			
	III	IV	I	II	III	IV
Consumer Loans	1.5	3.6	2.6	9.0	10.0	6.6
Housing Loans	0.9	2.2	2.7	7.5	10.2	5.4
Automobile Loans	-6.4	-5.0	-8.9	-3.4	-2.0	-1.4
Other Loans	6.0	8.9	6.6	14.5	12.8	9.9
Credit Cards	2.1	2.1	-1.6	7.7	2.4	3.2

Source: CBRT.

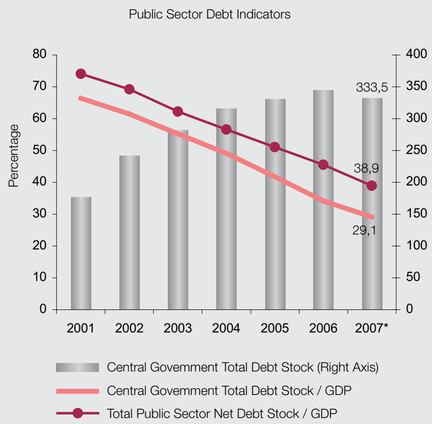
Public Finance and Debt Stock Developments

Turkey’s large unregistered economy and the gradual rise of the weight of private consumption taxes caused direct taxes to have a reduced share in total tax revenues. Thus, indirect taxes made the largest contribution to the primary budget surplus in recent years. On the public spending side, some non-interest budget expenditures were kept in control; however, total expenditures surpassed the initial targets due to structural problems in social security and health care. In 2006 and before, strong domestic demand fostered the rise in indirect tax revenues, helping the primary surplus to achieve target levels despite a deviation in some expenditure items. However, in 2007, the program-defined primary surplus deviated considerably from the target as non-interest expenditures surpassed the initial target and also because of the poor performance of indirect tax revenues, which is driven by the weakening of domestic demand, as well as the lack of reforms to combat structural problems.

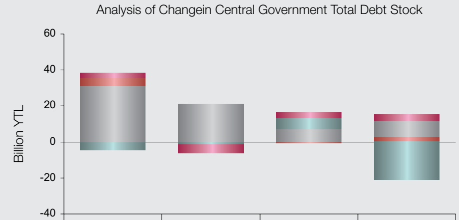
Although many reforms were carried out to enhance the effectiveness of fiscal policy and to strengthen the institutional structure, fiscal policy made a limited contribution to maintaining price stability in 2007 since the measures failed to lessen the sensitivity of tax revenues to domestic demand and to keep expenditures stemming from structural problems under control. In addition, as 2007 was an election year, the higher-than-expected rise in spending on some items also played a part in the said scenario. In November, losses in indirect tax revenues were partially offset by raising the tax burden on tobacco and petroleum products, which, however, caused inflation to run up.

In 2007, the central government primary balance displayed a YTL 34.9 billion surplus, whereas the total budget balance was in deficit of YTL 13.9 billion. As suggested by a detailed analysis of the central government budget, revenues and expenditures increased by 9.3 and 14.3 percent, respectively, compared to 2006. The performance

6 **Public Sector Debt Indicators (Billion YTL)**



*Temporary
Source: Treasury.



	2004	2005	2006	2007*
Party Effect**	3.0	-4.8	3.2	3.4
Total Exchange Rate Effect***	-4.6	-0.8	6.4	-21.2
Increase in Net Foreing Borrowing	4.1	-0.6	-0.5	-2.6
Increase in Net Domestic Net Borrowing	31.2	21.1	6.7	8.9

*Change over 2006.
**Changes resulting from movements in the USD/EUR and USD/SDR parity.
***Changes resulting from movements in the YTL/USD parity.
Note: Changes in net debt denotes the change adjusted for the exchange rate and parity effect.
Source: Treasury, CBRT.

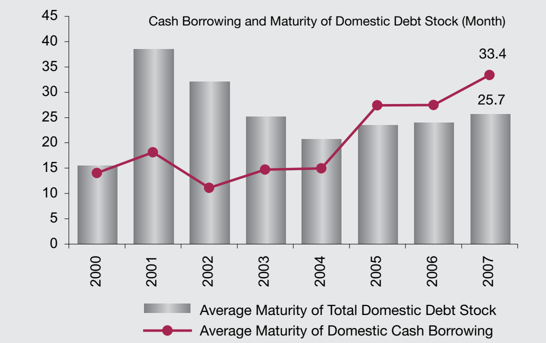
of the budget in 2007 was poorer than that of 2006; nevertheless, the central government budget balance still achieved the target. However, the ratio of the program defined primary budget surplus over GDP [1] is forecasted to remain well below the target of 6.5 percent.

In 2007, non-tax revenues increased 1.1 percent, while tax revenues rose by 11.2 percent. In tax revenues, it is remarkable that direct tax revenues (sum of taxes on income and earnings and on property) increased by 19.8 percent, whereas indirect tax revenues (sum of domestic taxes on goods and services and taxes on international trade and transactions) increased by only 6.4 percent compared with 2006. 2007 was a year of weakening domestic demand and a resulting poor performance of consumption related taxes. Direct taxes, on the other hand, surpassed the initial targets thanks to the positive performance of corporate tax revenues on the back of strong profit gains in the financial sector. Interest expenditures and non-interest budget expenditures rose by 6.0 and 17.1 percent, respectively, compared to the previous year. Among non-interest expenditures, the purchase of goods and services including health care expenditures and the financing of the social security deficit surpassed the initial appropriations significantly. Other expenditure items roughly met the year-end targets.

At end-2007, central government debt stock was down 3.4 percent to YTL 333.5 billion from the previous year. Despite the central government budget deficit of YTL 13.9 billion, exchange rate movements helped to improve the debt stock with a reduction of YTL 21.2 billion. At the same time, the central government's net domestic borrowing amounted to YTL 8.9 billion, while its net foreign borrowing decreased by YTL 2.6 billion. Moreover, the ratio of total public debt stock over GDP continued a downward trend to 29.1 percent in 2007, which was largely due to the stability maintained in growth rates, exchange rates and interest rates, coupled with gains from the primary surplus and privatization (Chart 6).

[3] National account statistics at 1987 base year prices

7 ***Maturity of Domestic and Foreign Borrowing***



Source: Treasury.

As the Treasury issued a record amount of five-year floating rate and fixed coupon bonds in 2007, the average maturity of domestic cash borrowing displayed a significantly longer course and extended to 33.4 months in December 2007. Likewise, the average maturity of total domestic debt stock also extended to 25.7 months in December (Chart 7).

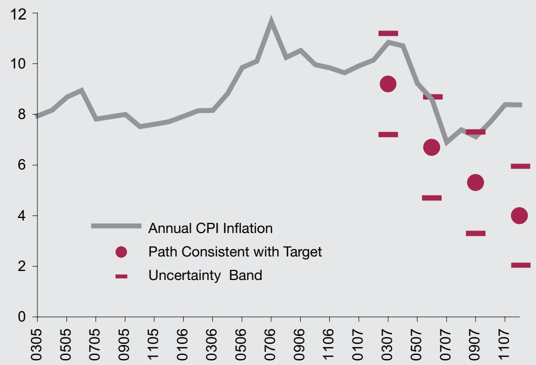
Inflation Developments

The Consumer Price Index (CPI) ended 2007 at 8.39 percent and breached the upper limit of the year-end uncertainty band of 6 percent, largely because of price developments in the fourth quarter and record-high processed food and administered prices (Chart 8).

In 2007, the impact of last year's tight monetary policy was particularly evident on the prices of services and durable goods. Yet, supply-side factors continued to affect consumer inflation in 2007. Especially drought-related factors put pressure on unprocessed food prices during the first half of the year and on processed food prices during the second half. Higher commodity prices, such as food, curbed the decline in consumer inflation, although the strengthening of the New Turkish lira throughout the year restrained the effect of the sizable increase in commodity prices.

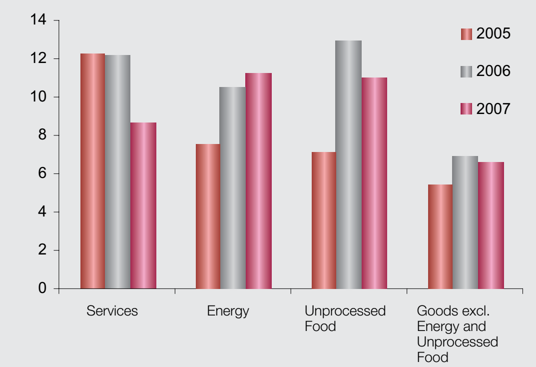
Inflation developments in sub-items indicate that services inflation fell significantly while goods inflation remained almost stable. Energy prices increased at a higher rate than the previous year whereas the annual rate of increase in unprocessed food prices and in prices for goods excluding energy and unprocessed food was down from the previous year (Chart 9).

8 ***Annual CPI Inflation and the Path Consistent with the Target***



Source: TURKSTAT, CBRT.

9 ***Consumer Prices (Annual Percentage Change)***



Source: TURKSTAT, CBRT.

Unprocessed food prices continued to increase in the first half of the year due to drought related problems. However, the annual inflation in unprocessed food fell from 16 percent in the first quarter to 11 percent in the last quarter, down from a year earlier.

The rate of increase in energy prices was higher than 2006 due to the steep fourth-quarter rise in residential energy prices. The strengthening of the New Turkish lira curbed the spillover of elevated oil prices to domestic prices. Annual inflation in energy prices ended 2007 at 11.25 percent.

Annual inflation in goods excluding energy and unprocessed food was 6.60 percent in 2007. The twice-adjusted tax on tobacco products curbed the downward trend in the group's annual inflation compared to 2006. However, although the sizable increase in processed food prices in the second half of 2007 drove the group's inflation higher, the impact of tight monetary policy on prices of durable goods reduced the unfavorable effect.

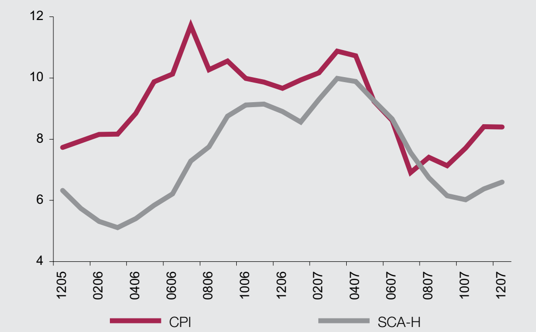
Services inflation slowed markedly to 8.64 percent at end-2007, down by 3.6 percentage points from 2006. The slowdown was observed across all services sub-items, which is considered to be a positive development (Chart 10).

Annual inflation of the SCA-H index, which is one of the Special CPI Aggregates used for extracting the main trend of inflation by excluding temporary movements, fell by 2.3 percentage points to 6.59 percent from last year (Chart 11). The marked rise in processed food prices in the second half of the year limited that decline. Thus, inflation in SCA-H items other than processed food was up 4.81 percent at end-2007.

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

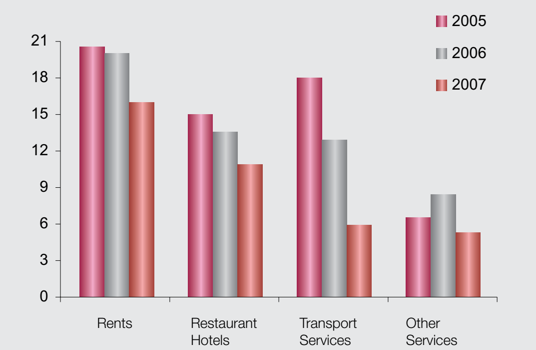
Both 12-month and 24-month ahead inflation expectations showed a downward trend throughout 2007, although the improvement was slight in the last quarter (Chart 12). This development cannot only be attributed to the pricing behavior that

11 ***CPI and SCA-H (Annual Percentage Change)***



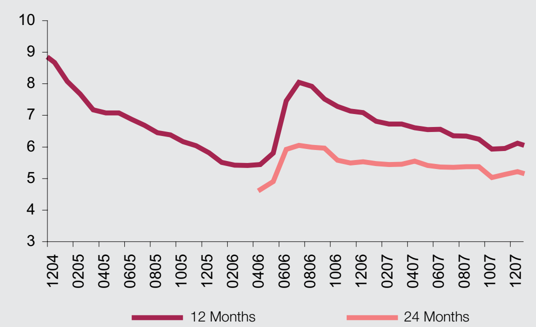
Source: TURKSTAT.

10 ***Services Prices (Annual Percentage Change)***



Source: TURKSTAT, CBRT.

12 ***CPI Expectations by the end of the next 12 and 24 Months (Annual Percentage Change)***



Source: CBRT.

is partially indexed to past inflation but also to developments in administered prices. At end-2007, year-end inflation expectations for 2008 and 2009 were 6.01 and 5.17 percent, respectively.

2.2.3. Monetary Policy Implementations

The General Framework of the Inflation Targeting Regime

The explicit inflation-targeting regime, which was launched early 2006, continued to be implemented in 2007. The general operational framework of the inflation-targeting regime for 2006 was maintained to a large extent in 2007. However, in order to conduct a more effective communication and monetary policy, certain changes were made regarding the framework. These changes and the principles underlying the monetary policy implemented in 2007 were announced in the Governor's press release on "Monetary and Exchange Rate Policy for 2007" of December 13, 2006.

The main instrument of monetary policy is the short-term interest rates on the Interbank Money Market and on the Istanbul Stock Exchange Repo/Reverse Repo Market. Interest rate decisions continued to be taken in monthly meetings held in line with the pre-announced annual timetable. Interest rate decisions and the rationale of decisions were announced in a press release on the same day. In 2007, the English translation of this press release began to be published concurrently on the Bank's website. Moreover, the "Summary of the Monetary Policy Committee Meeting" that contains details of decisions and assessments made during the meetings started to be published with its English translation within eight working days following the meetings.

As another change to monetary policy implementations, the inflation forecasts revealed in Inflation Reports, which had previously covered a time span of one and a half years, started to cover a two-year period in 2007 in order to help economic agents predict the future more effectively. As a result of this adjustment, a new forecast horizon was designed to be comparable to the results of the Survey of Expectations, allowing an easier analysis and assessment of inflation forecasts.

The Inflation Report, which is published quarterly, continued to be the main communication tool of the Central Bank. Accordingly, Inflation Reports were published four times in 2007, in January, April, July and October. The reports include the latest trend in inflation, a comprehensive analysis on macroeconomic and financial developments, the Bank's inflation forecasts, risks to the future course of monetary policy, and the possible policy stance of the Bank in case the risks materialize. Another important tool of communication is the "Monthly Price Developments Report" which provides a better interpretation of monthly inflation data.

Inflation targets continued to be defined as the annual percentage change of the Consumer Price Index (CPI) in 2007 and the target horizon of 3 years was retained. Considering the structural transformation of the economy, the shift from

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

	2007			
	March	June	September	December
Upper limit of the uncertainty band	11.2	8.7	7.3	6.0
Path consistent with the target	9.2	6.7	5.3	4.0
Lower limit of the uncertainty band	7.2	4.7	3.3	2.0
Realizations	10.86	8.60	7.12	8.39

Source: CBRT

high inflation to low inflation and the convergence process to developed countries, the inflation target was set at 4 percent in the medium run. In this context, inflation targets for 2007 and 2008 were maintained at 4 percent, and the inflation target for 2009 was also set at 4 percent. Besides, in order to form a basis for the accountability mechanism, a quarterly path consistent with the year-end target for 2007 with an uncertainty band of 2 percentage points on both sides was announced (Table 3). This path has also been used, along with the Net International Reserves item, as a performance criterion in quarterly reviews within the scope of the stand-by program implemented with the International Monetary Fund (IMF). If inflation breaches the uncertainty band at quarter-ends, the Central Bank is obliged to publicize the "Open Letter" submitted to the Government disclosing the reasons for the deviation from the target and the measures that need to be taken for re-convergence to the target. As inflation did not breach the upper limit of the uncertainty band after three quarters, the accountability mechanism was not executed. However, at end-2007, inflation breached the upper limit of the uncertainty band, necessitating the CBRT to write an open letter to the Government and to communicate it to the public and to the IMF in the scope of IMF program conditionality.

Monetary and Exchange Rate Policy for 2008

The Central Bank will continue to perform inflation targeting and floating exchange rate regimes in 2008. In this respect, the main framework outlined for the monetary and exchange rate policy for 2007 was maintained for 2008 and shared with the public in the press release on "Monetary and Exchange Rate Policy for 2008" dated December 18, 2008.

4 ***Inflation Path Consistent With the Year -End-Target and the Uncertainty Band in 2008***

	2008			
	March	June	September	December
Uncertainty Band (Upper limit)	9.1	8.5	8.3	6.0
Path Consistent with the Target	7.1	6.5	6.3	4.0
Uncertainty Band (Lower limit)	5.1	4.5	4.3	2.0

Source: CBRT.

The frequent changing of an inflation target is considered to have potential adverse effects on inflation expectations and pricing behavior and to reduce the credibility of commitments made previously. Thus, the previous inflation target of 4 percent was left unchanged for 2008. The inflation target for 2010 was also set at 4 percent. The uncertainty band around the target was also kept at 2 points for 2008. The path consistent with the quarter-by-quarter target and the upper and lower limits of the uncertainty band around the path are given in Table 4.

If quarterly inflation rates lay outside the uncertainty band in the upcoming period, the Central Bank will submit open letters to the Government disclosing the reasons of the deviation and the measures already taken and to be taken for re-convergence to the target, and share them with the public. Besides, the Central Bank will use the Inflation Report to share its view pertaining to the outlook for inflation and monetary policy and the necessary measures to be taken to keep inflation close to the target. In addition to being the main communication tool of the Bank, the Inflation Report will, thus, assume an important role with respect to the accountability principle and become a complementary part of open letters.

Monetary Policy Implementations

Inflation developments in 2007 followed a consistent trend with the projections of the CBRT in general, which enabled the monetary policy to be implemented as scheduled at the beginning of the year.

Despite the general downward trend of inflation observed in the first eight months of 2007, the CBRT did not change policy rates until the end of August and kept them constant at 17.50 due to the rigidity of services inflation, the ongoing backward pricing behavior of economic agents, probable changes in global risk appetite, lagged effects of exchange rates, uncertainties regarding the monetary transmission mechanism and the risks related to the general pricing behavior posed by ongoing supply shocks. The fact that both inflation and inflation expectations displayed a downward trend indicates a tight monetary policy stance, which contributes to disinflation, notwithstanding constant policy rates.

The said monetary tightening helped to reduce total demand through sectors such as housing and other services despite rising public expenditures and strong external demand. Furthermore, turbulence in developed markets as of August increased the possibility of an earlier-than-expected slowdown in the global economy, which suggested that external demand conditions will also support disinflation in the future. This framework secured the necessary environment for reducing the degree of monetary tightening.

The continued contribution of total demand conditions to disinflation, supported by the lagged effects of strong monetary tightening, and the better-than-expected services inflation enabled the Central Bank to lower interest rates gradually starting from September. Despite the increase in inflation due to higher processed food and administered energy prices in the last months, the Central Bank perceived this increase as temporary and continued to reduce rates prudently. Nonetheless, as frequently emphasized by the bank, a cautious stance was still needed considering the risks of the effects of elevated food and energy prices on the general pricing behavior and the related rigidity in inflation expectations. Consequently, the Central Bank overnight borrowing rate was reduced by a cumulative 175 basis points from 17.50 to 15.75 percent in 2007 (Table 5). However, despite the reduction in policy rates, the current monetary policy stance still refers to a cautious level, supporting the downward trend in inflation.

Despite the significant deviation of inflation from the target due to a series of supply shocks in the last two years, both the 12-month and 24-month ahead inflation expectations displayed a declining trend.

Moreover, the improvement in inflation expectations was limited especially in the last quarter of 2007, largely due to the backward pricing behavior as well as the adjustments made or to be made in administered prices. Yet, the limited influence of November's price adjustments on medium-term inflation expectations indicate that inflation targets still serve as an anchor to a significant degree. On the other hand, medium-term inflation expectations are still above the inflation target of 4 percent, which necessitates a cautious policy stance.

5 ***Monetary Policy Committee Meeting Dates and Interest Rate Decisions in 2007***

Meeting Dates	Interest Rate	Interest
Jan 16, 2007	No change	17.50
Feb 15, 2007	No change	17.50
Mar 15, 2007	No change	17.50
Apr 18, 2007	No change	17.50
May 14, 2007	No change	17.50
Jun 14, 2007	No change	17.50
Jul 12, 2007	No change	17.50
Aug 14, 2007	No change	17.50
Sep 13, 2007	-0.25	17.25
Oct 16, 2007	-0.50	16.75
Nov 14, 2007	-0.50	16.25
Dec 13, 2007	-0.50	15.75

Source: CBRT

Exchange Rate Policy

The Central Bank continued the implementation of a floating exchange rate regime in 2007. In this regime, exchange rates are determined by supply and demand conditions in the market and the Central Bank does not have any exchange rate target. Yet, the Central Bank may intervene in the market through the direct purchase or sale in case of excess volatility or risks of excess volatility in foreign exchange rates. Besides, the Central Bank may also hold foreign exchange buying auctions to build up reserves. In order to minimize the pressure on supply and demand conditions in the foreign exchange market, the Central Bank has been conducting FX buying auctions, whose terms and conditions are announced with due notice, since 2005 and decided not to alter the program unless extraordinary differences are observed in foreign exchange liquidity.

The annual auction program for 2007 was announced in the press release of "The General Framework of Inflation Targeting Regime and Monetary and Exchange Rate Policy for 2007" dated December 13, 2006.

Accordingly, the maximum daily amount that can be bought was set at USD 45 million, with USD 15 million of auction amount and USD 30 million of optional selling amount (200 percent of the total amount sold). The Bank held FX buying auctions during January-July 2007 in accordance with the principles in the said press release.

In July 2007, positive expectations over macroeconomic policies fostered assumptions that capital inflow to Turkey would remain strong and the supply of foreign exchange would exceed the demand for foreign exchange. Therefore, in order to accelerate the reserve buildup, the daily auction amount was raised to USD 40 billion as of July 25, while the optional selling amount was raised to USD 80 million, and a related press release was announced. In this press release, it was also emphasized that the developments pertaining to foreign exchange supply will be closely monitored, and in the event of unforeseen developments, the daily auction/optional selling amounts might be changed with prior notice. In fact, in the following periods, the unfavorable developments in emerging housing and credit markets increased the volatility in many developing countries, including Turkey. Thus, the auction amount and the optional selling amount was lowered to USD 15 million and USD 30 million, respectively as of 15 August 2007, amounting to a maximum of USD 45 billion.

The measures taken by central banks to alleviate the problems in housing and credit markets reduced the volatilities in these markets and increased the global risk appetite, which led to strengthened capital inflows to Turkey and other developing countries. Therefore, the maximum amount to be purchased in auctions was set at USD 90 million, with USD 30 million for the auction amount and USD 60 million for the optional selling amount from October 9, 2007 onwards.

In 2007, there was no direct intervention in the foreign exchange market, but the total amount of foreign currency purchased via auctions amounted to USD 9.9 billion. Consequently, CBRT's gross foreign exchange reserves equaled USD 73.3 billion at the end of December 2007.

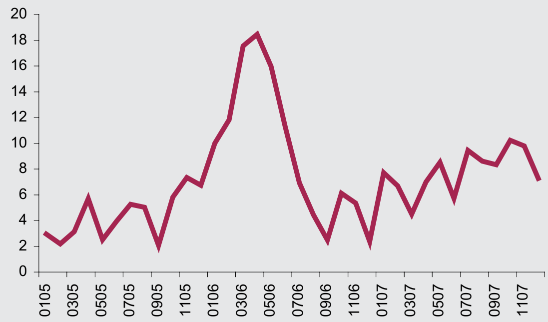
Liquidity Management

The excess liquidity sterilized in the overnight market showed an upward trend throughout 2007. The average daily excess liquidity of YTL 2.4 billion in the last quarter of 2006 soared to YTL 6.3 billion in the first quarter of 2007, mainly due to CBRT's renewed foreign exchange purchase auctions. Although the debt rollover ratio of the Treasury surpassed the projected level in early 2007, CBRT's continued foreign exchange purchase auctions led to a further increase in excess liquidity in other quarters. The average daily excess liquidity was YTL 7.2 billion, YTL 8.9 billion, YTL 9.2 billion, respectively, in the second, third, and fourth quarters of 2007 (Chart 13).

In view of these developments, in its meeting on July 12 2007, the Monetary Policy Committee reached the decision that Central Bank Liquidity Bills -in addition to the current tools used in open market operations- could be used to enhance the effectiveness of liquidity management when necessary. In this respect, the first 32-day liquidity bill was issued on July 19, 2007. The issue of liquidity bills continued with 40- and 30-day bills that were issued on August 23 and October 17, respectively. The last liquidity bill was issued on November 16 with a 61-day maturity.

Apart from the abovementioned factors, the increase in base money, the coupon and principle redemption by the Treasury to the Central Bank, and the Treasury's position as a net foreign exchange debt payer had a lowering effect on the level of liquidity, while the interest payments made by the Central Bank for reserve requirements and excess liquidity absorbing transactions, and the decline in the Treasury's cash accounts within the Central Bank put upward pressure on the level of liquidity in 2007.

13 **Open Market Operations (Net, Monthly Average, Billion YTL)**



Source: CBRT

2.3. FINANCIAL STABILITY DEVELOPMENTS AND OPERATIONS

Through the monetary policy decision-making process, Central Banks monitor the stability of the financial system as a whole, and assess the factors that pose a threat to the financial system and create systemic risks. It is of critical importance for Central Banks, which are in charge of payment systems and act as the monetary policy implementer and the lender of last resort, to monitor the financial system as a whole, to determine the factors that can impair financial stability and to take the necessary precautions thereof.

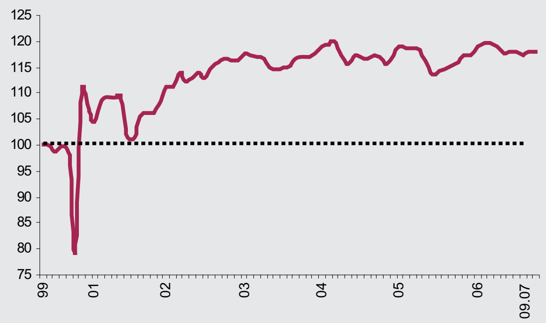
In view of financial developments, the Central Bank of the Republic of Turkey (the Bank) takes the necessary precautions to secure financial stability and in accordance with the principle of transparency, shares its assessments and underlines its warnings about the fragilities and risks regarding financial stability through the Financial Stability Report published twice a year. Within this framework, as announced by the Bank on December 13, 2006 in the "Monetary and Exchange Rate Policy for 2007", the Financial Stability Report was published on May 31 and November 30, 2007 and the English translations were published the following month.

The year 2007 was marked by concerns over the spillovers from the US subprime mortgage crisis into global liquidity conditions and financial stability. Meanwhile, the impacts of the turmoil remained limited in developing countries, including Turkey, owing to the lack of mature subprime mortgage markets and to the recent recovery in economic fundamentals.

The Turkish Banking Sector continued to grow in 2007 and the ratio of its aggregate balance sheet to GDP increased. Foreign investors' ongoing interest in the Turkish banking sector points to favorable expectations and indicates the sector's potential for growth.

The Financial Strength Index, which we closely monitor as an indicator of the soundness of the banking sector, remained at high levels throughout 2007.

14 **Financial Strength Index**



Source: BRSA, CBRT.

Although volatilities in global markets throughout 2007 were deeper and longer than those of 2006, the impact of these volatilities on the index was limited compared to the previous year, which is considered favorable in respect of financial stability.

Evaluations Concerning the Duties of the Bank Through Turkey's Financial Sector Assessment Programme

The Financial Sector Assessment Programme (FSAP) conducted jointly by the IMF and the World Bank, is a comprehensive assessment aimed at identifying the weaknesses by analyzing developments in the financial sectors of countries.

The Turkey-FSAP assessment started in 2005 under the coordination of the Undersecretariat of Treasury, with the contribution of all the institutions and agencies involved in the financial sector. Following the studies, the Financial System Stability Assessment Report (FSSA) containing an assessment regarding the Turkish financial sector was published on the IMF website [4]

The facts and recommendations regarding monetary policy implementations and payment systems that are in the sphere of duties of the Bank are outlined in this Report. According to the Report, in terms of monetary policy implementations, the level of transparency is considerably high, independency in the monetary policy making process and in respect of financing the public sector is secured, and the framework of relations between the Central Bank and the Government are well defined. Besides, the Report states that the timely release of Monetary Policy Committee decisions and of the extensive program of the publication of statistics and economic analyses helps to ensure that the stance of monetary policy is well understood and the culture of monetary policy transparency established by the CBRT seems to be well entrenched.

In the Report, the TIC-RTGS/ESTS and the cheque clearing system are considered to be systemically important payment systems.

The Report notes that, within the framework of its tasks relating to financial stability, the CBRT attaches great importance to promoting the security and efficiency of payment and settlement systems. It also states that systemically important payment systems are highly consistent with the core principles set out by the BIS-CPSS Committee; that

[4] http://imf.org/external/pubs/ft/scr/2007/cr07361.pdf

the payment and settlement systems are technically efficient and reliable and that they are supported by the appropriate regulatory framework and effective oversight. In addition, a sound legal framework is ensured regarding payment systems through CBRT Law, related circulars, regulations and other laws.

The Report highlights that regarding TIC-RTGS/ESTS systems, arrangements related to the intraday liquidity facility, queuing facilities with priorities and gridlock resolution mechanisms to reduce liquidity risk for participants are in line with international best practices. It also states that the security, operational reliability and standards of emergency arrangements are high and that participation in the payment systems is fair, objective and publicly available. Moreover, the report emphasizes that the readily available system information is sufficient to allow participants to fully understand the financial, operational, and reputational risks that they will be exposed to through participation in the TIC-RTGS/ESTS. Besides, it is noted that no unsettled transaction remains at day-end and that the CBRT is not exposed to credit risk, as the intraday liquidity facility is provided by the CBRT against collateral. TIC-ESTS/RTGS are also sufficient to meet the operational needs; and the system is secure and reliable.

The report considers that the cheque clearing system is functioning smoothly; that technological developments are introduced to the system to reduce the settlement cycle and a new system is implemented to facilitate image transfer. It also adds that the cheque clearing system is robust and operationally reliable and that it allows participants to manage liquidity and credit risks proactively.

In the FSAP assessment, while the monetary policy of the Bank and the implementations regarding the payments system are found to be in line with international guidelines to a large extent, it is emphasized that further improvements are necessary in some areas and specific policy recommendations are made therein.

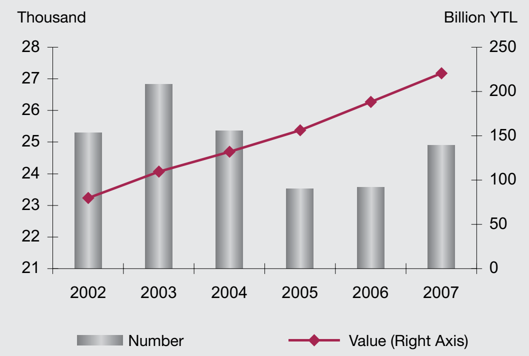
2.4. PAYMENT AND SETTLEMENT SYSTEMS AND CURRENCY IN CIRCULATION

2.4.1. Cheque-Clearing System

In order to minimize interbank cash transfers and develop the use of cheques in accordance with Cheque Law No. 3167 on "Arrangement of Payments by Cheque and Protection of Cheque Bearers", the CBRT is authorized to establish a system to settle cheques via the reconciliation of accounts in various branches of banks and oversee the implementation of this system. In addition to this, Article 55 of CBRT Law states that the CBRT shall supervise clearing-house transactions.

Within this context, the Interbank Clearing Houses Center (ICHC), which was established in compliance with the regulation issued by the Bank based on Law No. 3167, performs its activities in Ankara and Istanbul Clearing Houses subject to the oversight of the CBRT.

15 **Cheques Cleared in the Interbank Clearing Houses Center**



Source: ICHC.

In 2007, banks, which are involved in cheque clearing activities, processed almost all cheques that were subject to clearing in the Interbank Istanbul Clearing House.

The smooth and uninterrupted handling of the cheque clearing process, which plays a vital role with regard to payment systems, is of the utmost importance. Therefore, with the aim of enhancing the quality and efficiency of services offered, technological developments are immediately adopted and improvements are made to the existing software system, taking current needs into consideration.

2.4.2. Developments and Activities in 2007 Regarding Payment Systems

2.4.2.1. Monitoring and Reporting Payment Systems

In 2007, efforts were also made to examine and evaluate global changes and improvements related to payment systems.

Within this framework, the international payments systems that are particularly monitored are as follows:

- CLS: Developments are followed regarding the CLS system, which combine various RTGS payment systems worldwide and ensure the implementation of risk-free foreign currency settlements. As it was concluded that the YTL meets the required standards to be included in CLS following the amendments to the CLS participation criteria, a non-disclosure agreement was signed with CLS, and efforts towards including the YTL within CLS were initiated. Moreover, a meeting coordinated by the Banks Association of Turkey with the participation of the banks was held to evaluate the situation. Studies within this context are also planned for 2008.
- SWIFT: Developments relating to SWIFT and message standards were monitored.
- TARGET2: Studies relating to TARGET2 and Target2 Securities systems related to the former were monitored.
- SEPA (Single Euro Payments Area): Developments were monitored regarding the Single Payments Area, which is planned to be established within the euro area.

2.4.2.2. Revision of the TIC-RTGS&ESTS Center Platform

Efforts were initiated towards renewing the software and hardware platforms of TIC - RTGS & ESTS central systems in 2007.

With this regard,

- New hardware was selected via a tender, delivered and installed.
- Efforts were made to ensure the compatibility of TIC - RTGS & ESTS central application software with the new hardware.
- Studies to adapt the various operating and reporting programs on TIC-RTGS&ESTS central systems to the new platform were completed.

The new platform is planned to be launched in the first half of 2008.

2.4.2.3. Regional Payment Systems Workshop

The Regional Payment Systems Workshop, which has been jointly organized by the Bank for International Settlements (BIS) and the Committee on Payment and Settlement Systems (CPSS) since 2001, was held on 13-16 June 2007 in Ankara.

Various speeches and country presentations were given at the workshop on the following topics: retail payment systems and the Single Euro Payments Area (SEPA), business continuity planning in payment systems, the latest CPSS studies on large-value payment systems, pricing of central bank payment services, use of securities settlement systems by central banks, settlement of foreign exchange transactions, international remittance services, the central banks' role in the oversight of payment systems.

2.4.2.4. Publication of the Book ''Payment Systems in Turkey"

The necessary work has been carried out in order to update and re-publish the book "Payment Systems in Turkey", which was prepared by the Payment Systems Division of the CBRT and published as a BIS-CPSS publication in 2000.

In the framework of the said efforts, the sections introducing each payment system and payment instruments were prepared in view of the developments after the first publication of the book, and statistical tables regarding payment systems were prepared through the compilation of these data.

The second edition of the book ("Payment Systems in Turkey") was published in June 2007. A copy of the book is available on these websites: http://eft.tcmb.gov.tr/pdf/Turkey-RedBook.pdf- and www.bis.org/publ/cpss80.htm.

2.4.2.5. Changes in TIC-RTGS&ESTS Messages

The KRED-SWIFT message, which was developed upon the request of the TIC-RTGS&ESTS Operation Working Group of the Banks Association of Turkey, was put into operation in December 2007. The aim of the new message is to transmit messages coming from SWIFT to the receiver through full automation.

2.4.2.6. Adaptation of the Participant Relay Software to the New Platform

FASTWIRE application software, which has been used by the participant systems of the TIC-RTGS&ESTS, was adapted to HP Integrity servers as a result of the suspension of the production and sale of HP Alpha Server (hardware) hosting the software. Negotiations with the producer company are ongoing in this respect. A joint project with LogicaCMG, the producer of the software, was launched in order to adapt the software to HP Integrity servers.

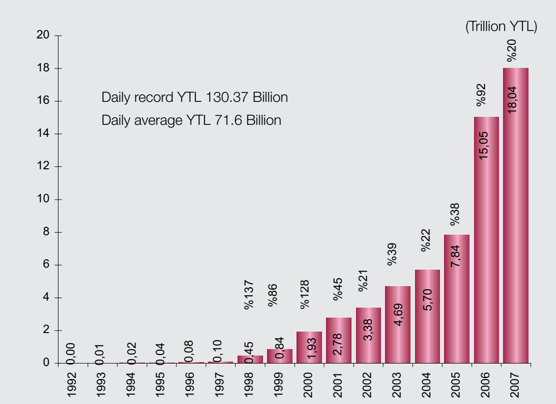
2.4.2.7. Usage Statistics of the TIC-RTGS&ESTS

The number of messages and the volume of money passing through TIC-RTGS&ESTS are increasing annually. The yearly total amount was YTL 18.04 trillion in 2007. The average daily amount of transactions reached YTL 71.6 billion at end-2007.

The number of transactions conducted in the system was 107.2 million in 2007. The daily number of transactions hit a peak of 912,359 on December 17, 2007. The average daily number of messages was 425,517 in 2007.

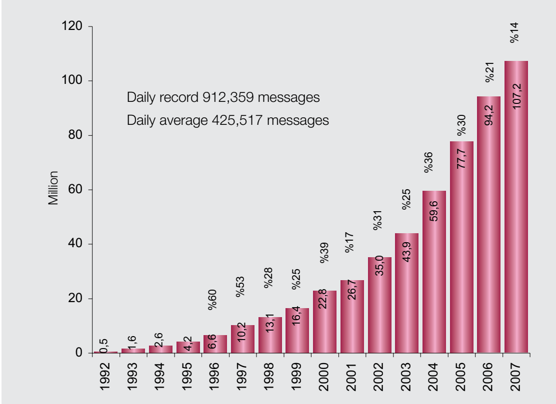
The number of participants in TIC-RTGS&ESTS was 48 as of end-2007.

16 Total Value of Payments in TIC-RTGS&ESTS



Source: CBRT

17 Total Number of Messages in TIC-RTGS&ESTS



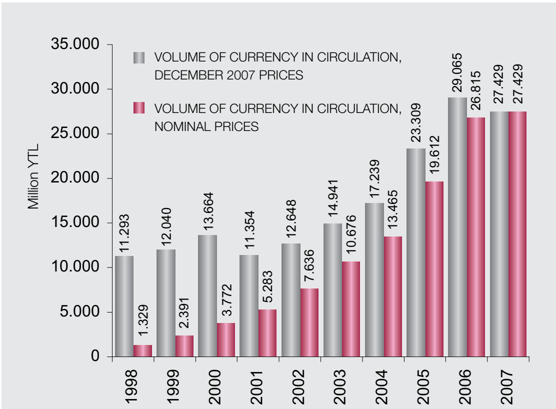
Source: CBRT.

2.4.3. Currency in Circulation

By the end of 2007, the volume of currency in circulation increased by 2.3 percent annually, reaching YTL 27.4 billion. This slight increase was mainly driven by the rise in the volume of currency in circulation during the period prior to the Feast of Sacrifice, celebrated on December 31, 2006. A comparison between November 2006 and November 2007 indicates that this rate was realized as 20.3 percent.

The real volume of currency in circulation declined in comparison to 2006 because of a slight rise in the nominal volume of currency in circulation (Chart 18).

18 Volume of Currency in Circulation (Real and Nominal, 1998-2007)



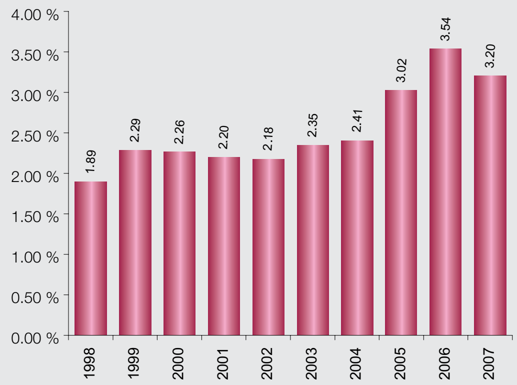
Source: CBRT.

The ratio of Currency in Circulation to GDP was realized as approximately 2.2 percent between the years 1998-2001. Meanwhile, between 2002-2007, as a consequence of the substantial elimination of economic uncertainties, this ratio reached 3.2 percent by the end of 2007, boosted by the robust growth performance (Chart 19).

Excluding TL banknotes, which are still in the redemption period, 779.8 million banknotes were in circulation as of December 31, 2007.

By the end of 2007, excluding TL notes, YTL 50 had the largest share in both volume and value in circulation. The share of the largest 2 denominations (YTL 50 and 100) in the total reached 46.2 percent in units and 81.8 percent in value.

19 Currency in Circulation / GDP



Source: CBRT.

6 Banknotes in Circulation (as of December 31, 2007)*

Denomination (YTL)	Amount	Shape (Percent)	Pieces	Shape (Percent)
100 YTL	8,486,001,250.00	31.2	84,860,012.50	10.9
50 YTL	13,782,587,675.00	50.6	275,651,753.50	35.3
20 YTL	3,191,314,700.00	11.7	159,565,735.00	20.5
10 YTL	1,205,215,040.00	4.4	120,521,504.00	15.5
5 YTL	554,624,920.00	2.0	110,924,984.00	14.2
1 YTL	28,251,647.00	0.1	28,251,647.00	3.6
TOTAL	27,247,995,232.00	100.0	779,775,636.00	100.0

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

In 2007, a total transaction of YTL 215.8 billion, (YTL 107.6 billion deposits vs. YTL 108.2 billion payments), was realized through 21 branches, 13 banknote depots and the cash center.

Moreover, in 2007, YTL 10.9 billion deposits and YTL 11.5 billion payment transactions were made in banknote depots, which are established (in 13 cities) where the CBRT does not have branches, in an objective to improve banknote quality and to meet the various cash demands of the market on time. In other words, almost 10.4 percent of the Bank's total transaction volume in 2007 was made through the banknote depots.

The Cash Center, which operates on the Anatolian side of Istanbul, had a share of 8.8 percent in total transaction volume with YTL 19 billion, and ranks fourth among all branches.

2.5. FOREIGN EXCHANGE RESERVE AND RISK MANAGEMENT

The Central Bank holds foreign exchange reserves in support of a range of objectives which include assisting the Turkish Government in meeting its foreign exchange denominated domestic and foreign debt obligations, maintaining foreign exchange liquidity against external shocks, supporting monetary and exchange rate policies and providing confidence to the markets. The legal basis for the Central Bank's reserve management practices derives from Central Bank Law No. 1211. (Law). Additionally, legislation, guidelines and decisions taken by the Board, which are based on the authority given by the Law, constitutes the other basis of the foreign exchange and gold reserve management practices.

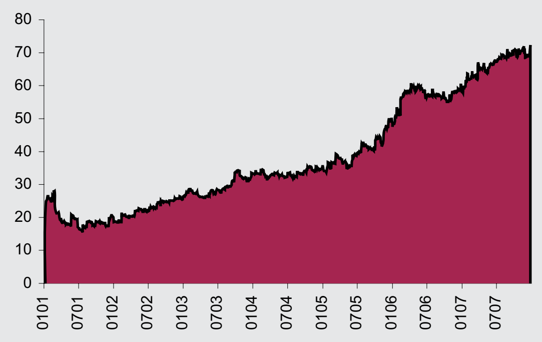
The institutional decision making framework of reserve management has a three-tier hierarchical structure. The Board, as the top decision making authority of the Central Bank, determines the general investment criteria for reserve management by approving the Guidelines for Foreign Exchange Reserve Management, which is prepared in accordance with the reserve management priorities set by the Law as security, liquidity and return, respectively and authorizes the Executive Committee and the Foreign Exchange Risk and Investment Committee (FXRIC) to take decisions regarding implementation. The decisions made by the Executive Committee and FXRIC in accordance with the Guidelines for Foreign Exchange Reserve Management approved by the Board constitute the second-tier of the institutional decision making process. At this stage, the Strategic Benchmark (SB), which reflects the general risk tolerance and investment strategy of the Bank, is determined and approved. According to the strategic asset allocation preferences of the Bank, the SB is determined by the FXRIC on each year-end to be implemented in the following year and becomes effective by the approval of the Executive Committee. The last tier of the institutional decision making process is the implementation of the reserve management practices within the limits specified by the Guidelines and the SB. The reserve management activities are carried out within an organizational structure formed in accordance with the separation of duties principle. Accordingly, reserve management activities are performed by the Foreign Exchange Transactions Division whereas risk management relating to reserve management operations is carried out by the Foreign Exchange Risk Management Division.

Based on the objectives and limits set by the Guidelines and the SB, reserve management operations are carried out through spot and forward purchases and sales of foreign exchange in international markets, time deposit transactions, purchase and sale of securities, repo and reverse repo transactions, securities lending transactions, derivative instruments for risk management purposes, export and import of foreign exchange banknotes, foreign exchange banknote shipments in the country among the local branches.

The gold reserves of the Central Bank, which are of international standards, are managed within the regulations and constraints stated in the Law and the Guidelines set by the Board. Pursuant to these Guidelines, the Central Bank may conduct outright purchase and sale transactions, demand or term gold deposit transactions and gold swap transactions.

The control of risks that the Central Bank is exposed to during reserve management operations starts

20 *Foreign Exchange Reserves of CBRT (Billion USD)*



Source: CBRT.

at the strategic assets allocation process; in other words, when defining the SB. Once the currencies and instruments to be used in reserve management and the duration target for the investments are set, it means that the expected return and financial risks involved in reserve management are, to a great extent, also determined. Reflecting the Bank's preferences regarding strategic asset allocation, the SB consists of the target currency composition, duration targets and related deviation limits from these targets, the size and number of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing permissible transaction types, countries and instruments to invest in. While determining the SB, the aim is to ensure that an adequate return is obtained while observing capital preservation and liquidity constraints to devote the utmost importance to the prudent management of foreign exchange reserves, hence the national wealth of the country. After the overall acceptable risk level is defined with respect to the Central Bank's risk tolerance through the SB, the existing risks are measured, recorded and monitored regularly.

In brief, reserve and risk management practices have been performed in line with contemporary practices by taking into account the Central Bank's own requirements, theoretical and technical progress in reserve and risk management practices together with the developments in international economic and financial markets.

2.6. EUROPEAN UNION HARMONIZATION ACTIVITIES

The "screening process", which is mainly oriented towards determining the extent of harmonization of national legislation with the legal arrangements of the EU and constitutes the first stage of the negotiation process embarked on with the European Union (EU) on 3 October 2005, was completed on 13 October 2006. The CBRT was directly and indirectly included in the screening studies of 12 chapters. (Table 7)

Following the screening process, within the scope of harmonization with the EU acquis, a study was launched to determine in detail the steps to be taken by the relevant institutions and establishments in the coming period. The study titled "Turkey's Program for Alignment with the Acquis (2007-2013)" includes information regarding the appropriate legal arrangements, the aim and scope thereof, the progress, which has been made, the timetable for execution and the institution in charge for every chapter. The Bank contributed to the "Free Movement of Capital", "Financial Services" and "Economic and Monetary Policy" chapters within the scope of the Alignment Program, which was made public on 17 April 2007.

At the Intergovernmental Conference, which was held on 29 March 2007, two criteria were introduced in order for the "Free Movement of Capital" chapter to be opened to de facto negotiations. These were "formulating a comprehensive strategy for the capacity to align with and implement the acquis" and "drawing up a detailed action plan for legal alignment and its implementation regarding the struggle against money laundering". The strategy

7 *CBRT-Attended Chapters of EU Screening Process*

Directly Related Chapters		Indirectly Related Chapters	
4	Free Movement of Capital	2	Free Movement of Workers
9	Financial Services	6	Company Law
17	Economic and Monetary Policy	16	Taxation
18	Statistics	19	Social Policy and Employment
32	Financial Control	28	Consumer and Health Protection
33	Financial and Budgetary Provisions	30	External Relations

and the action plan to be drawn up aim to determine, in a comprehensive and concrete way, which institutions will achieve the harmonization of Turkish legislation with the acquis via what kind of legal and administrative arrangements and within what timeframe. The CBRT also participated in efforts towards establishing a "Strategy and Action Plan for Turkey" within this context.

In the scope of alignment with the EU acquis, during the process of drafting the "position papers", which reveal the current status of Turkey and contain information about achieving full compliance, the Bank contributed to the preparation of the sections "Economic and Monetary Policy", "Statistics" and "Financial Control". Of these, the sections "Statistics" and "Financial Control" were opened to de facto negotiations at the Intergovernmental Conference held on 26 June 2007.

Council negotiations regarding "Financial and Budgetary Provisions", which directly concern the Bank, continued in 2007. The section "Financial Services" is among those which, at its meeting held on 14-15 December 2006, the Council of the European Union decided to "suspend de facto negotiations until Turkey fulfills her obligations regarding the Greek Republic of Southern Cyprus".

2.7. COMMUNICATIONS POLICY AND ACTIVITIES

The Central Bank of the Republic of Turkey (CBRT) considers an effective communications policy to be a sine qua non for its current policies. In this scope, the communication policy was implemented in 2007 with the aim of enhancing the effectiveness of monetary policy and managing expectations in accordance with the main principles of transparency, accountability, integrity, consistency and neutrality.

Pursuant to Article 42 of the Law on the Central Bank of the Republic of Turkey and as a requisite of the principle of accountability, Governor Durmuş Yılmaz gave presentations on economic outlook, and monetary and exchange rate policy implementations at the Council of Ministers on May 21 and November 12, 2007 and to the Planning and Budget Commission of the Turkish Grand National Assembly on May 22 and December 27, 2007.

With inflation reaching 9.65 percent in 2006, breaching the 7 percent-upper limit of the uncertainty band announced as the year-end inflation target, the CBRT, under the principle of accountability, provided the Government and the public with the reasons for the deviation and the evaluation of future developments on January 22, 2007 in an "open letter".

Since 2000, the balance sheet, and the income/expense statements of the CBRT have been subject to independent audit and the results of the audits have been announced to the public in a report. The said report, an important indicator of transparency, was published in March 2007 and disclosed to the general public on the CBRT website.

In 2007, within the framework of the inflation targeting regime, the CBRT continued to announce the decisions of the Monetary Policy Committee (MPC) on short-term interest rates and summaries of MPC meetings via press releases on its website in 2007. An important change to press releases in 2007 is that MPC decisions are published simultaneously with their English translations. Besides, from 2007 onwards, the texts, which were called "Summary of the Monetary Policy Committee Discussions", started to be published under the title of "Summary of the Monetary Policy Meeting" simultaneously with their English translations within the eight working days following the meeting.

The CBRT has continued to release the "Monthly Price Developments" report, which is published in order to ensure a better understanding of monthly inflation data in a press release within two working days following the announcement of Inflation figures.

Inflation Reports, which are among the main policy documents, were presented at press conferences by the Governor on January 29, April 27, July 27 and October 26, 2007. The medium term projections and numerical inflation forecasts, which were presented in the Report in such a way so as to cover inflation data for the next one and a half years throughout 2006, have been adjusted to cover the next two year-period. The change aims to provide economic agents with an opportunity to make decisions with a longer-term perspective, thus foreseeing future developments more clearly.

The CBRT, which also aims to maintain financial stability as an auxiliary objective along with its main objective of price stability, released the Financial Stability Report on May 31, 2007 and November 30, 2007 in accordance with its pre-announced calendar of data release and shared its opinions about the financial sector and banking sector with the general public.

In addition to the Inflation Report and the Financial Stability Report, the CBRT publishes various studies and reports.

In 2007, the CBRT published working papers relating to the profitability of the manufacturing industry, structure of public debt stock, exchange rates, monetary transmission mechanism, pass-through effect, financial structure of the real sector, and external shocks and monetary policies in high dollarization countries.

Meanwhile, with the aim of raising public awareness about banknote counterfeiting, the CBRT released a booklet titled “General Information on Banknote Counterfeiting” in cooperation with the related institutions. The Turkish version of the booklet is available on the CBRT website.

In 2007, the CBRT continued to inform the public about its policy implementations, its institutional structure and publications via the quarterly “Bulletin” which was first released in 2006. The Bulletin, which is distributed both in Turkey and abroad, is also accessible on the CBRT website.

In 2007, within the framework of the direct communications policy of the Bank, the Governor continued to give various speeches and presentations introducing the policies and implementations of the Bank and analyzing current economic developments, both within the country and abroad. Moreover, at conferences held by non-governmental organizations such as the chambers of commerce and industry of Bursa, Uşak, Gaziantep and Erzurum open to the press in the presence of non-governmental organizations, presentations were made on the economic outlook, and monetary and exchange rate policy. Likewise, briefings were given to media representatives and the economics editors of newspapers. Speeches delivered by the Governor and videos of some of his speeches are available on the CBRT website. In 2007, the presentations and speeches given by members of the Monetary Policy Committee and top executives of the Bank were also published on the CBRT website.

As in 2006, informative meetings were held within the bank and 215 students were informed about the history, policies and career opportunities and 1,345 students were accepted as trainees at the request of universities in 2007.

In addition, the CBRT continued the financial aid efforts within the context of the Financial Support Program for Academic Studies in 2007 and various universities and institutions were provided with financial support through 12 activities. Further information regarding the program is available on the CBRT website.

Similarly, presentations were made to central banks of other countries about the organizational structure, monetary policy implementations, the Turkish economy and the promotional campaign for the New Turkish lira and the mutual exchange of information was made.

The CBRT also continued to utilize its website as an efficient means of communication in 2007. In this context, the “Frequently Asked Questions” were updated. Besides, within the framework of studies on the Official Statistics Program (2007-2011) prepared by the Turkish Statistical Institute, the “Data Release Calendar” with dates of publication of the data by the CBRT was added to the website. Moreover, the "Housing Loans Index" was added to the quick links menu on the main page. Additionally, the link of "Human Resources" enabled users to access information regarding the training policy of the CBRT, terms of references and career opportunities, conditions to be accepted for training and details about applications for training.

In 2007 the CBRT also continued to respond to the requests for information, which were directed by BIMER (the Communication Center of the Prime Ministry) through the electronic mail address iletisimbilgi@tcmb.gov.tr, aimed at ensuring communication with persons, institutions and establishments outside the Bank pursuant to "the Law on access to Information".

Within the scope of the activities for the 75th anniversary of the Bank, Jean-Claude Trichet, the European Central Bank President, participated in the international conference, which was organized in Ankara on 1 June 2007 and delivered a speech titled "Charting a New Global Landscape: The Growing Impact of Emerging Markets on the World Economy". The conference hosted several central bank governors and top officials from various countries, foreign mission representatives, national and international think tanks, financial sector, mass media organizations and participants from universities.

Another activity among the 75th anniversary activities was the exhibition of "Republican Period Banknotes", arranged in cooperation with the Museum of Anatolian Civilizations. The exhibition was open to visitors from 23 May to 15 June 2007 and featured samples of banknote manufacturing techniques and preliminary drafts in addition to all banknotes published during the Republican Period. Some sections of the exhibition gave visitors the chance to examine features of banknotes in detail and several special and unique objects employed in banknote printing were presented, probably for the first time, to the public. Nearly 25,000 people visited the exhibition.

Furthermore, several meetings were held in order to enhance the efficiency of the CBRT on international platforms and to contribute to the promotion of its policy implementations. Within this scope, the European Summer Symposium in International Macroeconomics (ESSIM) was held between 14 and 19 May 2007 in İzmir, hosted by the CBRT with the participation of Turkish and foreign academicians along with CBRT officials. "Monetary Policy, Labor Markets and Growth" were addressed at the symposium. Meanwhile, issues of "Monetary Policy, Public Investments, Capital Flows and Values of Assets" were discussed by foreign academics and officials from the CBRT at the International Seminar on Macroeconomics (ISOM), which was held in İstanbul between 15 – 16 June 2007. Additionally, the G-20 Workshop regarding "Fiscal Policy and Growth" was organized in İstanbul from 1 – 2 July 2007.

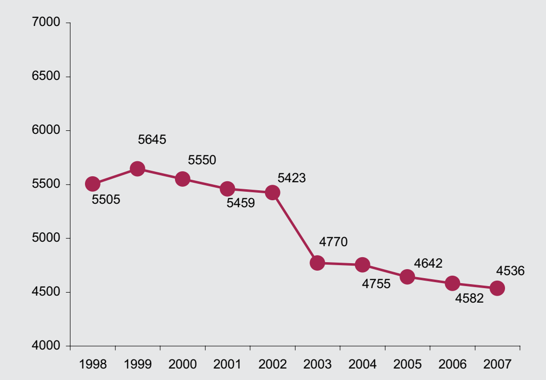
In 2007, as in previous years, various publications, press releases and the governor's remarks and presentations were translated into English and published on the CBRT website in order to keep the international audience informed of policies implemented by the CBRT.

Nejad Melih Devrim
"Garden of Plants"
1948, Oil on Canvas, 145x115 cm.

3. HUMAN RESOURCES AND ADMINISTRATIVE AND SOCIAL AFFAIRS

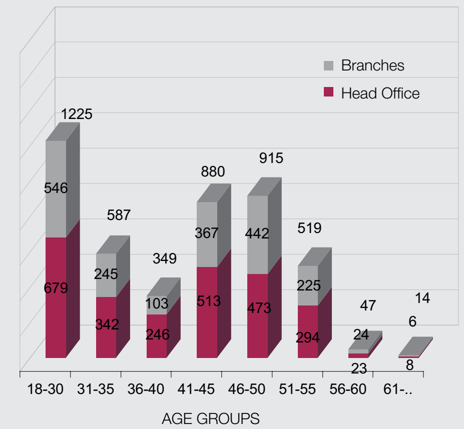
3.1. STAFFING

21 **Number of Employees Between 1997-2007**



Source: CBRT.

22 **Age Distribution of Employees**



Source: CBRT.

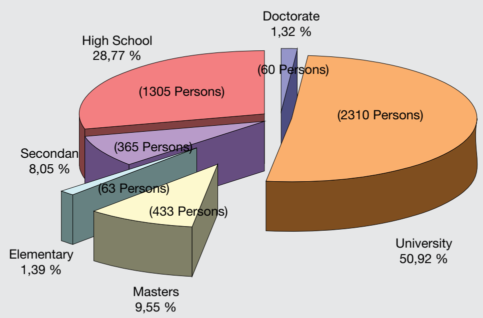
As at end-2007, the total number of CBRT staff positions stands at 5,179. The number of staff employed is 4,536 and the occupancy rate is 87.58 percent.

238 staff members have ceased employment due to retirement, resignation, dismissal, transfer or death, while 149 employees have been recruited as economists, engineers, visual designers, translators, assistant computer specialists, operators, cash processors, filing clerks, secretaries, security officers, counting operators, technicians, cooks due to the excess workload of some departments. Besides, 38 staff members, who had left the Bank for their military service, have returned. Consequently, the actual number of staff members by the end of the year was reduced by 46 to 4,536 compared to 2006 (Chart 21).

The distribution of the CBRT staff is as follows: 66.16 percent are represented by general administrative services, 8.31 percent by assistance services, 6.44 percent by support services (medical, technical, legal) and 19.09 percent by contract personnel.

56.83 percent of the CBRT staff work at the head office, while 43.17 percent work in the branches. Based on age distribution of the staff, 39.57 percent of our personnel fall in the age range of 41-50 years. On the other hand, the percentage of personnel with bachelors, masters and doctorate degrees equals 61.79 percent (Charts 22 and 23).

23 **Educational Distribution of Employees**



Source: CBRT.

3.2. TRAINING

In 2007, a total of 6,330 persons benefited from training activities organized by the CBRT.

The number of participations in the training activities held within the bank on “Banking and Central Banking Training”, “Job Training”, “Management Training”, “General Purpose Training”, was 3,998.

385 members of staff participated in short-term training activities of other institutions held in Turkey, while 279 participated in training activities abroad. 117 employees, 26 of whom had been newly enrolled, studied for Masters/PhD in Turkey, while 68 employees, including 21 newly enrolled, studied for Masters/PhD abroad.

Moreover, 20 members of staff were assigned as lecturers/speakers in training activities of other institutions. In 2007, 1,345 university students benefited from internship programs in related departments of the CBRT. In addition, 138 people from a variety of foreign institutions attended training activities organized by the Bank.

3.3. RECREATION, ART AND SPORTS

The Exhibition of “Contemporary Turkish Painting from the Art Collection of the Central Bank of the Republic of Turkey” was held from October 21, 2007 to January 18, 2008 at the Art Gallery of the Federal Reserve Bank in Washington, D.C, during the IMF/ World Bank annual meetings. A special catalogue containing the development of Contemporary Turkish Painting, information about the exhibited works of art and biographies of the artists was published as a memento of the occasion.

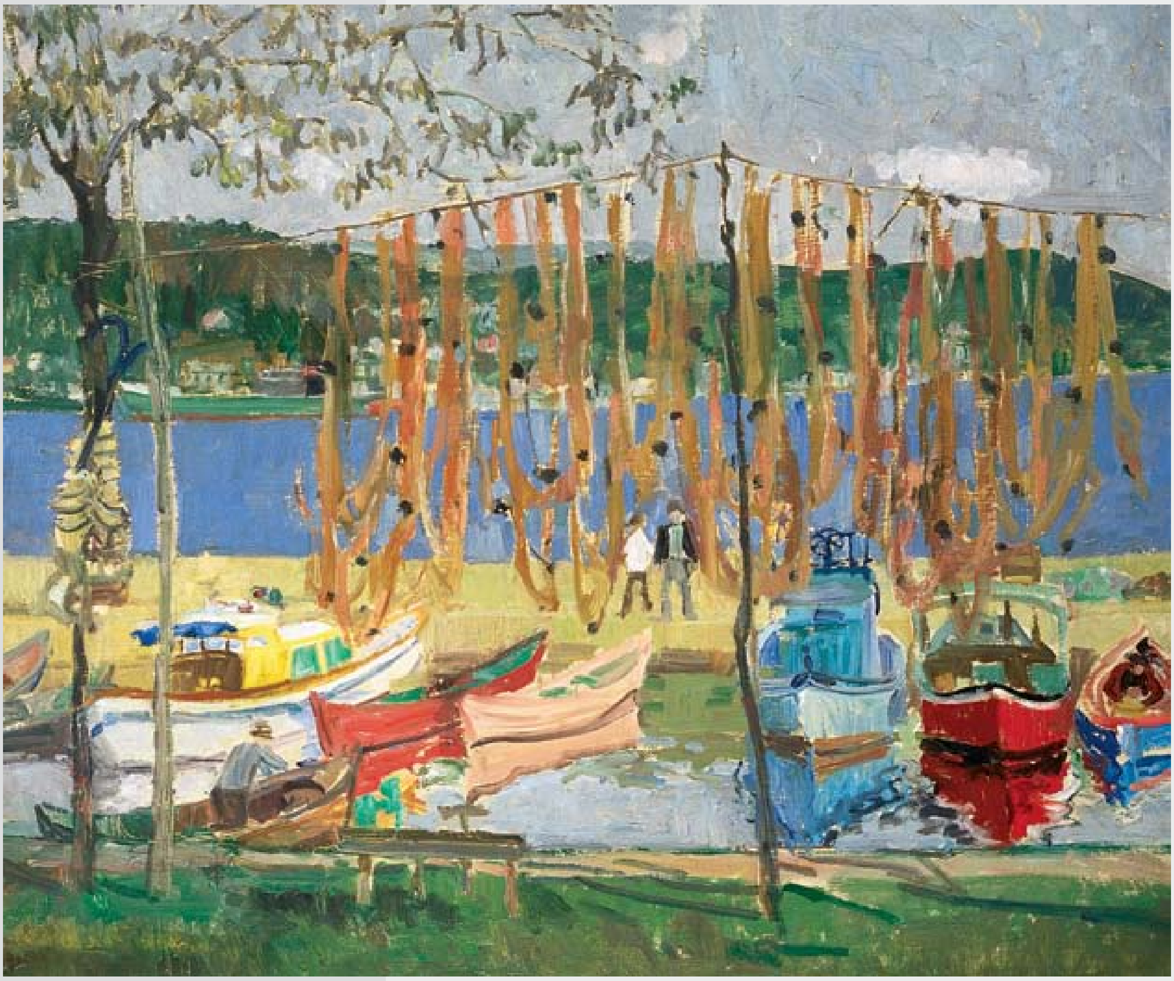
Governor Durmuş YILMAZ
Exhibition of “Contemporary Turkish Painting”

As UNESCO declared 2007 “the Year of Mevlana” to mark the 800th anniversary of his birth, within the scope of cultural activities, our Bank organized the concert “From the Heart of Mevlana” performed by the Symphonic Project and Turkish Music Orchestra with the soloist Ahmet Özhan, accompanied by whirling dervishes and realized the production of a single CD embracing the first eighteen couplets of the musical work “Return” translated into contemporary Turkish.

Apart from the exhibitions held at the CBRT’s Art Gallery, selected works of art from the Central Bank Art Collection were exhibited in Ankara and İzmir to celebrate the 75th anniversary of the bank and as part of a series of nationwide exhibitions.

In regards with sporting activities, the Central Bank of the Republic of Turkey hosted a Tennis Tournament in Antalya, which was attended by employees from European central banks and international organizations, and an Interbank Chess Tournament in Ankara, with the participations of local banks. Moreover, the CBRT teams attended tournaments in Germany (chess), Italy (bridge) and Hungary (football), which were organized by central banks that are members of the Sports and Cultural Associations of the European Central Banks. Also, the table tennis team attended the third Central Banks’ Tournament hosted by the Central Bank of Romania.

Furthermore, the Hasanoğlan Memorial Forest was afforested by the contribution of our employees and in cooperation with the Ministry of Environment and Forestry.



Hasan Hulusi Mercan
“Fishermen at Kireçburnu”
1979, Oil on Duralite, 75x90 cm.

4. FINANCIAL STATEMENTS

4.1. COMPARATIVE FINANCIAL STATEMENTS OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

4.1.1. Comparative Balance Sheets

ASSETS	31.12.2006 (YTL)	31.12.2007 (YTL)	Change (YTL)
I. Gold	3,427,102,716	3,736,492,002	309,389,286
A. International Standard	3,335,423,279	3,636,779,885	301,356,606
B. Non-International Standard	91,679,437	99,712,117	8,032,680
II. Foreign Exchange	85,618,500,266	85,392,445,374	(226,054,892)
A. Convertible	85,618,499,360	85,392,444,485	(226,054,875)
a. Foreign Banknotes	369,526,582	324,235,721	(45,290,861)
b. Correspondent Accounts	85,009,416,123	84,860,059,946	(149,356,177)
c. Reserve Tranche Position	239,556,655	208,148,818	(31,407,837)
B. Non-convertible	906	889	(17)
a. Foreign Banknotes	906	889	(17)
b. Correspondent Accounts	-	-	-
III. Coins	68,450,275	71,158,613	2,708,338
IV. Domestic Correspondents	-	-	-
V. Securities Portfolio	22,309,872,550	16,926,939,462	(5,382,933,088)
A. Government Securities	22,309,872,550	16,926,939,462	(5,382,933,088)
a. Bonds	20,638,673,549	16,926,939,462	(3,711,734,087)
b. Treasury Bills	1,671,199,001	-	(1,671,199,001)
B. Other	-	-	-
VI. Domestic Credit	755,447	374,247	(381,200)
A. Banking Sector	755,447	374,247	(381,200)
a. Rediscount	755,447	374,247	(381,200)
b. As per Art 40/c of Law No.1211	-	-	-
c. Other	-	-	-
B. Credit to SDIF	-	-	-
VII. Open Market Operations	3,514,337,947	-	(3,514,337,947)
A. Repurchase Agreements	3,514,337,947	-	(3,514,337,947)
a. Cash			
i. Foreign Exchange	-	-	-
ii. Securities	3,512,337,947	-	(3,512,337,947)
b. Securities	2,000,000	-	(2,000,000)
B. Other	-	-	-
VIII. Foreign Credit	43,350,368	32,621,431	(10,728,937)
IX. Share Participations	21,279,622	18,492,709	(2,786,913)
X. Fixed Assets	282,550,193	278,808,897	(3,741,296)
A. Buildings and Buildings Sites	313,988,975	316,361,074	2,372,099
Depreciation Allowance for Real Estate (-)	(45,957,955)	(52,297,139)	(6,339,184)
B. Furniture and Fixtures	78,107,299	83,159,989	5,052,690
Depreciation Allowance for Furniture and Fixtures (-)	(63,588,126)	(68,415,027)	(4,826,901)
XI. Claims under Legal Proceedings (Net)	-	-	-
A. Claims under Legal Proceedings	1,961,971,427	1,709,292,069	(252,679,358)
B. Provision for Past-Due Receivables (-)	(1,961,971,427)	(1,709,292,069)	252,679,358
XII. Treasury Liabilities Due to SDR Allocation	238,562,529	207,285,030	(31,277,499)
XIII. Revaluation Account	1,243,948,118	4,710,586,605	3,466,638,487
XIV. Accrued Interest and Income	12,508,294	9,359,149	(3,149,145)
XV. Miscellaneous Receivables	28,399,972	40,016,093	11,616,121
XVI. Other Assets	19,432,566	25,889,308	6,456,742
TOTAL	116,829,050,863	111,450,468,920	(5,378,581,943)
REGULATING ACCOUNTS	578,630,387,893	608,753,034,299	30,122,646,406

LIABILITIES	31.12.2006 (YTL)	31.12.2007 (YTL)	Change (YTL)
I. Currency Issued	26,815,150,603	27,429,388,907	614,238,304
II. Liabilities to Treasury	278,355,462	247,334,916	(31,020,546)
A. Gold	9,927,654	10,824,620	896,966
B. Reserve Tranche Means	239,556,655	208,148,818	(31,407,837)
C. Other (Net)	28,871,153	28,361,478	(509,675)
III. Foreign Correspondents	1,017,618	852,105	(165,513)
A. Convertible	1,017,618	852,105	(165,513)
B. Non-Convertible	-	-	-
IV. Deposits	76,442,368,880	74,006,065,587	(2,436,303,293)
A. Public Sector	19,349,803,743	14,880,394,463	(4,469,409,280)
a. Treasury, General and Special Budget Administrations	19,173,610,200	14,712,594,654	(4,461,015,546)
b. Public Economic Institutions	12,104	91	(12,013)
c. State Economic Enterprises	75,111,732	69,696,928	(5,414,804)
d. Other	101,069,707	98,102,790	(2,966,917)
B. Banking Sector	33,758,304,648	38,593,990,789	4,835,686,141
a. Free Deposits of Domestic Banks	20,890,224,385	25,453,523,968	4,563,299,583
b. Foreign Banks	7,555,706	8,529,253	973,547
c. Required Reserves (Central Bank's Law. Art 40)	12,860,344,528	13,131,517,999	271,173,471
i. Cash	12,860,344,528	13,131,517,999	271,173,471
ii. Gold (Net Grams)	-	-	-
d. Other	180,029	419,569	239,540
C. Miscellaneous	22,367,281,698	18,690,434,592	(3,676,847,106)
a. Foreign Exchange Deposits By Citizens Abroad	22,297,641,634	18,635,507,722	(3,662,133,912)
b. Other	69,640,064	54,926,870	(14,713,194)
D. International Institutions	5,802,113	6,046,296	244,183
E. Extrabudgetary Funds	961,176,678	1,835,199,447	874,022,769
a. Saving Deposit Insurance Fund	13,935,523	13,801,697	(133,826)
b. Other	947,241,155	1,821,397,750	874,156,595
V. Liquidity Bills	-	993,710,000	993,710,000
VI. Open Market Operations	5,913,955,754	2,917,500,000	(2,996,455,754)
A. Repurchase Agreements	3,502,005,754	-	(3,502,005,754)
a. Cash	-	-	-
i. Foreign Exchange	-	-	-
ii. Securities	-	-	-
b) Securities	3,502,005,754	-	(3,502,005,754)
B. Other	2,411,950,000	2,917,500,000	505,550,000
VII. Foreign Credit	12,526,464	10,905,914	(1,620,550)
A. Short-Term	-	-	-
B. Medium and Long-Term	12,526,464	10,905,914	(1,620,550)
VIII. Advances, Collateral and Deposits Collected Against Letters of Credit and Import	1,584,065,299	858,741,110	(725,324,189)
A. For Letters of Credit	1,584,061,175	858,736,986	(725,324,189)
B. For Imports	4,124	4,124	-
IX. Notes and Remittances Payable	24,362,879	73,477,268	49,114,389
X. SDR Allocation	238,562,529	207,285,030	(31,277,499)
XI. Capital	46,233,524	46,233,524	-
A. Paid-in Capital	25,000	25,000	-
B. Inflation Adjustment for Paid-in Capital	46,208,524	46,208,524	-
XII. Reserves	642,221,669	2,823,646,765	2,181,425,096
A. Ordinary and Extraordinary Reserves	288,418,619	2,469,384,817	2,180,966,198
B. Special Reserves (CBT's Law, Art. 59)	430,573	889,471	458,898
C. Inflation Adjustments for Reserves	353,372,477	353,372,477	-
XIII. Provisions	157,279,013	163,402,522	6,123,509
A. Provisions for Pension Commitments	73,522,973	79,844,758	6,321,785
B. Provision for Taxes	43,851,246	41,080,880	(2,770,366)
C. Other Provisions	39,904,794	42,476,884	2,572,090
XIV. Revaluation Account	-	-	-
XV. Accrued Interest and Expenses	1,468,425,721	1,318,655,062	(149,770,659)
XVI. Miscellaneous Payables	47,416,227	67,784,542	20,368,315
XVII. Other Liabilities	54,652,081	65,193,791	10,541,710
XVIII. Profit of the Period	3,102,457,140	220,291,877	(2,882,165,263)
TOTAL	116,829,050,863	111,450,468,920	(5,378,581,943)
REGULATING ACCOUNTS	578,630,387,893	608,753,034,299	30,122,646,406

4.1.2. Comparative Profit and Loss Statements (*)

	01.01.2006 - 31.12.2006 (YTL)	01.01.2007 - 31.12.2007 (YTL)	CHANGE (YTL)
Interest Income	4,888,085,839	5,235,710,274	347,624,435
Interest Expense	(5,105,208,538)	(4,610,870,444)	(494,338,094)
I - Net Interest Income (Expense)	(217,122,699)	624,839,830	841,962,529
Fee and Commission Income	39,895,566	52,164,266	12,268,700
Fee and Commission Expense	(154,145,859)	(170,520,789)	16,374,930
II - Net Fee and Commission Income (Expense)	(114,250,293)	(118,356,523)	(4,106,230)
Non - Interest Income	4,067,021,599	1,270,429,809	(2,796,591,790)
Non - Interest Expense	(589,340,222)	(1,515,540,359)	926,200,137
III - Net Non - Interest Income (Expense)	3,477,681,377	(245,110,550)	(3,722,791,927)
Net Profit / (Loss) (I + II + III)	3,146,308,386	261,372,757	(2,884,935,629)

(*) In 2007, for compliance with IFRS, Interest Income/Expense and Non-Interest Income/Expense items of the Profit and Loss Statement are reclassified and Fee and Commission Income and Expense are started to be presented separately.

Besides, the operating expenses are started to be presented in Non-Interest Expense and the banknote printing expenses, which were presented in other operating expenses as a whole in previous years, are decomposed according to their natures and shown in the relevant operating expenses items.

Within this framework, the profit and loss figures for 2006 were rearranged for purposes of comparison.

4.2. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2007, AND THE PROFIT AND LOSS STATEMENT FOR THE 01.01.2007- 31.12.2007 PERIOD

4.2.1 The Central Bank of the Republic of Turkey Accounting Principles and Policies

4.2.1.a. Fundamental Principles for Accounting Practices

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

4.2.1.b. Accounting Policies

The Basis for Recognition

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

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

Since inflation adjustment conditions were realized as of December 31, 2003 and as of December 31, 2004, non-monetary items on the financial statements of the Bank were restated. As the conditions for inflation adjustment have disappeared, the adjustment was not executed between the years 2005 - 2007.

Gold and Foreign Currency Transactions

Gold reserves are revalued quarterly using the average of gold prices quoted at 10.30 and at 15.00 on the London Exchange by taking 1 ounce of gold = 31,1035 grams. Assets and liabilities denominated in foreign currency are valued at the foreign currency purchase rate of the Bank on the balance sheet date. Differences arising from the currency revaluation of assets and liabilities denominated in foreign currency as well as differences arising from price and currency revaluation of gold are recorded as unrealised gains and losses in the "Revaluation Account" as per Article 61 of the Bank's Law.

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

Securities

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

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

The differences between the acquisition cost and fair value of the securities that are purchased directly and sold under reverse repurchase agreements are reflected in the income statement.

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

Liquidity Bills

The item “Liquidity Bills” consists of issues of the Bank’s liquidity bills whose maturity do not exceed 91 days and that are tradable in the secondary markets for the Bank’s own account and on its behalf with an aim to efficiently regulate the money supply and liquidity in the economy within the framework of monetary policy targets pursuant to Article 52 of the Bank’s Law. The Bank recognizes liquidity bills at the issuing amount and revalues at fair value at month ends. Differences between the fair value and issuing amount are reflected in the income statement at month ends.

Income Recognition

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

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

Repurchase and Reverse Repurchase Transactions of the Securities

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

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

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

Fixed Assets

Fixed assets (land, property and equipment) are recognized at acquisition cost; while land is shown on the balance sheet at cost, properties and equipments are shown at their net value after deducting their depreciation.

Provisions

According to Article 59 of the Bank’s Law, provisions in amounts deemed appropriate by the Board may be set aside from the gross annual profit of the Bank in order to meet contingent risks, which may occur in the following years due to the operations exlusive to the Bank. As of year-end, provisions are set for employee termination benefits, tax and internal insurance funds.

Employee Termination Benefits

The Bank maintains provisions for retirement pay and employee termination benefits, which it is obliged to pay for its employees in the coming years. For the obligations of the current year provisions are maintained in respect of services of employees up to the balance sheet date.

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

Taxation

The Bank, established as a “joint stock company”, as per Article 1 of the Bank’s Law, is a corporate taxpayer. Moreover, the Bank is responsible for withholding tax, as per Article 94 of the Individual Income Tax Law, on wages, outsourcing payments, interest on deposits, etc. and as per Article 30 of the Corporate Income Tax Law, on the payments made to firms subject to limited tax liability except for commercial, agricultural and other earnings; and on payments made for the transfer or sale of intangible rights.

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

Participations

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

4.2.2. Detailed Balance Sheet Dated 31.12.2007

	AMOUNT IN TURKISH CURRENCY ACCOUNTS YTL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL IN TURKISH CURRENCY ACCOUNTS YTL	TOTAL IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL YTL
ASSETS					
I. Gold					
A. International Standard (Net Gram)...116,103,752.76				3,636,779,885	
B. Non-International Standard (Net Gram) ...3,191,297.12			99,712,117		3,736,492,002
II. Foreign Exchange					
A. Convertible					
a. Foreign Banknotes..		324,235,721			
b. Correspondent Accounts...		84,860,059,946			
c. Reserve Tranche Position...		208,148,818		85,392,445,485	
B. Non-Convertible					
a. Foreign Banknotes..		889			
b. Correspondent Accounts...		-		889	85,392,445,374
III. Coins			71,158,613		71,158,613
IV. Domestic Correspondents			-	-	-
V. Securities Portfolio					
A. Government Securities					
a. Bonds..	16,926,939,462				
b. Treasury Bills	-		16,926,939,462		
B. Other					16,926,939,462
VI. Domestic Credit					
A. Banking Sector					
a. Rediscount		374,247			
b. As per Art 40/c of Law No.1211					
c. Other				374,247	
B. Credit of SDIF			-		374,247
VII. Open Market Operations					
A. Repurchase Agreements					
a. Cash..					
i. Foreign Exchange					
ii. Securities	-				
b. Securities	-		-		
B. Other..					-
VIII. Foreign Credits				32,621,431	32,621,431
IX. Share Participations				18,492,709	18,492,709
X. Fixed Assets					
A. Buildings and Building Sites	316,361,074				
Depreciation Allowance for Real Estate (-)	(52,297,139)		264,063,935		
B. Furniture and Fixtures..	83,159,989				
Depreciation Allowance for Furniture and Fixtures (-).....	(68,415,027)		14,744,962		278,808,897
XI. Claims under Legal Proceedings (Net)					
A. Claims under Legal Proceedings				1,709,292,069	
B. Provision for Past –Due Receivables (-).........................			(1,709,292,069)		-
XII. Treasury Liabilities Due to SDR Allocation				207,285,030	207,285,030
XIII. Revaluation Account			4,710,586,605		4,710,586,605
XIV- Accrued Interest and Income			9,359,149		9,359,149
XV- Miscellaneous Receivables			38,272,602	1,743,491	40,016,093
XVI- Other Assets			25,889,308	-	25,889,308
T O TAL..			20,451,434,684	90,999,034,236	111,450,468,920
REGULATING ACCOUNTS..					608,753,034,299

Buildings Insured for YTL 283,248,927
Furniture and Fixtures Insured for YTL 81,318,066

Prevailing rediscount and advance rates:
Against bills to mature in maximum 3 months:
-Rediscount rate…………………% 25,00
-Advance rate……………………% 27,00

	AMOUNT IN TURKISH CURRENCY ACCOUNTS YTL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL IN TURKISH CURRENCY ACCOUNTS YTL	TOTAL IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL YTL
LIABILITIES					
I. Currency Issued			27,429,388,907		27,429,388,907
II. Liabilities to Treasury					
A. Gold (Net Gram) 345,574.68			10,824,620		
B. Reserve Tranche Means				208,148,818	
C. Other (Net)			28,331,196	30,282	247,334,916
III. Foreign Correspondents					
A. Convertible				852,105	
B. Non-Convertible				-	852,105
IV. Deposits					
A. Public Sector					
a. Treasury, General and Special Budget Administrations	4,331,229,957	10,381,364,697			
b. Public Economic Institutions	91				
c. State Economic Enterprises	10,542	69,686,386			
d. Other	98,102,790		4,429,343,380	10,451,051,083	
B. Banking Sector					
a. Free Deposits of Domestic Banks	18,911,635,147	6,541,888,821			
b. Foreign Banks	8,529,253				
c. Required Reserves (Central Bank Law art. 40)					
i. Cash	-	13,131,517,999			
ii. Gold (Net Grams)					
d. Other	419,569		18,920,583,969	19,673,406,820	
C. Miscellaneous					
a. Foreign Exchange Deposits By Citizens Abroad		18,635,507,722			
b. Other	1,444,151	53,482,719	1,444,151	18,688,990,441	
D. International Institutions			6,046,296		
E. Extrabudgetary Funds					
a. Savings Deposit Insurance Fund	289,898	13,511,799			
b. Other	92,119,900	1,729,277,850	92,409,798	1,742,789,649	74,006,065,587
V. Liquidity Bills			993,710,000		993,710,000
VI. Open Market Operations					
A. Repurchase Agreements					
a. Cash					
i. Foreign Exchange					
ii. Securities	-				
b. Securities	-		-		
B. Other			2,917,500,000		2,917,500,000
VII. Foreign Credit					
A. Short-Term					
B. Medium and Long-Term				10,905,914	10,905,914
VIII. Advances, Collateral and Deposits Collected Against letters of Credit and Imports					
A. For Letters of Credit				858,736,986	
B. For Imports			4,124		858,741,110
IX. Notes and Remittances Payable			-	73,477,268	73,477,268
X. SDR Allocation				207,285,030	207,285,030
XI. Capital					
A. Paid-in Capital			25,000		
B. Inflation Adjustment for Paid-in Capital			46,208,524		46,233,524
XII. Reserves					
A. Ordinary and Extraordinary Reserves			2,469,384,817		
B. Special Reserves (CBTR Law Art. 59)			889,471		
C. Inflation Adjustment for Reserves			353,372,477		2,823,646,765
XIII. Provisions					
A. Provisions for Pension Commitments			79,844,758		
B. Provisions for Taxes			41,080,880		
C. Other Provisions			42,476,884		163,402,522
XIV. Revaluation Account			-		-
XV. Accrued Interest and Expenses			1,318,655,062		1,318,655,062
XVI. Miscellaneous Payables			1,707,300	66,077,242	67,784,542
XVII. Other Liabilities			5,284,086	59,909,705	65,193,791
XVII. Profit of the Period			220,291,877		220,291,877
TOTAL			59,408,807,577	52,041,661,343	111,450,468,920
REGULATING ACCOUNTS					608,753,034,299

4.2.3. Changes In Balance Sheet Items

Article 52 of the Bank's Law, with an aim to efficiently regulate the money supply and liquidity in the economy within the framework of monetary policy targets, empowers the Bank to issue Liquidity Bills whose maturity do not exceed 91 days and that are tradable in the secondary markets, for its own account and on its behalf. Within the legal framework of this authorization, the Bank set the legal outline for issuing liquidity bills with "The Communiqué Related to Liquidity Bills", published in the Official Gazette numbered 26310 and dated October 5, 2006. The first group of liquidity bills was issued on July 20, 2007.

Liquidity bills have been presented under the "V- Liquidity Bills" item on the liability side of the balance sheet since July 20, 2007, pursuant to Bank Board decision numbered 8482/18081, dated November 6, 2003, and numbers of the following liabilities items were rearranged accordingly.

4.2.4. Explanations Related To The Balance Sheet Dated 31.12.2007

ASSETS:

1. Gold

Gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is YTL 3,736,492,002 in total, equivalent to 119,287,049.88 net grams. The gold holdings on the balance sheet are valued using 1 net gram of gold = YTL 31,32353433 calculated as 1 ounce of gold = USD 836.50, based on prices quoted on the London stock exchange as of December 31, 2007.

	Net Grams	YTL
International Standard	116,103,752.76	3,636,779,885
Non-International Standard	3,183,297.12	99,712,117
Total	119,287,049.88	3,736,492,002

While the value of gold holdings of international standards, which was YTL 3,335,423,279 equivalent to 116,103,752.76 net grams as of the end of the year 2006, shows a decrease of YTL 752,211,105 due to the depreciation of USD against New Turkish Lira during the year, it increases by YTL 1,053,567,711 due to an increase in the price of 1 ounce of gold from USD 615,70 in 2006 to USD 836,50 in 2007. It amounts to YTL 3,636,779,885 showing a total increase of YTL 301,356,606 at the end of the year 2007.

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

The value of gold holdings of non-international standards, which was equal to YTL 91,679,437 and 3,191,297.12 net grams as of the end of the year 2006, increased by YTL 8,032,679 reaching YTL 99,712,117 at the end of 2007. Despite a decrease of YTL 226,766 equivalent to 8 kg due to the minting of service medals to be distributed to Bank personnel who had completed their 20th year of service and YTL 20,626,951 due to the depreciation of USD against New Turkish Lira, the gold holdings of non-international standards increased by YTL 28,886,397 due to the increase in the price of 1 ounce of gold.

2. Foreign Exchange

This item consists of the accounts opened by the Bank with foreign correspondents against convertible and non-convertible foreign exchange, the Reserve Tranche Position held with the IMF, as well as foreign banknotes available in the Bank's vaults. The balance of this account, evaluated at year-end buying rates, amounts to YTL 85,392,445,374, of which YTL 85,392,444,485 and YTL 889 are convertible and non-convertible amounts, respectively.

A) Convertible

This item includes the convertible foreign exchange accounts with the Foreign Correspondents amounting to YTL 84,860,059,946, the Reserve Tranche Position amounting to YTL 208,148,818, and foreign banknotes in the vaults of the Bank's branches amounting to YTL 324,235,721 as of the end of the year.

B) Non-Convertible

While the Foreign Correspondents Accounts, which were opened in accordance with bilateral agreements, have no balance as of December 31, 2007, the balance of non-convertible foreign banknotes available in the vaults of the Bank's branches amounts to YTL 889 as of the end of the year.

3. Coins

This item consists of the coins available in the Bank's vaults, amounting to YTL 71,158,613 at the end of the year.

4. Domestic Correspondents

This item, which consists of both the Correspondents Accounts that were opened in accordance with the domestic correspondence agreement and the foreign exchange deposit operations held in the Foreign Exchange Market, has had balance since the year 2006.

5. Securities Portfolio

Government Debt Securities, which equaled YTL 22,309,872,550 as of the end of 2006, include government securities bought from public banks and banks under the Savings Deposits Insurance Fund in 2001, which were later exchanged for long term securities in October of the same year, as well as securities bought in the secondary market under repurchase agreements. While the repurchase of securities sold under reverse repurchase agreements increased the item by YTL 2,000,000, the securities item decreased by YTL 5,382,933,088 amounting to YTL 16,926,939,462 due to the fair value adjustment of YTL 45,371,670, the resale of YTL 3,500,000,001 bought under repurchase agreements, the redemption of YTL 1,738,869,253 and the decrease in the portfolio cost of the securities of amount YTL 100,692,164 from repurchases under reverse repurchase agreements.

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

6. Domestic Credit

This item includes credit extended to the Banking Sector and the Savings Deposit Insurance Fund.

The year-end balance of rediscounted credits extended against FX securities was YTL 374,247 equivalent to EUR 218,832.

As the total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities on 2004 was redeemed early on 9 May 2005, this item has no balance as of the end of 2007.

	YTL
A) Banking Sector	374,227
a) Rediscount Credit	374,227
b) As per Art, 40/c of Law No 1211	-
c) Other	-
B) Credit to Savings Deposit Insurance Fund	-
TOTAL	374,227

7. Open Market Operations

This item, which represents the cash debts of the banks from repurchase agreements and money market operations and the security debts of the banks from reverse repurchase agreements; has no balance as of the year-end.

8. Foreign Credit

This item consists of the credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Sudan and the credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Albania concerning claims on non-performing loans due to the Banking Regulation terminated on December 31, 1990. The balance of this item decreased to YTL 32,621,431 equivalent of USD 28,008,441.21 in 2007, from YTL 43,350,368 equivalent of USD 30,841,183.58, in 2006, as a principal installment of USD 2,832,742.37 was received from the Central Bank of Sudan.

9. Share Participations

The balance of this account is YTL 18,492,709 at the end of the year. In accordance with Article 3 of the Bank's Law, this item consists of the Bank's accounts of SDR 10,000,000 in the Bank for International Settlements in Basle and EUR 20,880 held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The value of these participations is calculated at the rate of 1 SDR = YTL 1.8457 and 1 Euro = YTL 1.7102.

10. Fixed Assets

This item, which had a balance of YTL 278,808,897 as of the year-end, consists of the net values of buildings, land, furniture and fixtures owned by the Bank less their allowance for depreciation.

The value of real estate which was YTL 313,988,975 in the previous year, reached YTL 316,361,074 after the additions of YTL 2,372,099 this year. The net value of real estate is YTL 264,063,935, after deducting the accumulated depreciation of buildings totaling YTL 52,297,139.

The net value of furniture and fixtures is YTL 14,744,962, after deducting the accumulated depreciation totaling YTL 68,415,027 from the value of furniture and fixtures, totaling YTL 83,159,989. The value of furniture and fixtures increased by YTL 5,052,690 compared to the previous year.

11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was YTL 1,601,470,577 (equivalent of USD 1,375,006,935), as well as the claims arising from credit amounting to YTL 107,821,492 (equivalent of USD 92,574,475.48), which was extended against bills bought by the Bank from the Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of YTL 1,709,292,069 was set for these claims as an offsetting item, this account has no balance as of the end of the year.

12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 112,307,000 (equivalent to YTL 207,285,030), which was allocated by the IMF to Turkey and used by the Treasury. It is recorded reciprocally with the “SDR Allocation” on the liability side.

13. Revaluation Account

This item consists of unrealized losses arising from the revaluation of gold and foreign exchange in both assets and liabilities. The year-end balance of this account is YTL 4,710,586,605.

14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2007 is YTL 9,359,149.

15. Miscellaneous Receivables

This item, which shows a balance amounting to YTL 40,016,003 at the end of the year, consists of YTL 38,272,602 in Turkish currency and YTL 1,743,491 in foreign currencies, the breakdown of which is as follows:

	YTL
- YTL Deposits Accounts with National Banks Abroad	21,861,488
- Provisional Tax to be Deducted From The Corporate Tax Payable	12,857,250
- Income Tax to be Deducted From The Corporate Tax Payable	360,973
- Letters of Credit of the Banknote Printing Plant	2,243,674
- Advances and Deposits	778,651
- Banknotes Sent Abroad for the Test of Cash Counter Machines to be Imported	64,595
- Other	105,971
TOTAL	38,272,602

16. Other Assets

This item shows various claims of the Bank, all in Turkish currency, amounting to 25,889,308 at the year-end.

LIABILITIES:

1. Currency Issued

The year-end balance of currency in circulation, issued in accordance with Article 36 of the Bank's Law, amounts to YTL 27,429,388,907, an increase of YTL 614,238,304 compared to the previous year.

2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounts to YTL 247,334,916, a decrease of YTL 31,020,546 compared to the previous year.

A- Gold

The value of the gold claims of the Treasury, which amounts to YTL 10,824,620 and 345,574.68 net grams, increased by YTL 896,966 over the previous year, due to the increase in the price of 1 ounce of gold.

B- Reserve Tranche Means

Due to the portion of Turkey's IMF quota of SDR 1,191.3 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000 presented reciprocally with the "Reserve Tranche Position" in the assets. The year-end balance of this item is YTL 208,148,818.

C- Other

This item, which shows the net liabilities to the Treasury resulting from various transactions, amounts to YTL 28,361,478 at the end of 2007.

3. Foreign Correspondents

This account shows the Bank's debt to correspondents abroad and has a balance of YTL 852,105 in convertible foreign exchange.

A- Convertible

Convertible foreign exchange liabilities consist of foreign correspondents accounts and accounts of foreign central banks with the Bank. The year-end balance of this item is YTL 852,105, which indicates a decrease of YTL 165,513 compared to the previous year.

B- Non-Convertible

This item consists of the accounts opened in accordance with bilateral agreements and has no balance since 2005.

4. Deposits

The year-end balance of this account is YTL 74,006,065,587, the breakdown of which is as follows:

	Turkish Currency (YTL)	Foreign Currency (YTL)
A) Public Sector	4,429,343,380	10,451,051,083
a) Treasury, General and Special Budget Administrations	4,331,229,957	10,381,364,697
i) Treasury	4,164,197,197	9,290,056,127
ii) General Budget Administrations	154,656,793	1,091,308,570
iii) Special Budget Administrations	12,375,967	-
b) Public Economic Institutions	91	-
c) State Economic Enterprises	10,542	69,686,386
d) Other	98,102,790	-
B) Banking Sector	18,920,583,969	19,673,406,820
a) Free Deposits of Domestic Banks	18,911,635,147	6,541,888,821
b) Foreign Banks	8,529,253	-
c) Required Reserves (Article 40 of the Central Bank Law)	-	13,131,517,999
i) Cash	-	13,131,517,999
ii) Gold (Net grams)	-	-
d) Other	419,569	-
C) Miscellaneous	1,444,151	18,688,990,441
a) Foreign Exchange Deposits by Citizens Abroad	-	18,635,507,722
b) Other	1,444,151	53,482,719
D) International Institutions	6,046,296	-
E) Extra-budgetary Funds	92,409,798	1,742,789,649
a) Savings Deposit Insurance Fund	289,898	13,511,799
b) Other	92,119,900	1,729,277,850
Total	23,449,827,594	50,556,237,993

5. Liquidity Bills

Liquidity bills, issued in accordance with Article 52 of the Bank's Law, pursuant to Bank Board decision no. 8482/18081, dated November 6, 2003, have been started to be presented in "V- Liquidity Bills" in the liabilities since July 20, 2007. The fair value of the liquidity bills, which were issued at YTL 973,613,480 with a nominal value of YTL 1,000,000,000, is YTL 993,710,000 at year-end.

6. Open Market Operations

This item, which shows the cash claims of the banks from reverse repurchase agreements and money market operations, as well as the security claims of the banks from repurchase agreements, has a balance of YTL 2,917,500,000 at the end of the year. As the repurchase agreements are not realised at year-end, the total balance of this item represents the cash claims of the banks from Money Market Operations.

7. Foreign Credit

This item shows the non-guaranteed trade arrears, amounting to YTL 10,905,914 equivalent of USD 9,363,710.82 at the end of 2007.

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

The balance of this item is YTL 858,741,110 at the end of 2007. Of this total, YTL 858,736,986 represents credit transactions of foreign exchange sales and YTL 4,124 represents goods, equivalents and guarantees deposited at the Bank pursuant to import regulations.

9. Notes and Remittances Payable

The year-end balance of this account amounting to YTL 73,477,268 consists of payment orders to be made to beneficiaries.

10. SDR Allocation

This account, presented reciprocally with the "Treasury's Liabilities due to SDR Allocation" in the assets, shows the liability to the IMF, amounting to YTL 207,285,030 -the equivalent of SDR 112,307,000- allocated to Turkey by the IMF and used by the Treasury.

11. Capital

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

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

Category	Number of Shares	Percent of Total	YTL
A	136,800	54.72	13,680
B	63,769	25.51	6,377
C	625	0.25	63
D (*)	48,806	19.52	4,880
Paid-in capital	**250,000**	**100.00**	**25,000**
Inflation adjustment for paid-in capital			46,208,524
TOTAL			**46,233,524**

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

12. Reserves

This item includes both reserve funds retained in accordance with Articles 59 and 60 of the Bank's Law and inflation adjustment differences as per Law No. 5024, which came into effect after being published in the Official Gazette No. 25332 on December 30, 2003. The year-end balance of this item is YTL 2,823,646,765.

	YTL
A. Ordinary and Extraordinary Reserves	2,469,384,817
B. Special Reserves (Article 59 of Law No. 1211)	889,471
C. Inflation Adjustment Difference for Reserves	353,372,477
TOTAL	**2,823,646,765**

The balance of Ordinary Reserves, which amounted to YTL 288,418,619 in 2006, increased to YTL 917,680,296 at the end of 2007 due to the allocation of the 20% of the net profit of 2006 to ordinary reserves amounting to YTL 629,261,677.

Extraordinary reserves consist of YTL 251,704,521, which was 10% of the remaining amount of the net profit of 2006 after deductions specified in Article 60 of the Bank's Law and YTL 1,300,000,000, which was retained in accordance with Article 469 of the Turkish Commercial Code. The year-end balance of extraordinary reserves is YTL 1,551,704,521.

13. Provisions

This item, with a balance of YTL 163,402,522 at year-end, consists of provisions retained out of the Bank's gross profit to meet various risks, for transport insurance of valuables, for pension commitments and for tax pursuant to Article 59 of the Bank's Law.

	YTL
A. Provisions for Pension Commitments	79,844,758
B. Tax Provisions	41,080,880
C. Other Provisions	42,476,884
TOTAL	163,402,522

14. Revaluation Account

This item consists of unrealized gains arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides. As the revaluation differences are on the assets side as of the end of 2007, this item shows no balance since 2003.

15. Interest and Expense Accruals

The year-end balance of this item, which is YTL 1,318,655,062, mainly comprises interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

16. Miscellaneous Payables

This account amounts to YTL 67,784,542 at the end of the year and consists of the Bank's debts of YTL 1,707,300 in Turkish currency and YTL 66,077,242 in foreign currencies.

17. Other Liabilities

This item, amounting to YTL 65,193,791 at the end of the year, consists of the Bank's debts of YTL 5,284,086 in Turkish currency and YTL 59,909,705 in foreign currencies.

4.2.5. DETAILED PROFIT AND LOSS ACCOUNT FOR 01.01.2007- 31.12.2007 PERIOD

PROFIT AND LOSS ACCOUNT OF THE CENTRAL BANK	01.01.2007-31.12.2007 (YTL)
I- NET PROFIT / (LOSS) FROM YTL TRANSACTIONS	**(1,585,670,712)**
1- Net Profit / (Loss) from YTL Securities Portfolio	1,646,898,853
2- Net Profit / (Loss) from Open Market Operations, Liquidity Bills and Money Market Operations	(1,377,230,366)
a- Net Profit / (Loss) from Open Market Operations	(310,392,265)
b- Interest Expense of Liquidity Bills	(54,548,290)
c- Net Profit / (Loss) from Money Market Operations	(1,012,289,811)
3- Interest Paid to YTL Required Reserves	(1,699,871,123)
4- Other	(155,468,076)
a – Provision Expense for Past-Due Receivables	252,679,358
b – Operating Expenses	(383,324,406)
c – Other	(24,823,028)
II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS	**1,847,043,469**
1- Net Profit / (Loss) from FX Reserves	1,856,156,647
a- FX Portfolio and Deposit Revenues	3,924,036,879
b- Interest Paid to FX Deposits by Citizens Abroad	(590,240,927)
c- Interest Paid to FX Deposits and Required Reserves	(354,246,757)
d- Gold and FX Net Profit	(1,123,392,548)
2- IMF Use of Fund Credit and Charges	(9,113,179)
III- NET PROFIT (LOSS) (I + II)	**261,372,757**

The distribution of the Bank's net profit, pursuant to Article 60 of Bank's Law and Article 469 of the Turkish Commercial Code, is specified as follows:

			YTL
Net Profit of 2007			261,372,757
1. Reserves			(213,570,668)
Ordinary Reserves (Article 60 of Law No.1211)		52,274,551	
Extraordinary Reserves		161,296,117	
- Article 60 of Law No. 1211	20,909,671		
- Article 469 of TCC	140,386,446		
2. Shareholders			3,000
First Dividends		1,500	
Second Dividends		1,500	
3. Bonus to Personnel		6,718,209	(6,718,209)
4. Tax Provisions			(41,080,880)
Corporate Tax		41,080,880	
Remainder			-

4.2.6. EXPLANATIONS OF PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.01.2007-31.12.2007

The net loss of the Bank from YTL transactions is YTL 1,585,670,712. As of the end of 2007, the Bank has an interest income of YTL 1,646,898,853 from its New Turkish lira government securities portfolio. The net loss from open market operations is YTL 310,392,265, an interest of YTL 54,548,290 is paid to the liquidity bills, the net loss from money market operations is YTL 1,012,289,811 and an interest of YTL 1,699,871,123 is paid to the New Turkish Lira required reserves.

The Bank has a net profit of YTL 1,847,043,469 from foreign currency operations. As of the end of 2007, a revenue of YTL 3,924,036,879 is gained from the foreign currency portfolio and deposit accounts. The net loss of gold and foreign exchange operations is YTL 1,123,392,548, interest of YTL 1,058,419,391 is incurred for foreign exchange deposits by citizens abroad, YTL 354,246,757 for foreign exchange deposits and required reserves by banks and YTL 9,113,179 for the resources from the IMF.

The distribution of operating expenses incurred for the operational activities of the Bank in the last two years is shown below on the basis of expenditure items at 2003 prices:

At 2003 prices, YTL	2006	2007	% Change
I- Personnel Expenses	236,305,497	230,231,163	-3
II- Other Expenses	36,043,691	30,891,365	-14
III-Banknote Printing Expenses	19,332,402	12,620,337	-35
TOTAL	291,681,590	273,742,865	-6

Note: Within the framework of the explanations in Section 4.1.2, the figures for 2006 were recalculated purposes of comparison.

In 2007, a decrease is observed in personnel and other expenses, and in banknote printing expenses, compared to 2006.

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

Within the framework of the policy of reducing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing up-to-date technology, the number of personnel decreased by 34 percent from 6,910 in 1996 to 4,552 in 2007.

As compared to the previous year, there is a decrease of 3 percent in personnel expenses. There is also a 3 percent decrease in salaries and fringe benefits, which constitutes a significant portion of personnel expenses, compared to 2006. In 2007, the amount of gross salaries paid to members of the Board, the Executive Committee and the Auditing Committee of the Bank was YTL 2,237,710. This amount accounts for 0.8 percent of the total salaries and fringe benefits paid to personnel in 2007.

✓ Other expenses; a decrease of 14 percent in 2007 with respect to the previous year. This decrease results from the decrease in heating, lightning and water expenses, insurance expenditures, provisions for internal insurance of value dispatch, expenditures of value dispatch and expenditures related to social activities with respect to the year 2006.

There are no significant changes in other expenditure items.

- ✓ Banknote printing expenses; a 35 percent decrease in banknote printing expenses in 2007, as compared to the previous year, is due to the decrease of purchasing of printing supplies because of stopping printing for a while.

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

4.3. FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

BALANCE SHEET AT 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

	Notes	2007 (Thousand YTL)	2006 (Thousand YTL)	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 YTL for convenience purposes only, at the official YTL 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 80 to 120 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

	Notes	2007 (Thousand YTL)	2006 (Thousand YTL)	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 YTL for convenience purposes only, at the official YTL bid rate announced by the Bank at 31 December 2007, and therefore do not form part of these financial statements

The notes on pages 80 to 120 are an integral part of these financial statements.

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

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

	Share capital					
	Share capital	Adjustment to share capital	Total paid-in share capital	Other reserves	Retained earnings/ (accumulated deficit)	Total
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 80 to 120 are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") 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 80 to 120 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("YTL") 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 ("YTL") and to establish the exchange rate policy in determining the parity of YTL against gold and foreign currencies jointly with the government; to execute transactions such as spot and forward purchases and sales of foreign exchange and banknotes, foreign exchange swaps and other derivatives transactions in order to determine the value of YTL against other currencies,

c) to determine the procedures and conditions of reserve requirements by taking into consideration the liabilities of banks and other financial institutions to be deemed appropriate by the Bank,

d) to conduct rediscount and advance transactions,

e) to manage the gold and foreign exchange reserves of the counYTL,

f) to regulate the volume and circulation of the YTL, to establish payment, securities transfer and settlement systems and to set forth regulations to ensure the uninterrupted operation and supervision of the existing or future systems, to determine the methods and instruments including electronic environment for payments,

g) to take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets,

h) to monitor the financial markets, and

i) to determine the terms and types of deposits in banks and the terms of participation funds in special finance houses.

NOTE 2 - BASIS OF PRESENTATION

(a) New Turkish Lira financial statements

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

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

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

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.

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 YTL for convenience purposes only, at official bid rates announced by the Bank on 31 December 2007 of YTL1.1647 = 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 YTL, which is the Bank's functional and presentation currency.

(ii) Foreign currency transactions and balances

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

(iii) Exchange rates

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

	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 YTL157,311 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.

(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$, converted to YTL at the spot YTL/US$ exchange rate.

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

The exchange rate of gold bullion to YTL as at 31 December 2007 was YTL 974 per troy ounce (2006: YTL 894 per troy ounce).

(ii) Gold coins

Gold coins which are no longer legal tender typically have an artistic or collectors' premium such that they are bought and sold at prices which are higher than the intrinsic value of the metal from which they are formed. However, it is unlikely that such a premium could be 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.

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.

(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 YTL 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 expect 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.

(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 YTL and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The sub-unit of the YTL is the YKr (1 YTL=100 YKr). The prior currency, Turkish Lira, values are converted into YTL, one million TL is equivalent to 1 YTL. Accordingly, the currency of the Republic of Turkey is simplified by removing six zeroes from the TL.

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

(ii) 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 YTL 459 thousand (2006: YTL 256 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).

(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.

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.

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	
	YTL	Share (%)	YTL	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: YTL 3,505,288 thousand). The fair value of the security collaterals taken against the placed deposit as of 31 December 2006 is YTL 4,237,103 thousand.

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

	31 December 2006					
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
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 YTL and reserve currencies, foreign exchange rates and gold prices. The Bank, in its capacity as the monetary authority of Turkey, does not actively manage YTL interest rate risk stemming from government domestic borrowing securities, which the Bank utilizes mainly for open market operations. Putting aside this YTL 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.

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 YTL 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 polices 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										
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	YTL	Total
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)	-

31 December 2006										
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	YTL	Total
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 YTL appreciated by 10% against all foreign currencies. The hypothetic 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										
	Foreing currency								YTL	Total
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total		
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 YTL	(2,693,125)	(682,871)	(118,367)	(3,982)	(142,375)	(29,838)	(917)	(3,671,475)	-	(3,671,475)

31 December 2006										
	Foreing currency								YTL	Total
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total		
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 YTL	(2,482,665)	212,807	(105,087)	(3,424)	(188,173)	(27,321)	(16,680)	(2,610,543)	-	(2,610,543)

(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 YTL 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							YTL							
	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)	-

31 December 2006	Foreign currency							YTL							
	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	-	-	-	-	-	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)	-

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

(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 YTL 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 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 YTL and foreign currency denominated assets and liabilities;

31 December 2007	Foreign Currency								YTL								
	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	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 liabilites 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)**	**-**

31 December 2006	Foreign Currency								YTL								
	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 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	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
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	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
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.

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.

	Carrying value		Fair value	
Financial assets	2007	2006	2007	2006
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	2007	2006	2007	2006
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 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.

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 YTL 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 YTL 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, indusYTL 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.

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 YTL10,825 thousand (2006: YTL9,928 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.

3The breakdown of carrying values of foreign government bonds, corporate bonds and treasury bills by counYTL 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

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 YTL 27,206 thousand (2006: YTL 43,453 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent YTL 5,489 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 Bank owns shares issued by the Bank for International Settlements ("BIS"). The shares have a par value of SDR 5,000 each and are paid up to SDR 1,250 each. The balance of SDR 3,750 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 YTL at the year end YTL/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:

		Ownership (%)		Amount	
Name	Nature of business	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

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

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.

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 YTL 17,321 thousand (2006: YTL 68,562 thousand).

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

	2007		2006	
	Interest rate (*)	YTL amount	Interest rate (*)	YTL 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 SDR 227,300,000 reaching SDR 1,191,300,000. 25 % of the quota increase in the amount of SDR 56,825,000 has been paid in cash denominated in reserve money and the rest of the increase in the amount of SDR 170,475,000 has been paid in securities issued by the Turkish Treasury denominated in YTL.

NOTE 18 - 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 YTL 1,000,000 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
Taxes on income	(12,857)	-
Income taxes payable - net	28,224	43,851

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated 21 June 2006, corporation tax is payable at the rate of 20% (31 December 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)	777,176
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

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:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2007	2006	2007	2006
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 YTL 1,960.69 (31 December 2006: YTL 1,857.44) 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.

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 YTL 2,087.92 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 YTL 2,087.92 effective from 1 January 2008 (1 January 2007: YTL 1,960.69), 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

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.

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	10449,982
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 YTL 157,311 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 YTL 429 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 YTL 80,204 thousand, US$ 410,099 and EUR 352,652 (2006: YTL 80,548 thousand, US$ 397,357, EUR 800,867). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

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	
	YTL	Share %	YTL	Share %
T.C. Başbakanlık Hazine Müsteşarlığı	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
Güvenlik Yard. Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	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 YTL 25 thousand and is divided into 250,000 shares, with a value of YTL 0.1 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.

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	-

4.4 AUDIT AT THE BANK AND AUDITS REPORTS

4.4 AUDIT AT THE BANK AND AUDITS REPORTS

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

Audits Conducted by the Internal Organs of the Bank

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

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

According to Articles no 63 and 121 of the Main Regulations on Organization and Duties of the Central Bank, the Internal Audit Department and the Inspection Unit of the Bank are entrusted with the authority of and responsibility for auditing the Bank's transactions. Both the Internal Audit Department and Inspection Unit perform their responsibilities in compliance with their own Regulations.

The Inspection Unit is authorised to inspect all operations of Head Office, branches and representative offices abroad to ensure that they are executed in compliance with the Bank's various regulations. The Inspection Unit also conducts examinations and inquiries whenever considered necessary within the limits of the powers and responsibilities granted by the Bank's Law and other related regulations.

The Internal Audit Department was established at the end of 2002 in an effort to restructure the Bank's internal control framework and internal auditing activities in conjunction with internationally accepted standards and professional best practices. Internal auditing aims to give reasonable assurance and provide an independent and objective assessment of the management of business processes and operations, systems and built-in controls, and promote the efficient and effective use of resources, integrity of information and reporting, and compliance with organizational policies and procedures.

Internal audit activities of the Bank play an important role in the development of the corporate governance framework based on sound practices transparency and accountability principles. The Bank sets out its three-year rolling Strategic Plan in order to identify its vision and main objectives developed in accordance with its mission, and to provide measurable performance indicators with respect to its objectives. One of the main objectives of the Bank as defined in its Strategic Plan is improving the corporate governance process. In this context, audit activities developed and conducted in accordance with international standards are emphasized as an integral part of the Bank's main objective of improving corporate governance.

The Internal Audit Department conducts its activities through a risk-based annual plan, which is endorsed by the Governor. In accordance with the mandate described in the Internal Audit Regulation, the Bank's internal auditors define and assess risks that could impede the fulfillment of the Bank's objectives, and evaluate the adequacy and effectiveness of the controls designed to mitigate those risks.

The Internal Audit Department aims to help the management improve the effectiveness and efficiency of the Bank's operations in order to build sound governance. The Bank's internal auditors are guided by the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics published by the Institute of Internal Auditors (IIA) in providing services for evaluating the effectiveness of the Bank's risk management, control, and governance activities. Furthermore, internal auditors act as internal consultants by continuously interacting with the management in order to improve the Bank's operations. In order to further strengthen the practical utility of audit reports, and ensure that the necessary action is taken, follow-up procedures have recently been devised through interaction with the senior management.

Training internal auditors in accordance with international standards, providing them with up-to-date information about the auditing field, and maintaining appropriate skills necessary to perform engagements are significant elements of effective audit performance. Currently, 10 auditors hold Certified Internal Auditor (CIA) certificates; of all these CIAs, 4 hold Certified Information Systems Auditor (CISA) certificates, and 2 have both CISA and Certification in Control Self-Assessment Program (CCSA) certificates.

Audits Conducted by External Auditors

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

In accordance with the second paragraph of the same Article, the Bank may assign external auditors to audit the balance sheet and profit and loss statement of the Bank. The independent external review of the Bank's accounts has been deemed vital to the corporate governance of the Bank, and was conducted for first time in 2000. As part of the transparency and accountability principles adopted, the reports prepared following audit engagements each year are made public via the Bank's website. To ensure that the objectives of engagements conducted by both external and internal auditors are fully realized, and to avoid duplication of efforts, it is essential that the Chief Audit Executive coordinates the activities of internal and external auditors. Thus, recently, regular meetings have been conducted to facilitate information sharing and data exchange between internal and external auditors.

4.4.2. Report Of The Auditing Committee For 2007

THE SEVENTY SIXTH-ACCOUNTING YEAR

OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditing Committee has thoroughly examined the activities and the resulting statements of the 2007 Accounting Year of the Central Bank of the Republic of Turkey, within the framework of the provisions of the related legislation, and concluded that:

1. The cash, goldholdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were inspected at random, are in conformity with the records as well as the legal books and these values are kept and administrated in accordance with the regulations,

2. The legal books and the books relating to the Bank's accounts that are subject to declaration are in good order and in conformity with Central Bank Law and the Articles of Association, Furthermore, the domestic loans extended by the Bank, either directly or indirectly, are within the limits set forth;

3. "The Balance Sheet" compiled as of December 31, 2007 and "the Profit Loss Statement" created for the period between 01/01/2007 and 31/12/2007 are in compliance with the systematic principles of accounting and the rules of assessment stipulated by the Turkish Commercial Code, Central Bank Law and Tax Laws,

4. Financial Tables are compiled to present the financial situation of the Central Bank of the Republic of Turkey as of 31 December 2007 and the results of activities relating to the year that ended on the same date is in an accurate, correct and clear manner pursuant to the Legislation in force in Turkey and Central Bank Law;

5. A lawsuit regarding the legal liability, which was filed by the Bank, has not yet been concluded.

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

Ankara, 03/04/2008

Auditing Committee Member Mustafa Saim UYSAL	Auditing Committee Member Abdullah YALÇIN
Auditing Committee Member Mehmet TÜFEKÇİ	Auditing Committee Member Prof. Ekrem YILDIZ

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

To the Central Bank of the Republic of Turkey

1 We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the balance sheet as of 31 December 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 the Law of the Central Bank of the Republic of Turkey (the "Central bank law") and related legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Republic of Turkey as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the Central Bank Law and related legislation.

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

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

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

Haluk Yalçın, SMMM
Istanbul, 29 February 2008

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

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

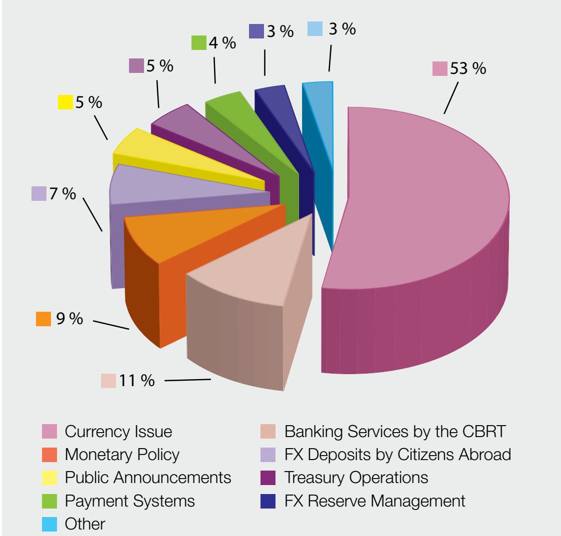
Haluk Yalçın, SMMM

Istanbul, 7 March 2008

4.5. ACTIVITY BASED COST ACCOUNTING AT THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

By analyzing the Bank's expenditures in 2007 according to activity based cost accounting data, it can be seen that currency issue activity at 53 percent was ranked first among the share of 12 primary activities in the total general cost. The share of the other activities are as follows: Banking services supplied by the Bank 11 percent, monetary policy 9 percent, FX deposits by citizens abroad 7 percent, public announcements and treasury operations 5 percent, payment systems 4 percent and management of foreign exchange reserves 3 percent.

24



Source: CBRT

4.6. TURKEY-IMF MONEY RELATIONS

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

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

Turkey's quota in the IMF represents its capital subscription and amounts to SDR 1,191.3 million as of 31 December 2007. SDR 112 million of the quota is Turkey's, reserve tranche position, which is paid in cash as foreign exchange.

The Bank's liability to the IMF has no balance as of December 31, 2005. While the direct use of credit by the Treasury from the IMF was SDR 7,154 million as of the end of 2006, it decreased to SDR 4,350 million as of the end of 2007 due to the redemption of SDR 3,373 million, despite the new use of credit of SDR 749 million in 2007. The details of the resources provided by the Fund in 2006 and 2007 are presented below:

		(SDR)
	2006	**2007**
Use of Credit	7,153,697,000	4,529,959,000
Direct use of credit by the Treasury	7,153,697,000	4,529,959,000

As of December 31, 2007, the IMF's holdings of New Turkish Lira amount to YTL 11,374 million, equivalent of SDR 5,608 million, converted at the rate of YTL/SDR parity determined by the IMF on April 30, 2007.

	YTL	SDR
Number 1 account	6,040,119	2,978,250
Number 2 account	6,786	3,346
Securities account	11,368,395,567	5,605,505,750
	11,374,442,472	5,608,487,346

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

Within the framework of the relations between Turkey and the IMF, for quarterly

- Turkey incurs charges on the outstanding purchases.

- The IMF pays remuneration, after the close of each of the IMF's financial quarters, on Turkey's remunerated reserve tranche position.

- Turkey incurs charges on the difference between the SDR holdings and the SDR allocation.

ISBN 978 - 605 - 5758 - 02 - 8

CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY

2007 ANNUAL REPORT DRAWN UP BY THE BOARD FOR
THE SEVENTY-SIXTH ACCOUNTING YEAR

Submitted to

THE GENERAL ASSEMBLY OF SHAREHOLDERS
on April 24, 2008

ANKARA
2008

Annual Report 2007

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

Telephone
(+90 312) 310 36 46

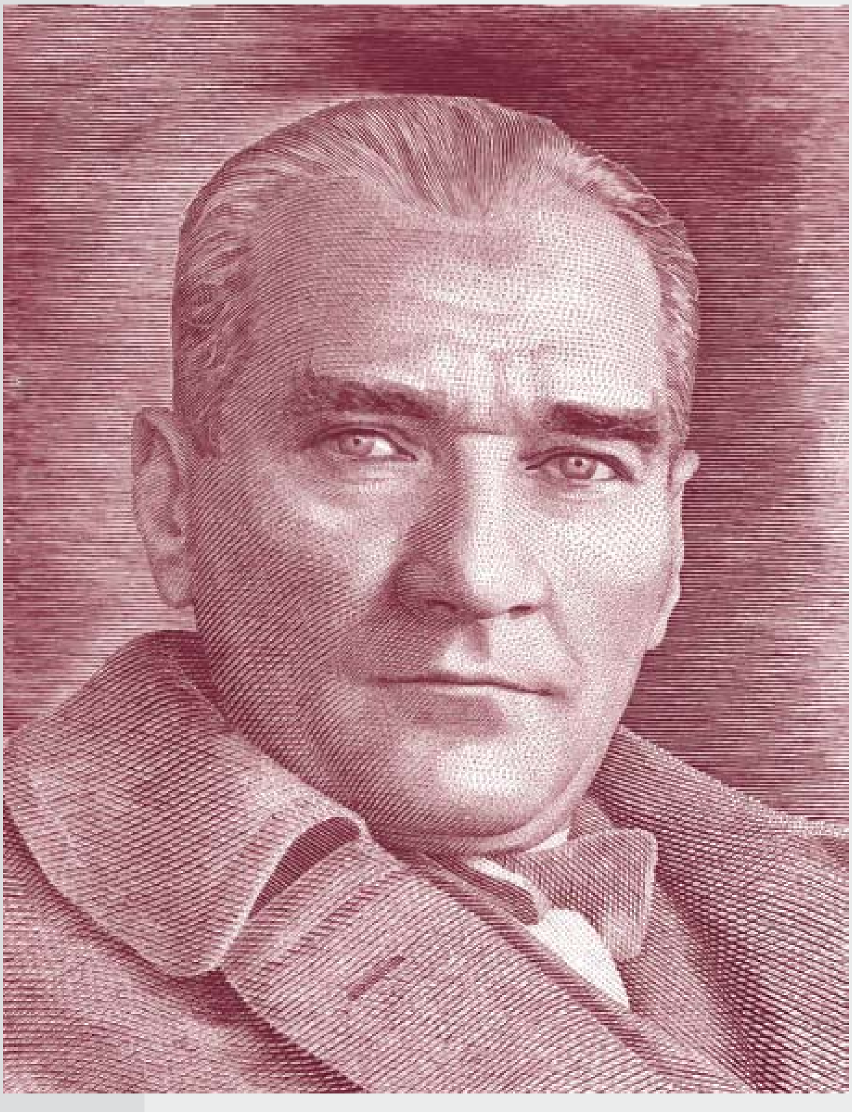
Fax
(+90 312) 310 74 34

E-mail
iletisimbilgi@tcmb.gov.tr

Website
http://www.tcmb.gov.tr

ISSN 1013 – 6193 (printed)
ISSN 1305 – 8762 (online)

ISBN 978 - 605 - 5758 - 02 - 8 (printed)
ISBN 978 - 605 - 5758 - 03 - 5 (online)



Portrait by the E-8 Emission Group Depicted
on the front of denominations of YTL 50 and YTL 100 from Series 1.

CHARTS

TABLES

CBRT ART COLLECTION

The Exhibition of “Contemporary Turkish Paintings from the Art Collection of the Central Bank of the Republic of Turkey” was shown from October 21, 2007 to January 18, 2008 at the Art Gallery of the Federal Reserve Bank in Washington, D.C.

A selection from the collection on show

ABBREVATIONS

BIS	Bank for International Settlements
BİMER	Communication Center for Prime Ministry
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CIA	Certified Internal Auditor
CIAS	Committee for International Accounting Standards
CISA	Certified Information Systems Auditor
CLS	Continuous Linked Settlement
Committee	Monetary Policy Committee
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
ESSIM	European Summer Semposium in International Macroeconomics
EU	European Union
FSAP	Financial Sector Assessment Programme
FSSA	Financial System Stability Assessment Report
GDBS	Government Domestic Borrowing Securities
GDP	Gross Domestic Product
GNP	Gross National Product
FXRIC	Foreign Exchange Risk and Investment Committee
ICHC	Interbank Clearing Houses Center
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISOM	International Seminar on Macroeconomics
RTGS	Real Time Gross Settlement
SCA	Special CPI Aggregates
SB	Strategic Benchmark
SEPA	Single European Payment Area OK
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIC-ESTS	Turkish Interbank Clearing – Electronic Security Settlement System
TIC-RTGS	Turkish Interbank Clearing – Real-Time Gross Settlement System
TL	Turkish lira
TURKSTAT	Turkish Statistical Institute
US	United States
YTL	New Turkish lira

Adnan Çoker
“Towards the Sphere”
1989, Acrylic on Canvas, 180x180 cm.

FOREWORD

"To ensure further gains, it is of particular importance that not only the Central Bank continues to take the necessary measures to meet the target over the medium term, but also that all spheres of society strengthen the support they have given so far in recognition that the Bank is committed to combating inflation for the sake of all individuals"

In pursuance of its primary objective and responsibility, to achieve and maintain price stability, the Central Bank of Turkey has adopted a monetary policy framework based on inflation targeting. This medium-term-oriented policy framework has been implemented since 2006. As an indicator of our commitment to fight inflation, we maintained our target of lower single-digit inflation rates and developed our monetary policy decisions with a medium-term perspective in pursuit of reaching the said target in 2007.

The monetary tightening implemented since mid-2006 has succeeded in keeping inflation in check. However, the dramatic escalation in food, energy and commodity prices worldwide, which is beyond the control of monetary policy, has been a critical factor that overshadowed the success of our monetary policy. Moreover, fiscal policy has made a modest contribution to disinflation, driven by the rebound in government spending and the increased special consumption tax on tobacco and fuel products in 2007. Consequently, inflation ended 2007 substantially above the year-end target determined with the Government. The Bank submitted an open letter to the Government disclosing the reasons of the deviation and the measures taken to bring inflation back on target, and publicized that letter in terms of its accountability.

It should be bourne in mind that the maintenance of price stability is not only the primary objective of monetary policy, but also of the macroeconomic stability program. Therefore, in order to achieve our inflation target over the medium term, we now need, in addition to a monetary policy, more inflation-target-oriented fiscal and incomes policies and effective arrangements to improve competitiveness and productivity. In fact, the solid and consistent implementation of macroeconomic policies in previous periods has enabled us to take a huge step on the road to price stability. The single-digit inflation rates attained today are the most important consequences of this mutual effort. Nevertheless, we should bear in mind that price stability has not yet been fully maintained. The fight against inflation is a lengthy and tough process that requires the persistence of the above-mentioned mutual effort. To ensure further gains, it is of particular importance that not only the Central Bank continues to take the necessary measures to meet the target over the medium term, but also that all spheres of society strengthen the support they have given so far in recognition that the Bank is committed to combating inflation for the sake of all individuals.

Great progress has been made in the communication policy of our Bank, regarding the main principles of our monetary policy strategy, i.e. accountability, transparency and predictability. In this context, apart from our diversified and enriched reporting system, press releases and national/international conferences and presentations are also among instruments that have improved our communication with the public. Furthermore, advances in the information technology structure of the Bank have made our data network more up-to-date and more easily accessible. In view of these considerations, I hereby present to you, our esteemed shareholders, the Annual Report, in which the activities and balance sheet details of the year are published.

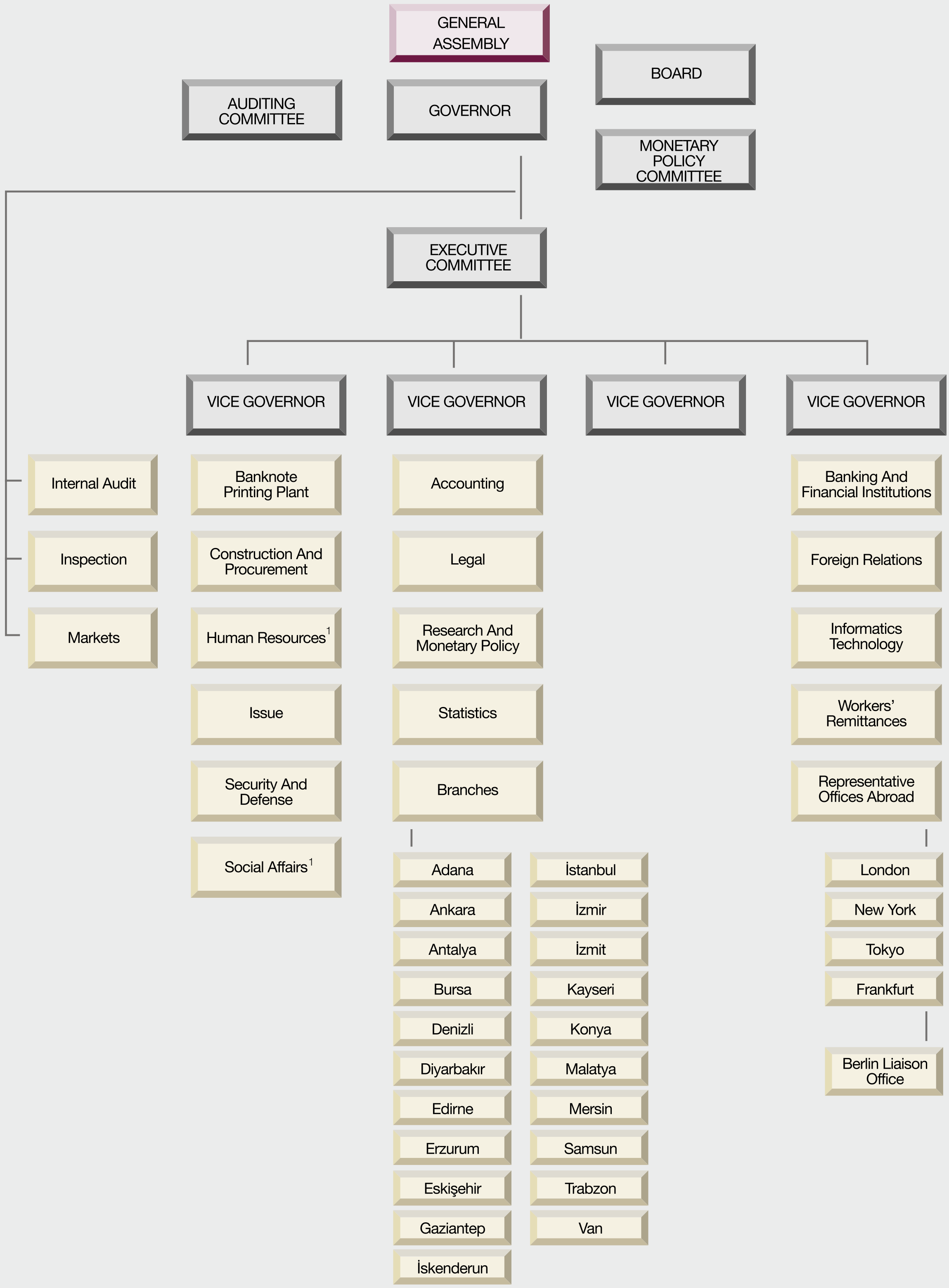
The Central Bank of Turkey strongly believes that price stability is a sine qua non for sustainable and high growth rates. Along with this belief and our responsibility, we will continue to take thenecessary measures to achieve price stability in the period ahead. I would also like to emphasize that the success we witness today is built upon the strong corporate structure of our bank and the professional skills of our staff. I am grateful to all my colleagues for their present contributions and future support.

Durmuş YILMAZ
Governor
(Signature)

Fikret Mualla
Flowers"
1952, Oil on Canvas, 46x38 cm.

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

1.1. ORGANIZATION CHART



[1] The Social Affairs Department was separated from the organizational structure of the Bank and the relevant duties were integrated into the Departments of Human Resources and Construction and Procurement in 2008.

1.2. BOARD

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

Making decisions concerning monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations on banknotes in circulation; making regulations regarding open market operations, foreign exchange operations, interest rates relating to rediscount and advance operations, reserve requirements and instruments, the management of gold and foreign exchange reserves of the country; preparing the budget, annual report, balance sheet, income statements and the agenda of the General Asssembly of the Bank and approving regulations regarding the administration, organization, services and personnel of the Bank are among the duties and powers of the Board. Within this framework, the Board made 146 decisions at 17 meetings in 2007.

Governor Durmuş YILMAZ

Prof. M. İlker PARASIZ

Necati ŞAHİN

Dr. M. İbrahim TURHAN

M. Vehbi ÇITAK

Assoc. Prof. Lokman GÜNDÜZ

Prof. Necdet ŞENSOY

As of December 31, 2007 Governor Durmuş Yılmaz has been the Chairman of the Board and its members are: Prof. M. İlker Parasız, Necati Şahin, Dr. M. İbrahim Turhan, M. Vehbi Çıtak, Assoc. Prof. Lokman Gündüz, Prof. Necdet Şensoy. At the regular General Assembly meeting of the Central Bank of the Republic of Turkey (CBRT) held on April 6, 2007, Board members Dr. M. İbrahim Turhan and Necati Şahin, whose memberships were due on April 30, 2007, were re-elected as members for a three-year period from May 1, 2007 to April 30, 2010.

1.3. MONETARY POLICY COMMITTEE

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

In 2007, the Monetary Policy Committee held 12 regular meetings.

Assoc. Prof. Mehmet YÖRÜKOĞLU | Assoc. Prof. Erdem BAŞÇI | Durmuş Yılmaz | Burhan Göklemez | Dr. M. İbrahim Turhan

As of December 31, 2007, Governor Durmuş Yılmaz has been the Chairman of the Monetary Policy Committee and members[2] are Assoc. Prof. Erdem Başçı, Burhan Göklemez, and Assoc. Prof. Mehmet Yörükoğlu, Vice Governors, and Board member Dr. M. İbrahim Turhan.

[2] Pursuant to amended Article 22/A of the Central Bank of the Republic of Turkey Law No. 1211, Prof. Abdullah Yavaş was appointed to the vacant monetary policy membership on 12 March, 2008

1.4. AUDITING COMMITTEE

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

Mustafa Saim UYSAL

Abdullah YALÇIN

As of December 31, 2007 members of the Auditing Committee are Mustafa Saim Uysal, Abdullah Yalçın, Mehmet Tüfekçi and Prof. Ekrem Yıldız. Abdullah Yalçın who is a member of Class (B) and Class (C) was re-elected by Class (B) and Class (C) shareholders, and Mustafa Saim Uysal who is a member of Class (D) was re-elected by Class (D) Shareholders to serve for two years from May 1, 2007 to April 30, 2009.

Mehmet Tüfekçi was elected to Class (A) Membership, and Prof. Ekrem Yıldız was elected to Class (B) and (C) Membership to serve for two years from May 1, 2007 to April 30, 2009.

Mehmet TÜFEKÇİ

Prof. Ekrem YILDIZ

1.5. EXECUTIVE COMMITTEE

The Executive Committee is composed of Vice-Governors under the chairmanship of the Governor. The Governor is appointed by the Council of Ministers to serve for five years. Vice-Governors are appointed for five years by a joint decree on the recommendation of the Governor. Decisions of the Executive Committee are taken by a majority of all members. When considered appropriate by the Governor, the Committee prepares proposals to be submitted to the Board, by examining issues subject to Board decision in advance, and draws up regulations on the administration, organization and services of the Bank. In addition, the Committee is also responsible for ensuring the coordination of the operations of the Bank and performing duties related to the appointment, remuneration, dismissal and retirement of personnel other than those appointed by the Board.

Durmuş YILMAZ

Assoc. Prof. Erdem BAŞÇI

Burhan GÖKLEMEZ

Assoc. Prof. Mehmet YÖRÜKOĞLU

As of December 31, 2007, members of the Executive Committee are Governor Durmuş Yılmaz, the Chairman, Assoc. Prof. Erdem Başçı, Burhan Göklemez and Assoc. Prof. Mehmet Yörükoğlu.

1.6. HEAD OFFICE DEPARTMENTS

Back (left to right): İrfan Yanar, Selahattin Akkaş, Dr. N. Ahmet Kıpıcı, Halit Yıldırım, Mehmet Sertbudak, Rifat Günay, Dr. Bilal San, Ömer Öztürk, H. Cahit Özcet, Ahmet Aktaş
Front (left to right): Jale Ataman, E. Gülten Tınaz, Çiğdem Tunçtürk Köse, Akil Özçay

As of December 31, 2007,

Accounting Department	General Manager, Dr.Bilal San
Banking and Financial Institutions Department	General Manager, Rifat Günay
Banknote Printing Plant	General Manager, Selahattin Akkaş
Communication and Foreign Relations Department	Deputy General Manager, İ. İlhan Koçaker
Construction and Procurement Department	General Manager, Ahmet Aktaş
Human Resources Department	General Manager, E. Gülten Tınaz
Informatics Technology Department	General Manager, Ömer Öztürk
Inspection Unit	Executive Director Assignee, İrfan Yanar
Internal Audit Department	General Manager, Akil Özçay
Issue Department	General Manager, Mehmet Sertbudak
Legal Department	General Manager, M. Kudret Mennan
Markets Department	General Manager, Çiğdem Tunçtürk Köse
Research and Monetary Policy Department	General Manager, H. Cahit Özcet
Security and Defense Secretariat	Security and Defense Secretary, Halit Yıldırım
Social Affairs Department	General Manager, Leyla Öney
Statistics Department	General Manager, Dr. N. Ahmet Kıpıcı
Workers' Remittances Department	Deputy General Manager, Jale Ataman

1.7. BRANCHES

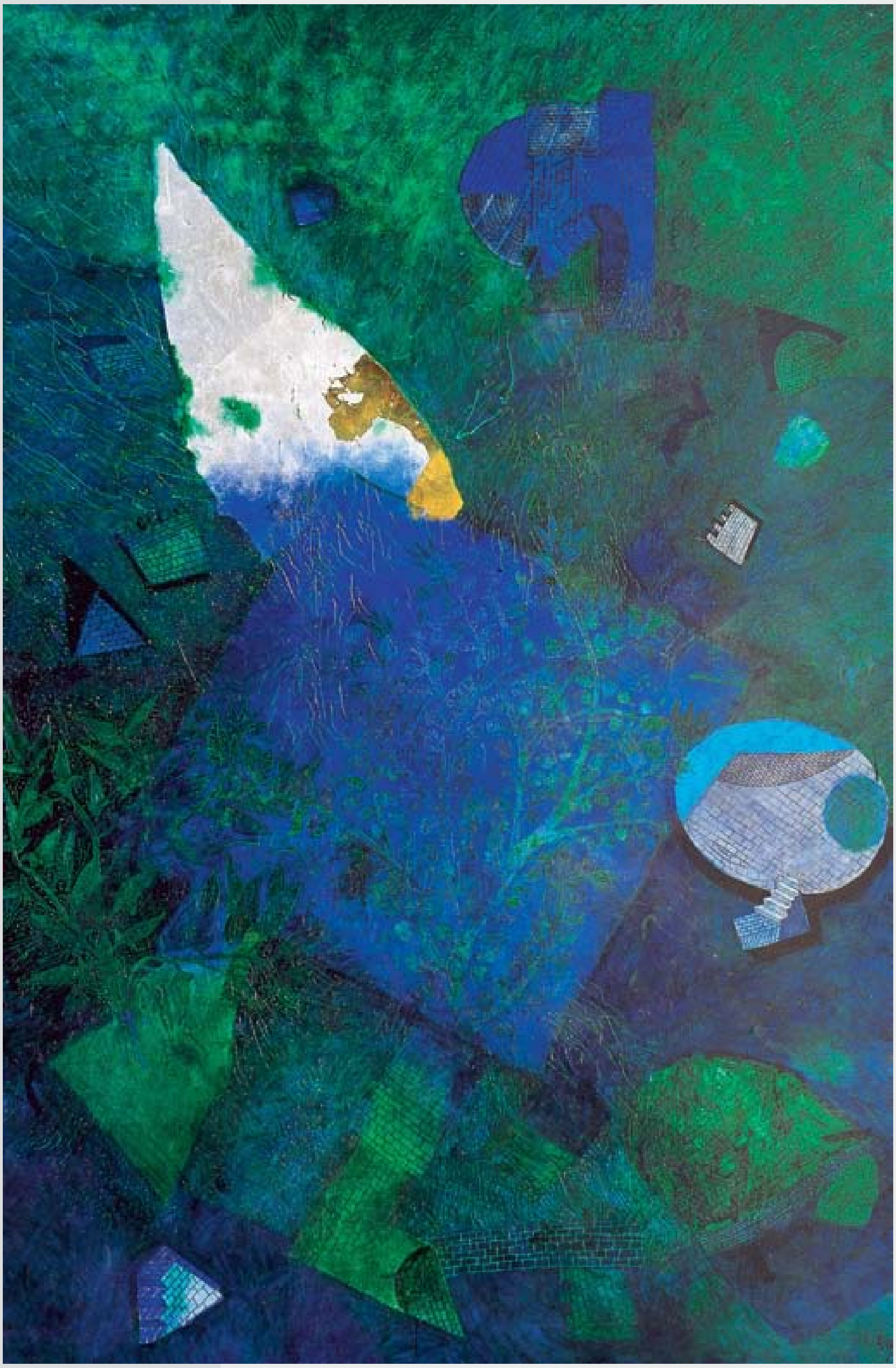
As of December 31, 2007,

ADANA BRANCH	Manager, M. Ali Tuğlu
ANKARA BRANCH	Manager, M. Ali Koca
ANTALYA BRANCH	Manager, MineTopçu
BURSA BRANCH	Manager, İsmail Yürümez
DENİZLİ BRANCH	Manager, Kadriye Ay
DİYARBAKIR BRANCH	Manager, Eyüp Kütük
EDİRNE BRANCH	Manager, Muharrem Zengin
ERZURUM BRANCH	-
ESKİŞEHİR BRANCH	Manager, Seniha Özer
GAZİANTEP BRANCH	Manager, Ahmet İnci
İSKENDERUN BRANCH	Manager, Tufan Sonek
İSTANBUL BRANCH	Manager, L. Ümit Fındıkoğlu
İZMİR BRANCH	Manager, T. Hayati Boyalı
İZMİT BRANCH	Manager, Atanur Dursun
KAYSERİ BRANCH	Manager, Meral Kiper
KONYA BRANCH	Manager, Şerafettin Baydaş
MALATYA BRANCH	Manager, A. Cengiz Sağdıç
MERSİN BRANCH	Manager, Rıdvan Songör
SAMSUN BRANCH	Manager, Süleyman Koruyucu
TRABZON BRANCH	Manager, Nevzat Gülen
VAN BRANCH	Manager, Süleyman Miçooğulları

1.8. REPRESENTATIVE BRANCHES AND THE LIAISON OFFICE

As of December 31, 2007;

Frankfurt Representative Office	Vice-Representative, Nesrin Tokoğlu
Berlin Liaison Office	Chief, Şenay Bozkurt
London Representative Office	Representative, İ. Hakkı Arslan
New York Representative Office	Representative, M. Aydın Özmen
Tokyo Representative Office	Representative, Çetin Özbek



Erol Akyavaş
“Locus of Extremity”
1982, Oil and Silver Leaf on Canvas, 265x178 cm.

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

Kemal Önsoy
“Rumeli Caravanserai VII”
1989, Oil on Canvas 187x205 cm.

2.1. STRATEGIC PLAN

Mission

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

Vision

stands for a Central Bank that:

- achieves and maintains price stability so as to promote the prosperity of society,
- contributes to financial stability,
- pursues an efficient communication policy,
- is independent, transparent, accountable and credible.

Values

- Transparency, Accountability, Credibility, Good Governance, Effective Communication, Giving Priority to Public Benefit.

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

1) Maintaining Trust in the National Currency

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

2) Maintaining Convergence to the European Union and Developing Relations with other International Organizations

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

3) Developing an Adequate and Effective Communication

To improve and play an active role in domestic and international communication in order to increase the efficiency of policies applied through the principles of accountability, credibility and transparency.

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

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

5) Developing Corporate Governance

To provide a functional, secure and flexible working environment within the Bank. Thus, to set a good example of corporate governance by enhancing transparency and accountability. To develop a corporate culture in which the personnel can participate efficiently in processes.

2.2. PRICE STABILITY AND MONETARY POLICY

2.2.1. Overview

In previous periods, Turkey's economy became relatively stable thanks to the consistent and firm implementation of monetary and fiscal policies, resulting in a significantly reduced volatility in growth and inflation figures. In addition to strong growth rates, inflation fell to single-digit levels during this period. Moreover, the reduced debt burden of the public sector facilitated the deepening of financial markets, whereby the increased confidence of consumers and investors was translated into economic activities. As the sharp increase in private-sector consumption and investment expenditures resulted in a savings deficiency, the boom in economic activities was financed largely through foreign savings, primarily long-term borrowing and direct capital inflows. This development led to the widening of the current account deficit and a surge in the private sector's foreign debt stock. At this point, reducing inflation to single-digit levels depends, to a large extent, on continued implementation of the recent tight monetary and fiscal policies, as well as on new reforms that will further strengthen the market mechanism, improve the intermediation function of the financial sector so as to meet the source requirement of the real sector, increase total factor productivity and competitiveness, and make the public sector more efficient.

The lagged effects of monetary tightening since the mid-2006, the significant contraction in the agricultural sector, and the decline in confidence of consumers and investors due to global financial turbulence in August 2007, lowered the rate of increase in total domestic demand. The contraction in the agricultural sector has not only affected growth but also caused inflation to rise temporarily. Moreover, after the turbulence in May-June 2006, the contribution of net exports to growth turned positive, which continued into the first half of 2007. However, as imports grew faster than exports in quantity, net exports contributed negatively to growth in the second half of 2007. The compensation paid to drought-hit farmers, the inter-temporal change of public expenditures due to elections, higher-than-expected health care expenditures, and the slowdown in indirect tax revenues driven by the weakening of domestic demand had a negative impact on the primary surplus performance of the program-defined budget. Therefore, the support of the public sector to disinflation was quite limited in 2007 compared to previous years. Likewise, the decline in productivity gains since the second quarter of 2007 and the upward trend in real wages reduced the contribution of unit labor costs to disinflation. In addition, the steep rise in crude oil prices since mid-2007 also added to the pressure on inflation.

Within the framework of a medium-term monetary policy strategy that defines price stability as the main objective, the explicit inflation-targeting regime, effective since early 2006, was further implemented in 2007. The inflation target, which is identified as the annual percentage change in the Consumer Price Index (CPI), was set at 4 percent for 2007, with a three-month inflation path consistent with the year-end target and an uncertainty band of 2 percentage points around the target. Motivated by this target, the Central Bank left policy rates unchanged until end-August in response to potential changes in global liquidity conditions and in the global risk appetite, the relatively continued rigidity of services inflation, ongoing supply shocks and lagged effects of the increase in the exchange rate. However, the lagged impacts of the strong monetary tightening, which has been implemented since mid-2006, caused a weakening in domestic demand and significant decrease in basic inflation indicators, primarily services and consumer durables. As a result, policy rates were reduced slightly starting from September, by a cumulative 175 basis points by the end of 2007. As emphasized above, the sharp increase in food, energy and administered prices, which is beyond the control of monetary policy, restrained the disinflation process, and inflation was realized above the year-end upper limit of the uncertainty band of 6 percent.

2.2.2. Macroeconomic Developments

Supply and Demand Developments

The steady growth of the Turkish economy since 2002, continued into 2007, with a Gross Domestic Product (GDP) growth of 4.5 percent in 2007 (Table 1). GDP increased by 7.6 and 4.0 percent in the first two quarters of 2007, respectively, while in the second half of the year it grew by only 3.4 percent.

Annual GDP growth in 2007 hit the lowest rate since 2002, largely because of the decrease in the value added of the agricultural sector due to the drought, the uncertainty surrounding the general elections, turbulences in global markets and the strong monetary tightening implemented since mid-2006.

1 GDP Developments by Expenditures (At 1998 Prices, Annual Percentage Change)

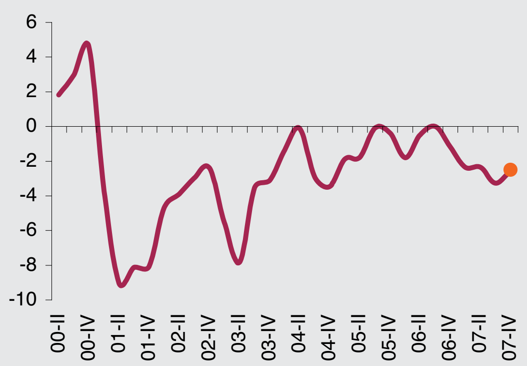
	2005	2006					2007				
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
1-Consumption Expenditures	7.2	6.8	9.6	3.9	0.8	5.1	5.5	1.7	7.6	2.7	4.4
Public	2.5	8.6	14.5	11.2	2.0	8.4	4.7	2.1	3.3	1.6	2.8
Private	7.9	6.6	9.0	2.9	0.6	4.6	5.6	1.6	8.2	2.9	4.6
2-Fixed Capital Investments	17.4	19.3	14.4	12.6	8.2	13.3	2.8	1.2	2.1	7.2	3.3
Public	25.0	5.4	2.2	-1.2	4.7	2.6	4.3	8.4	15.9	2.2	7.6
Private	16.2	21.0	16.3	14.9	8.9	15.0	2.6	0.2	0.0	8.1	2.7
Machinery-Equipment	21.4	23.8	12.8	10.7	3.6	12.2	-3.2	-3.7	-1.6	11.9	0.7
Construction	7.6	16.4	24.0	23.0	18.2	20.3	12.9	8.2	2.8	2.2	6.3
3- Stock Change [1,2]	0.1	-2.5	-0.2	0.5	1.4	-0.1	1.9	1.8	0.0	3.2	1.7
4- Exports of Goods and Services	7.9	6.5	8.5	4.1	7.9	6.6	12.5	9.3	4.2	2.5	6.7
5- Imports of Goods and Services	12.2	11.5	12.4	3.3	1.6	6.9	8.6	5.6	14.4	15.7	11.1
Net Exports [1]	-1.4	-1.7	-1.6	0.2	1.5	-0.3	0.4	0.5	-2.6	-3.7	-1.5
6-Total Domestic Demand	9.5	7.3	10.8	6.1	4.1	7.0	6.8	3.2	5.9	7.0	5.7
7-Total Final Domestic Demand	9.4	9.5	10.8	5.9	2.5	7.0	4.8	1.6	6.3	3.8	4.1
8-GDP	8.4	5.9	9.7	6.3	5.7	6.9	7.6	4.0	3.4	3.4	4.5

[1] Contribution to GDP Growth, percent.
[2] Stock changes include the statistical error.
Source: TURKSTAT.

In 2007, final domestic demand made a larger contribution to growth in the second half than in the first half, buoyed by the recovery in private sector demand. In contrast, the contribution of net foreign demand to growth, which became negative in the third quarter of 2007 for the first time after the second quarter of 2006, again displayed a deficit in the last quarter of 2007.

Public expenditures accelerated significantly during the third quarter, boosted by public investments. However, in the last quarter they made a modest contribution to growth compared with the preceding quarters. Having slowed down since the second half of 2006, domestic demand rebounded gradually in 2007, whereas aggregate demand conditions continued to support disinflation (Chart 1).

1 Output Gap (Percent)

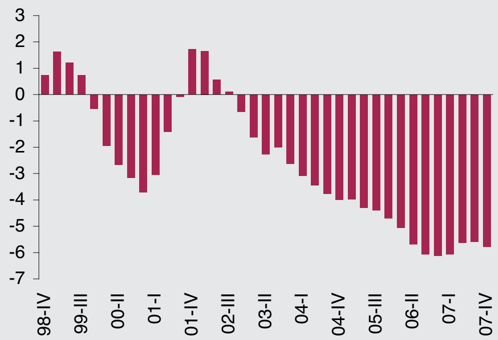


Source: CBRT.

Balance of Payments Developments

In 2007, total exports of goods grew by 23.1 percent over the previous year, amounting to USD 113.2 billion, while total imports of goods increased by 20.6 percent to USD 160.7 billion. Accordingly, the foreign trade deficit equaled USD 47.5 billion. Exports grew at a robust pace on the back of strong performance of traditional sectors such as textiles and clothing and other industries, such as motor vehicles and iron and steel. Although terms of trade were in favor of exports over the entire year, the rebound in imports, following the recovery in domestic demand and the strengthening of YTL, widened the foreign trade deficit.

2 Current Account Balance / GDP* (Percent)



*Annualized data

Source: CBRT.

The positive performance of exports, strong industrial production and oil prices above the levels of 2006 since September are the factors underlying the rapid increase in imports of intermediate goods. Moreover, as tourism revenues amounted to USD 18.5 billion in 2007, services revenues grew, but the income deficit widened. In view of all these developments, the current account deficit widened to USD 38 billion. The ratio of current account deficit to GDP fell to 5.8 percent at end-2007, from 6.1 percent at end-2006 (Chart 2).

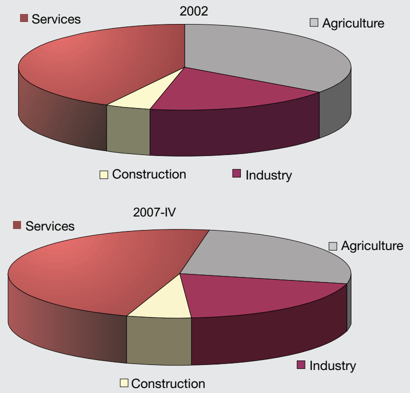
The rise in Turkey's current account deficit in recent years was largely driven by the shift in rising private investments towards industries using more imported inputs such as automotive, machinery-equipment and electronics. The sharp rise in prices of energy imports, especially in crude oil, contributed to the widening of the current account deficit. However, financing of the current account deficit improved notably, particularly during 2006-2007. Direct investments and long-term borrowings were enough to cover the whole current account deficit. The weight of portfolio investments and short-term credits in sources of financing declined significantly. All these developments are critical for the sustainability of the current account deficit.

Employment, Labor Productivity and Energy Prices Developments

The Turkish economy achieved high rates of growth in recent years, which also led to fundamental changes in employment structure. While in 2002, 35 percent of total employees were employed in agricultural sector, this ratio dropped to 25 percent in the last quarter of 2007 (Chart 3). One of the main reasons for the fast decline in agricultural employment was the rising demand for employment in non-agricultural sectors.

The shift in labor from low-productivity agricultural sectors towards higher-productivity non-agricultural sectors is considered favorable in terms of economic development. This, however, is also one of the main reasons why there has not been a significant decline in unemployment rates despite high growth rates after 2001. An important change in the employment structure, parallel to the decline in agricultural employment, during this period was the decrease in the unregistered employment ratio. In 2002, unregistered employment equaled 52 percent of total employment, which, however, ended 2007 at 45 percent.

3 ***Total Employment by Sectors***



Source: TURKSTAT.

The slowdown in economic activities in 2007 restrained the rate of increase in non-agricultural employment, while the drop in agricultural employment accelerated owing to drought (Chart 4). As the rate of increase in non-agricultural employment fell to 2.3 percent and agricultural employment declined to 2 percent, total employment grew by a mere 1.1 percent.

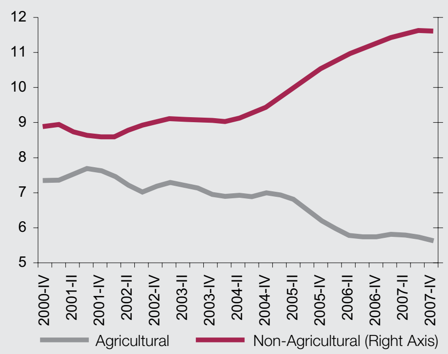
In 2007, the number of unemployed people increased by an average 1.6 percent year-on-year, to 2.3 million. In 2007 the unemployment rate remained unchanged from 2006, at 9.9 percent. However, employment in the manufacturing industry and construction fell year-on-year in the last quarter of 2007, whereby unemployment increased by 0.5 points compared with the same period in 2006 to 10.1 percent. The slowdown in total demand and the sharp increase in real wages that prevailed during the third quarter of 2007 contributed to the decline in manufacturing industry employment.

Thanks to productivity gains in the manufacturing industry, real unit wages dropped without interruption after 2001. However, This trend slowed down in the second quarter of 2007 and real wages in the manufacturing industry recorded an increase of 2.5 percent in the third quarter (Chart 5).

Despite the increase in manufacturing industry production by 3.2 percent, the increase in the real wage per hour by 3.5 percent and increase in hours worked by 2.2 percent had an impact onthe increase in real unit wages. The continued decline in real unit wages is of great importance regarding its contribution to both manufacturing industry competitiveness and to disinflation. In the last quarter of 2007, real wages declined by 2.3 percent (Chart 5).

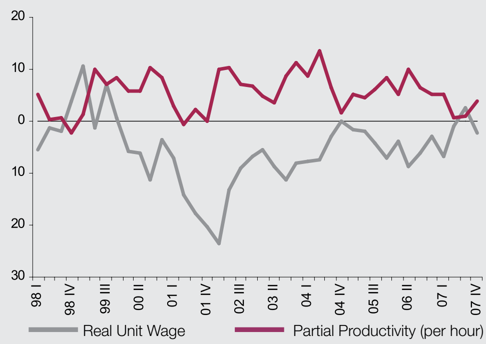
The robust global growth in recent years, the drop in both crude oil and product inventories, the reduced amount of excess capacity and the increased net long positions held by non-commercial investors who trade in futures markets have all put pressure on prices in crude oil markets. However, fears about a US recession heightened as the US subprime mortgage crisis that emerged in August further deepened. Crude oil prices thus saw a partial decline at end-2007. International crude oil prices amounted to USD 93.9 per barrel as of December

4 ***Agricultural, Non-Agricultural Employment (12-Month Average, Million People)***



Source: TURKSTAT.

5 ***Productivity and Real Unit Wage in Manufacturing Industry (Annual Percentage Change)***



Source: TURKSTAT, CBRT.

Credit Developments

The comprehensive reforms that were implemented after the economic crisis in 2001 helped to improve the quality and effectiveness of the credit mechanism. As expectations of both the banking sector and individuals turned positive, maturities in financial contracts became longer and amounts specified in the said contracts increased. As a result, credit volume has grown significantly starting from the second quarter of 2003. Supported by the continued foreign capital inflow into the banking sector and the ongoing fiscal discipline, credit expansion continued in 2007. Consumer loans also continued to follow an upward trend, albeit at a slower pace in the last quarter of 2007 due to reduced financing sources amid global financial turbulence and heightened uncertainties.

The "other loans" item that covers personal loans played a major role in the growth of consumer loans in 2007. Housing loans continued to grow, while automobile loans further declined despite the fourth-quarter rebound (Table 2).

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

	2006		2007			
	III	IV	I	II	III	IV
Consumer Loans	1.5	3.6	2.6	9.0	10.0	6.6
Housing Loans	0.9	2.2	2.7	7.5	10.2	5.4
Automobile Loans	-6.4	-5.0	-8.9	-3.4	-2.0	-1.4
Other Loans	6.0	8.9	6.6	14.5	12.8	9.9
Credit Cards	2.1	2.1	-1.6	7.7	2.4	3.2

Source: CBRT.

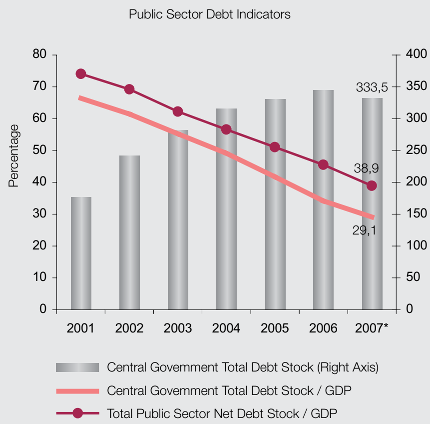
Public Finance and Debt Stock Developments

Turkey's large unregistered economy and the gradual rise of the weight of private consumption taxes caused direct taxes to have a reduced share in total tax revenues. Thus, indirect taxes made the largest contribution to the primary budget surplus in recent years. On the public spending side, some non-interest budget expenditures were kept in control; however, total expenditures surpassed the initial targets due to structural problems in social security and health care. In 2006 and before, strong domestic demand fostered the rise in indirect tax revenues, helping the primary surplus to achieve target levels despite a deviation in some expenditure items. However, in 2007, the program-defined primary surplus deviated considerably from the target as non-interest expenditures surpassed the initial target and also because of the poor performance of indirect tax revenues, which is driven by the weakening of domestic demand, as well as the lack of reforms to combat structural problems.

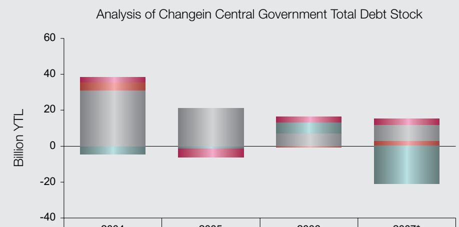
Although many reforms were carried out to enhance the effectiveness of fiscal policy and to strengthen the institutional structure, fiscal policy made a limited contribution to maintaining price stability in 2007 since the measures failed to lessen the sensitivity of tax revenues to domestic demand and to keep expenditures stemming from structural problems under control. In addition, as 2007 was an election year, the higher-than-expected rise in spending on some items also played a part in the said scenario. In November, losses in indirect tax revenues were partially offset by raising the tax burden on tobacco and petroleum products, which, however, caused inflation to run up.

In 2007, the central government primary balance displayed a YTL 34.9 billion surplus, whereas the total budget balance was in deficit of YTL 13.9 billion. As suggested by a detailed analysis of the central government budget, revenues and expenditures increased by 9.3 and 14.3 percent, respectively, compared to 2006. The performance

6 Public Sector Debt Indicators (Billion YTL)



*Temporary
Source: Treasury.



	2004	2005	2006	2007*
Party Effect**	3.0	-4.8	3.2	3.4
Total Exchange Rate Effect***	-4.6	-0.8	6.4	-21.2
Increase in Net Foreing Borrowing	4.1	-0.6	-0.5	-2.6
Increase in Net Domestic Net Borrowing	31.2	21.1	6.7	8.9

*Change over 2006.
**Changes resulting from movements in the USD/EUR and USD/SDR parity.
***Changes resulting from movements in the YTL/USD parity.
Note: Changes in net debt denotes the change adjusted for the exchange rate and parity effect.
Source: Treasury, CBRT.

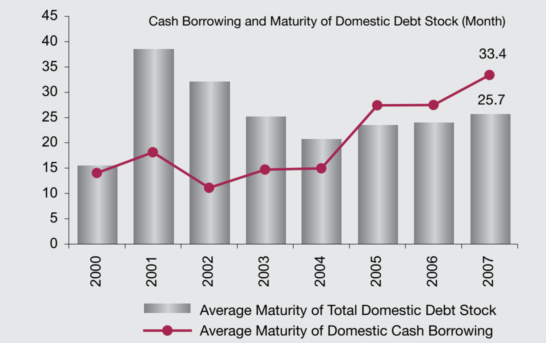
of the budget in 2007 was poorer than that of 2006; nevertheless, the central government budget balance still achieved the target. However, the ratio of the program defined primary budget surplus over GDP [1] is forecasted to remain well below the target of 6.5 percent.

In 2007, non-tax revenues increased 1.1 percent, while tax revenues rose by 11.2 percent. In tax revenues, it is remarkable that direct tax revenues (sum of taxes on income and earnings and on property) increased by 19.8 percent, whereas indirect tax revenues (sum of domestic taxes on goods and services and taxes on international trade and transactions) increased by only 6.4 percent compared with 2006. 2007 was a year of weakening domestic demand and a resulting poor performance of consumption related taxes. Direct taxes, on the other hand, surpassed the initial targets thanks to the positive performance of corporate tax revenues on the back of strong profit gains in the financial sector. Interest expenditures and non-interest budget expenditures rose by 6.0 and 17.1 percent, respectively, compared to the previous year. Among non-interest expenditures, the purchase of goods and services including health care expenditures and the financing of the social security deficit surpassed the initial appropriations significantly. Other expenditure items roughly met the year-end targets.

At end-2007, central government debt stock was down 3.4 percent to YTL 333.5 billion from the previous year. Despite the central government budget deficit of YTL 13.9 billion, exchange rate movements helped to improve the debt stock with a reduction of YTL 21.2 billion. At the same time, the central government's net domestic borrowing amounted to YTL 8.9 billion, while its net foreign borrowing decreased by YTL 2.6 billion. Moreover, the ratio of total public debt stock over GDP continued a downward trend to 29.1 percent in 2007, which was largely due to the stability maintained in growth rates, exchange rates and interest rates, coupled with gains from the primary surplus and privatization (Chart 6).

[3] National account statistics at 1987 base year prices

7 **Maturity of Domestic and Foreign Borrowing**



Source: Treasury.

As the Treasury issued a record amount of five-year floating rate and fixed coupon bonds in 2007, the average maturity of domestic cash borrowing displayed a significantly longer course and extended to 33.4 months in December 2007. Likewise, the average maturity of total domestic debt stock also extended to 25.7 months in December (Chart 7).

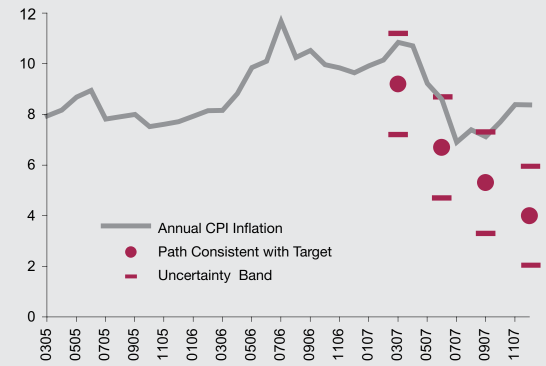
Inflation Developments

The Consumer Price Index (CPI) ended 2007 at 8.39 percent and breached the upper limit of the year-end uncertainty band of 6 percent, largely because of price developments in the fourth quarter and record-high processed food and administered prices (Chart 8).

In 2007, the impact of last year's tight monetary policy was particularly evident on the prices of services and durable goods. Yet, supply-side factors continued to affect consumer inflation in 2007. Especially drought-related factors put pressure on unprocessed food prices during the first half of the year and on processed food prices during the second half. Higher commodity prices, such as food, curbed the decline in consumer inflation, although the strengthening of the New Turkish lira throughout the year restrained the effect of the sizable increase in commodity prices.

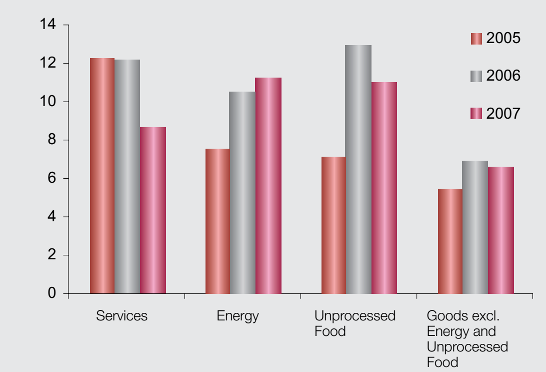
Inflation developments in sub-items indicate that services inflation fell significantly while goods inflation remained almost stable. Energy prices increased at a higher rate than the previous year whereas the annual rate of increase in unprocessed food prices and in prices for goods excluding energy and unprocessed food was down from the previous year (Chart 9).

8 **Annual CPI Inflation and the Path Consistent with the Target**



Source: TURKSTAT, CBRT.

9 **Consumer Prices (Annual Percentage Change)**



Source: TURKSTAT, CBRT.

Unprocessed food prices continued to increase in the first half of the year due to drought related problems. However, the annual inflation in unprocessed food fell from 16 percent in the first quarter to 11 percent in the last quarter, down from a year earlier.

The rate of increase in energy prices was higher than 2006 due to the steep fourth-quarter rise in residential energy prices. The strengthening of the New Turkish lira curbed the spillover of elevated oil prices to domestic prices. Annual inflation in energy prices ended 2007 at 11.25 percent.

Annual inflation in goods excluding energy and unprocessed food was 6.60 percent in 2007. The twice-adjusted tax on tobacco products curbed the downward trend in the group's annual inflation compared to 2006. However, although the sizable increase in processed food prices in the second half of 2007 drove the group's inflation higher, the impact of tight monetary policy on prices of durable goods reduced the unfavorable effect.

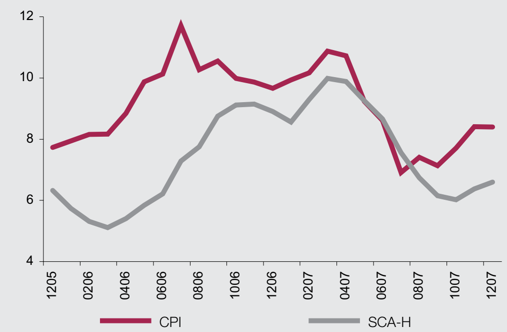
Services inflation slowed markedly to 8.64 percent at end-2007, down by 3.6 percentage points from 2006. The slowdown was observed across all services sub-items, which is considered to be a positive development (Chart 10).

Annual inflation of the SCA-H index, which is one of the Special CPI Aggregates used for extracting the main trend of inflation by excluding temporary movements, fell by 2.3 percentage points to 6.59 percent from last year (Chart 11). The marked rise in processed food prices in the second half of the year limited that decline. Thus, inflation in SCA-H items other than processed food was up 4.81 percent at end-2007.

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

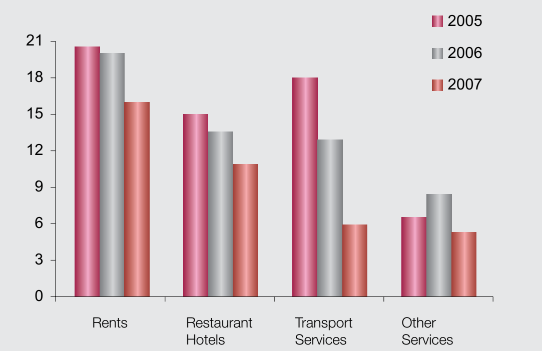
Both 12-month and 24-month ahead inflation expectations showed a downward trend throughout 2007, although the improvement was slight in the last quarter (Chart 12). This development cannot only be attributed to the pricing behavior that

11 ***CPI and SCA-H (Annual Percentage Change)***



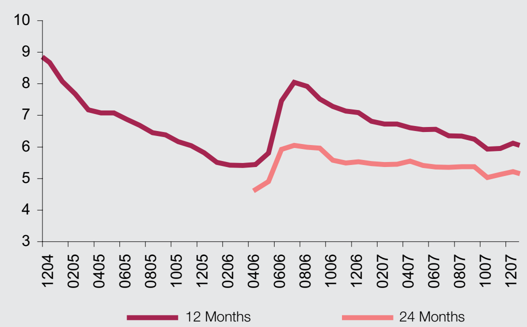
Source: TURKSTAT.

10 ***Services Prices (Annual Percentage Change)***



Source: TURKSTAT, CBRT.

12 ***CPI Expectations by the end of the next 12 and 24 Months (Annual Percentage Change)***



Source: CBRT.

is partially indexed to past inflation but also to developments in administered prices. At end-2007, year-end inflation expectations for 2008 and 2009 were 6.01 and 5.17 percent, respectively.

2.2.3. Monetary Policy Implementations

The General Framework of the Inflation Targeting Regime

The explicit inflation-targeting regime, which was launched early 2006, continued to be implemented in 2007. The general operational framework of the inflation-targeting regime for 2006 was maintained to a large extent in 2007. However, in order to conduct a more effective communication and monetary policy, certain changes were made regarding the framework. These changes and the principles underlying the monetary policy implemented in 2007 were announced in the Governor's press release on "Monetary and Exchange Rate Policy for 2007" of December 13, 2006.

The main instrument of monetary policy is the short-term interest rates on the Interbank Money Market and on the Istanbul Stock Exchange Repo/Reverse Repo Market. Interest rate decisions continued to be taken in monthly meetings held in line with the pre-announced annual timetable. Interest rate decisions and the rationale of decisions were announced in a press release on the same day. In 2007, the English translation of this press release began to be published concurrently on the Bank's website. Moreover, the "Summary of the Monetary Policy Committee Meeting" that contains details of decisions and assessments made during the meetings started to be published with its English translation within eight working days following the meetings.

As another change to monetary policy implementations, the inflation forecasts revealed in Inflation Reports, which had previously covered a time span of one and a half years, started to cover a two-year period in 2007 in order to help economic agents predict the future more effectively. As a result of this adjustment, a new forecast horizon was designed to be comparable to the results of the Survey of Expectations, allowing an easier analysis and assessment of inflation forecasts.

The Inflation Report, which is published quarterly, continued to be the main communication tool of the Central Bank. Accordingly, Inflation Reports were published four times in 2007, in January, April, July and October. The reports include the latest trend in inflation, a comprehensive analysis on macroeconomic and financial developments, the Bank's inflation forecasts, risks to the future course of monetary policy, and the possible policy stance of the Bank in case the risks materialize. Another important tool of communication is the "Monthly Price Developments Report" which provides a better interpretation of monthly inflation data.

Inflation targets continued to be defined as the annual percentage change of the Consumer Price Index (CPI) in 2007 and the target horizon of 3 years was retained. Considering the structural transformation of the economy, the shift from

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

	2007			
	March	June	September	December
Upper limit of the uncertainty band	11.2	8.7	7.3	6.0
Path consistent with the target	9.2	6.7	5.3	4.0
Lower limit of the uncertainty band	7.2	4.7	3.3	2.0
Realizations	10.86	8.60	7.12	8.39

Source: CBRT

high inflation to low inflation and the convergence process to developed countries, the inflation target was set at 4 percent in the medium run. In this context, inflation targets for 2007 and 2008 were maintained at 4 percent, and the inflation target for 2009 was also set at 4 percent. Besides, in order to form a basis for the accountability mechanism, a quarterly path consistent with the year-end target for 2007 with an uncertainty band of 2 percentage points on both sides was announced (Table 3). This path has also been used, along with the Net International Reserves item, as a performance criterion in quarterly reviews within the scope of the stand-by program implemented with the International Monetary Fund (IMF). If inflation breaches the uncertainty band at quarter-ends, the Central Bank is obliged to publicize the "Open Letter" submitted to the Government disclosing the reasons for the deviation from the target and the measures that need to be taken for re-convergence to the target. As inflation did not breach the upper limit of the uncertainty band after three quarters, the accountability mechanism was not executed. However, at end-2007, inflation breached the upper limit of the uncertainty band, necessitating the CBRT to write an open letter to the Government and to communicate it to the public and to the IMF in the scope of IMF program conditionality.

Monetary and Exchange Rate Policy for 2008

The Central Bank will continue to perform inflation targeting and floating exchange rate regimes in 2008. In this respect, the main framework outlined for the monetary and exchange rate policy for 2007 was maintained for 2008 and shared with the public in the press release on "Monetary and Exchange Rate Policy for 2008" dated December 18, 2008.

4 ***Inflation Path Consistent With the Year -End-Target and the Uncertainty Band in 2008***

	2008			
	March	June	September	December
Uncertainty Band (Upper limit)	9.1	8.5	8.3	6.0
Path Consistent with the Target	7.1	6.5	6.3	4.0
Uncertainty Band (Lower limit)	5.1	4.5	4.3	2.0

Source: CBRT.

The frequent changing of an inflation target is considered to have potential adverse effects on inflation expectations and pricing behavior and to reduce the credibility of commitments made previously. Thus, the previous inflation target of 4 percent was left unchanged for 2008. The inflation target for 2010 was also set at 4 percent. The uncertainty band around the target was also kept at 2 points for 2008. The path consistent with the quarter-by-quarter target and the upper and lower limits of the uncertainty band around the path are given in Table 4.

If quarterly inflation rates lay outside the uncertainty band in the upcoming period, the Central Bank will submit open letters to the Government disclosing the reasons of the deviation and the measures already taken and to be taken for re-convergence to the target, and share them with the public. Besides, the Central Bank will use the Inflation Report to share its view pertaining to the outlook for inflation and monetary policy and the necessary measures to be taken to keep inflation close to the target. In addition to being the main communication tool of the Bank, the Inflation Report will, thus, assume an important role with respect to the accountability principle and become a complementary part of open letters.

Monetary Policy Implementations

Inflation developments in 2007 followed a consistent trend with the projections of the CBRT in general, which enabled the monetary policy to be implemented as scheduled at the beginning of the year.

Despite the general downward trend of inflation observed in the first eight months of 2007, the CBRT did not change policy rates until the end of August and kept them constant at 17.50 due to the rigidity of services inflation, the ongoing backward pricing behavior of economic agents, probable changes in global risk appetite, lagged effects of exchange rates, uncertainties regarding the monetary transmission mechanism and the risks related to the general pricing behavior posed by ongoing supply shocks. The fact that both inflation and inflation expectations displayed a downward trend indicates a tight monetary policy stance, which contributes to disinflation, notwithstanding constant policy rates.

The said monetary tightening helped to reduce total demand through sectors such as housing and other services despite rising public expenditures and strong external demand. Furthermore, turbulence in developed markets as of August increased the possibility of an earlier-than-expected slowdown in the global economy, which suggested that external demand conditions will also support disinflation in the future. This framework secured the necessary environment for reducing the degree of monetary tightening.

The continued contribution of total demand conditions to disinflation, supported by the lagged effects of strong monetary tightening, and the better-than-expected services inflation enabled the Central Bank to lower interest rates gradually starting from September. Despite the increase in inflation due to higher processed food and administered energy prices in the last months, the Central Bank perceived this increase as temporary and continued to reduce rates prudently. Nonetheless, as frequently emphasized by the bank, a cautious stance was still needed considering the risks of the effects of elevated food and energy prices on the general pricing behavior and the related rigidity in inflation expectations. Consequently, the Central Bank overnight borrowing rate was reduced by a cumulative 175 basis points from 17.50 to 15.75 percent in 2007 (Table 5). However, despite the reduction in policy rates, the current monetary policy stance still refers to a cautious level, supporting the downward trend in inflation.

Despite the significant deviation of inflation from the target due to a series of supply shocks in the last two years, both the 12-month and 24-month ahead inflation expectations displayed a declining trend.

Moreover, the improvement in inflation expectations was limited especially in the last quarter of 2007, largely due to the backward pricing behavior as well as the adjustments made or to be made in administered prices. Yet, the limited influence of November's price adjustments on medium-term inflation expectations indicate that inflation targets still serve as an anchor to a significant degree. On the other hand, medium-term inflation expectations are still above the inflation target of 4 percent, which necessitates a cautious policy stance.

5 Monetary Policy Committee Meeting Dates and Interest Rate Decisions in 2007

Meeting Dates	Interest Rate	Interest
Jan 16, 2007	No change	17.50
Feb 15, 2007	No change	17.50
Mar 15, 2007	No change	17.50
Apr 18, 2007	No change	17.50
May 14, 2007	No change	17.50
Jun 14, 2007	No change	17.50
Jul 12, 2007	No change	17.50
Aug 14, 2007	No change	17.50
Sep 13, 2007	-0.25	17.25
Oct 16, 2007	-0.50	16.75
Nov 14, 2007	-0.50	16.25
Dec 13, 2007	-0.50	15.75

Source: CBRT

Exchange Rate Policy

The Central Bank continued the implementation of a floating exchange rate regime in 2007. In this regime, exchange rates are determined by supply and demand conditions in the market and the Central Bank does not have any exchange rate target. Yet, the Central Bank may intervene in the market through the direct purchase or sale in case of excess volatility or risks of excess volatility in foreign exchange rates. Besides, the Central Bank may also hold foreign exchange buying auctions to build up reserves. In order to minimize the pressure on supply and demand conditions in the foreign exchange market, the Central Bank has been conducting FX buying auctions, whose terms and conditions are announced with due notice, since 2005 and decided not to alter the program unless extraordinary differences are observed in foreign exchange liquidity.

The annual auction program for 2007 was announced in the press release of "The General Framework of Inflation Targeting Regime and Monetary and Exchange Rate Policy for 2007" dated December 13, 2006.

Accordingly, the maximum daily amount that can be bought was set at USD 45 million, with USD 15 million of auction amount and USD 30 million of optional selling amount (200 percent of the total amount sold). The Bank held FX buying auctions during January-July 2007 in accordance with the principles in the said press release.

In July 2007, positive expectations over macroeconomic policies fostered assumptions that capital inflow to Turkey would remain strong and the supply of foreign exchange would exceed the demand for foreign exchange. Therefore, in order to accelerate the reserve buildup, the daily auction amount was raised to USD 40 billion as of July 25, while the optional selling amount was raised to USD 80 million, and a related press release was announced. In this press release, it was also emphasized that the developments pertaining to foreign exchange supply will be closely monitored, and in the event of unforeseen developments, the daily auction/optional selling amounts might be changed with prior notice. In fact, in the following periods, the unfavorable developments in emerging housing and credit markets increased the volatility in many developing countries, including Turkey. Thus, the auction amount and the optional selling amount was lowered to USD 15 million and USD 30 million, respectively as of 15 August 2007, amounting to a maximum of USD 45 billion.

The measures taken by central banks to alleviate the problems in housing and credit markets reduced the volatilities in these markets and increased the global risk appetite, which led to strengthened capital inflows to Turkey and other developing countries. Therefore, the maximum amount to be purchased in auctions was set at USD 90 million, with USD 30 million for the auction amount and USD 60 million for the optional selling amount from October 9, 2007 onwards.

In 2007, there was no direct intervention in the foreign exchange market, but the total amount of foreign currency purchased via auctions amounted to USD 9.9 billion. Consequently, CBRT's gross foreign exchange reserves equaled USD 73.3 billion at the end of December 2007.

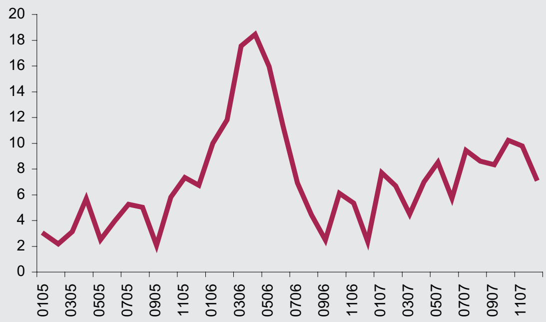
Liquidity Management

The excess liquidity sterilized in the overnight market showed an upward trend throughout 2007. The average daily excess liquidity of YTL 2.4 billion in the last quarter of 2006 soared to YTL 6.3 billion in the first quarter of 2007, mainly due to CBRT's renewed foreign exchange purchase auctions. Although the debt rollover ratio of the Treasury surpassed the projected level in early 2007, CBRT's continued foreign exchange purchase auctions led to a further increase in excess liquidity in other quarters. The average daily excess liquidity was YTL 7.2 billion, YTL 8.9 billion, YTL 9.2 billion, respectively, in the second, third, and fourth quarters of 2007 (Chart 13).

In view of these developments, in its meeting on July 12 2007, the Monetary Policy Committee reached the decision that Central Bank Liquidity Bills -in addition to the current tools used in open market operations- could be used to enhance the effectiveness of liquidity management when necessary. In this respect, the first 32-day liquidity bill was issued on July 19, 2007. The issue of liquidity bills continued with 40- and 30-day bills that were issued on August 23 and October 17, respectively. The last liquidity bill was issued on November 16 with a 61-day maturity.

Apart from the abovementioned factors, the increase in base money, the coupon and principle redemption by the Treasury to the Central Bank, and the Treasury's position as a net foreign exchange debt payer had a lowering effect on the level of liquidity, while the interest payments made by the Central Bank for reserve requirements and excess liquidity absorbing transactions, and the decline in the Treasury's cash accounts within the Central Bank put upward pressure on the level of liquidity in 2007.

13 ***Open Market Operations (Net, Monthly Average, Billion YTL)***



Source: CBRT

2.3. FINANCIAL STABILITY DEVELOPMENTS AND OPERATIONS

Through the monetary policy decision-making process, Central Banks monitor the stability of the financial system as a whole, and assess the factors that pose a threat to the financial system and create systemic risks. It is of critical importance for Central Banks, which are in charge of payment systems and act as the monetary policy implementer and the lender of last resort, to monitor the financial system as a whole, to determine the factors that can impair financial stability and to take the necessary precautions thereof.

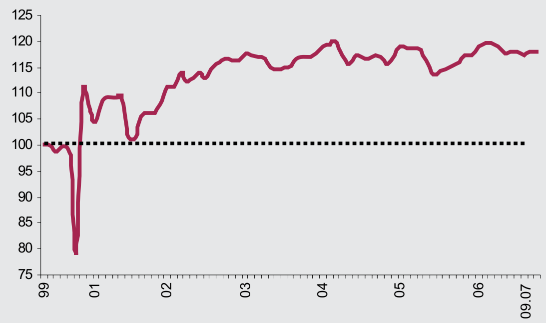
In view of financial developments, the Central Bank of the Republic of Turkey (the Bank) takes the necessary precautions to secure financial stability and in accordance with the principle of transparency, shares its assessments and underlines its warnings about the fragilities and risks regarding financial stability through the Financial Stability Report published twice a year. Within this framework, as announced by the Bank on December 13, 2006 in the "Monetary and Exchange Rate Policy for 2007", the Financial Stability Report was published on May 31 and November 30, 2007 and the English translations were published the following month.

The year 2007 was marked by concerns over the spillovers from the US subprime mortgage crisis into global liquidity conditions and financial stability. Meanwhile, the impacts of the turmoil remained limited in developing countries, including Turkey, owing to the lack of mature subprime mortgage markets and to the recent recovery in economic fundamentals.

The Turkish Banking Sector continued to grow in 2007 and the ratio of its aggregate balance sheet to GDP increased. Foreign investors' ongoing interest in the Turkish banking sector points to favorable expectations and indicates the sector's potential for growth.

The Financial Strength Index, which we closely monitor as an indicator of the soundness of the banking sector, remained at high levels throughout 2007.

14 Financial Strength Index



Source: BRSA, CBRT.

Although volatilities in global markets throughout 2007 were deeper and longer than those of 2006, the impact of these volatilities on the index was limited compared to the previous year, which is considered favorable in respect of financial stability.

Evaluations Concerning the Duties of the Bank Through Turkey's Financial Sector Assessment Programme

The Financial Sector Assessment Programme (FSAP) conducted jointly by the IMF and the World Bank, is a comprehensive assessment aimed at identifying the weaknesses by analyzing developments in the financial sectors of countries.

The Turkey-FSAP assessment started in 2005 under the coordination of the Undersecretariat of Treasury, with the contribution of all the institutions and agencies involved in the financial sector. Following the studies, the Financial System Stability Assessment Report (FSSA) containing an assessment regarding the Turkish financial sector was published on the IMF website [4]

The facts and recommendations regarding monetary policy implementations and payment systems that are in the sphere of duties of the Bank are outlined in this Report. According to the Report, in terms of monetary policy implementations, the level of transparency is considerably high, independency in the monetary policy making process and in respect of financing the public sector is secured, and the framework of relations between the Central Bank and the Government are well defined. Besides, the Report states that the timely release of Monetary Policy Committee decisions and of the extensive program of the publication of statistics and economic analyses helps to ensure that the stance of monetary policy is well understood and the culture of monetary policy transparency established by the CBRT seems to be well entrenched.

In the Report, the TIC-RTGS/ESTS and the cheque clearing system are considered to be systemically important payment systems.

The Report notes that, within the framework of its tasks relating to financial stability, the CBRT attaches great importance to promoting the security and efficiency of payment and settlement systems. It also states that systemically important payment systems are highly consistent with the core principles set out by the BIS-CPSS Committee; that

[4] http://imf.org/external/pubs/ft/scr/2007/cr07361.pdf

the payment and settlement systems are technically efficient and reliable and that they are supported by the appropriate regulatory framework and effective oversight. In addition, a sound legal framework is ensured regarding payment systems through CBRT Law, related circulars, regulations and other laws.

The Report highlights that regarding TIC-RTGS/ESTS systems, arrangements related to the intraday liquidity facility, queuing facilities with priorities and gridlock resolution mechanisms to reduce liquidity risk for participants are in line with international best practices. It also states that the security, operational reliability and standards of emergency arrangements are high and that participation in the payment systems is fair, objective and publicly available. Moreover, the report emphasizes that the readily available system information is sufficient to allow participants to fully understand the financial, operational, and reputational risks that they will be exposed to through participation in the TIC-RTGS/ESTS. Besides, it is noted that no unsettled transaction remains at day-end and that the CBRT is not exposed to credit risk, as the intraday liquidity facility is provided by the CBRT against collateral. TIC-ESTS/RTGS are also sufficient to meet the operational needs; and the system is secure and reliable.

The report considers that the cheque clearing system is functioning smoothly; that technological developments are introduced to the system to reduce the settlement cycle and a new system is implemented to facilitate image transfer. It also adds that the cheque clearing system is robust and operationally reliable and that it allows participants to manage liquidity and credit risks proactively.

In the FSAP assessment, while the monetary policy of the Bank and the implementations regarding the payments system are found to be in line with international guidelines to a large extent, it is emphasized that further improvements are necessary in some areas and specific policy recommendations are made therein.

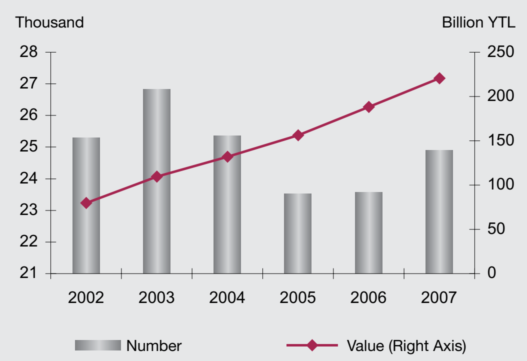
2.4. PAYMENT AND SETTLEMENT SYSTEMS AND CURRENCY IN CIRCULATION

2.4.1. Cheque-Clearing System

In order to minimize interbank cash transfers and develop the use of cheques in accordance with Cheque Law No. 3167 on "Arrangement of Payments by Cheque and Protection of Cheque Bearers", the CBRT is authorized to establish a system to settle cheques via the reconciliation of accounts in various branches of banks and oversee the implementation of this system. In addition to this, Article 55 of CBRT Law states that the CBRT shall supervise clearing-house transactions.

Within this context, the Interbank Clearing Houses Center (ICHC), which was established in compliance with the regulation issued by the Bank based on Law No. 3167, performs its activities in Ankara and Istanbul Clearing Houses subject to the oversight of the CBRT.

15 **Cheques Cleared in the Interbank Clearing Houses Center**



Source: ICHC.

In 2007, banks, which are involved in cheque clearing activities, processed almost all cheques that were subject to clearing in the Interbank Istanbul Clearing House.

The smooth and uninterrupted handling of the cheque clearing process, which plays a vital role with regard to payment systems, is of the utmost importance. Therefore, with the aim of enhancing the quality and efficiency of services offered, technological developments are immediately adopted and improvements are made to the existing software system, taking current needs into consideration.

2.4.2. Developments and Activities in 2007 Regarding Payment Systems

2.4.2.1. Monitoring and Reporting Payment Systems

In 2007, efforts were also made to examine and evaluate global changes and improvements related to payment systems.

Within this framework, the international payments systems that are particularly monitored are as follows:

- CLS: Developments are followed regarding the CLS system, which combine various RTGS payment systems worldwide and ensure the implementation of risk-free foreign currency settlements. As it was concluded that the YTL meets the required standards to be included in CLS following the amendments to the CLS participation criteria, a non-disclosure agreement was signed with CLS, and efforts towards including the YTL within CLS were initiated. Moreover, a meeting coordinated by the Banks Association of Turkey with the participation of the banks was held to evaluate the situation. Studies within this context are also planned for 2008.
- SWIFT: Developments relating to SWIFT and message standards were monitored.
- TARGET2: Studies relating to TARGET2 and Target2 Securities systems related to the former were monitored.
- SEPA (Single Euro Payments Area): Developments were monitored regarding the Single Payments Area, which is planned to be established within the euro area.

2.4.2.2. Revision of the TIC-RTGS&ESTS Center Platform

Efforts were initiated towards renewing the software and hardware platforms of TIC - RTGS & ESTS central systems in 2007.

With this regard,

- New hardware was selected via a tender, delivered and installed.
- Efforts were made to ensure the compatibility of TIC - RTGS & ESTS central application software with the new hardware.
- Studies to adapt the various operating and reporting programs on TIC-RTGS&ESTS central systems to the new platform were completed.

The new platform is planned to be launched in the first half of 2008.

2.4.2.3. Regional Payment Systems Workshop

The Regional Payment Systems Workshop, which has been jointly organized by the Bank for International Settlements (BIS) and the Committee on Payment and Settlement Systems (CPSS) since 2001, was held on 13-16 June 2007 in Ankara.

Various speeches and country presentations were given at the workshop on the following topics: retail payment systems and the Single Euro Payments Area (SEPA), business continuity planning in payment systems, the latest CPSS studies on large-value payment systems, pricing of central bank payment services, use of securities settlement systems by central banks, settlement of foreign exchange transactions, international remittance services, the central banks' role in the oversight of payment systems.

2.4.2.4. Publication of the Book ''Payment Systems in Turkey"

The necessary work has been carried out in order to update and re-publish the book "Payment Systems in Turkey", which was prepared by the Payment Systems Division of the CBRT and published as a BIS-CPSS publication in 2000.

In the framework of the said efforts, the sections introducing each payment system and payment instruments were prepared in view of the developments after the first publication of the book, and statistical tables regarding payment systems were prepared through the compilation of these data.

The second edition of the book ("Payment Systems in Turkey") was published in June 2007. A copy of the book is available on these websites: http://eft.tcmb.gov.tr/pdf/Turkey-RedBook.pdf- and www.bis.org/publ/cpss80.htm.

2.4.2.5. Changes in TIC-RTGS&ESTS Messages

The KRED-SWIFT message, which was developed upon the request of the TIC-RTGS&ESTS Operation Working Group of the Banks Association of Turkey, was put into operation in December 2007. The aim of the new message is to transmit messages coming from SWIFT to the receiver through full automation.

2.4.2.6. Adaptation of the Participant Relay Software to the New Platform

FASTWIRE application software, which has been used by the participant systems of the TIC-RTGS&ESTS, was adapted to HP Integrity servers as a result of the suspension of the production and sale of HP Alpha Server (hardware) hosting the software. Negotiations with the producer company are ongoing in this respect. A joint project with LogicaCMG, the producer of the software, was launched in order to adapt the software to HP Integrity servers.

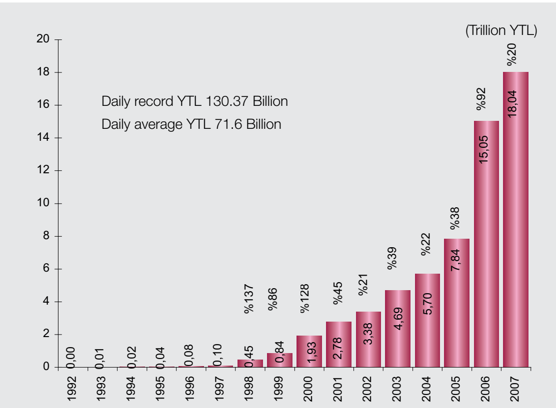
2.4.2.7. Usage Statistics of the TIC-RTGS&ESTS

The number of messages and the volume of money passing through TIC-RTGS&ESTS are increasing annually. The yearly total amount was YTL 18.04 trillion in 2007. The average daily amount of transactions reached YTL 71.6 billion at end-2007.

The number of transactions conducted in the system was 107.2 million in 2007. The daily number of transactions hit a peak of 912,359 on December 17, 2007. The average daily number of messages was 425,517 in 2007.

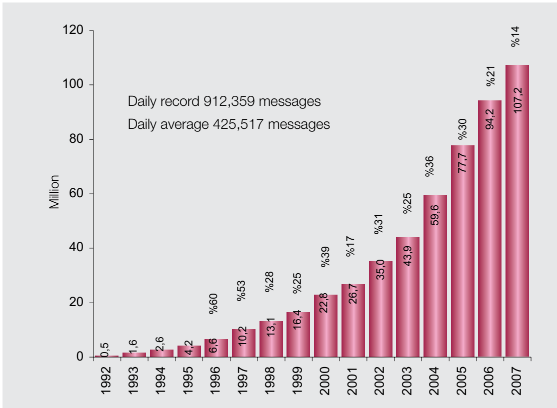
The number of participants in TIC-RTGS&ESTS was 48 as of end-2007.

16 Total Value of Payments in TIC-RTGS&ESTS



Source: CBRT

17 Total Number of Messages in TIC-RTGS&ESTS



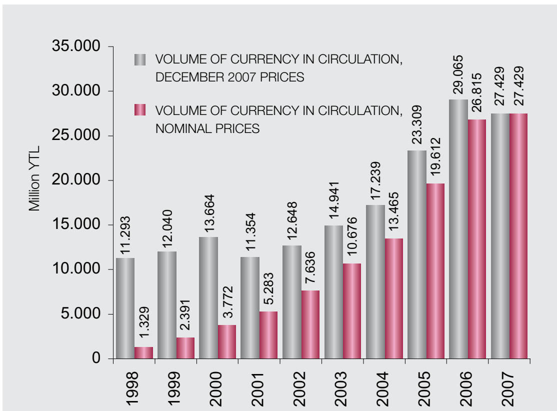
Source: CBRT.

2.4.3. Currency in Circulation

By the end of 2007, the volume of currency in circulation increased by 2.3 percent annually, reaching YTL 27.4 billion. This slight increase was mainly driven by the rise in the volume of currency in circulation during the period prior to the Feast of Sacrifice, celebrated on December 31, 2006. A comparison between November 2006 and November 2007 indicates that this rate was realized as 20.3 percent.

The real volume of currency in circulation declined in comparison to 2006 because of a slight rise in the nominal volume of currency in circulation (Chart 18).

18 Volume of Currency in Circulation (Real and Nominal, 1998-2007)



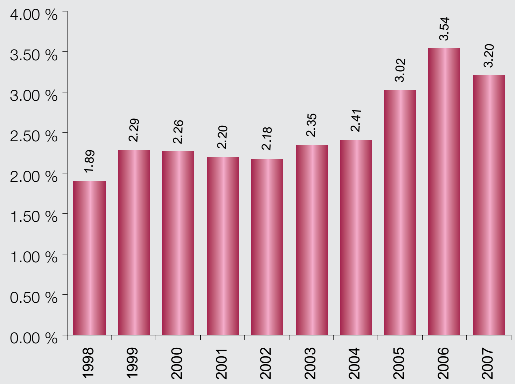
Source: CBRT.

The ratio of Currency in Circulation to GDP was realized as approximately 2.2 percent between the years 1998-2001. Meanwhile, between 2002-2007, as a consequence of the substantial elimination of economic uncertainties, this ratio reached 3.2 percent by the end of 2007, boosted by the robust growth performance (Chart 19).

Excluding TL banknotes, which are still in the redemption period, 779.8 million banknotes were in circulation as of December 31, 2007.

By the end of 2007, excluding TL notes, YTL 50 had the largest share in both volume and value in circulation. The share of the largest 2 denominations (YTL 50 and 100) in the total reached 46.2 percent in units and 81.8 percent in value.

19 Currency in Circulation / GDP



Source: CBRT.

6 Banknotes in Circulation (as of December 31, 2007)*

Denomination (YTL)	Amount	Shape (Percent)	Pieces	Shape (Percent)
100 YTL	8,486,001,250.00	31.2	84,860,012.50	10.9
50 YTL	13,782,587,675.00	50.6	275,651,753.50	35.3
20 YTL	3,191,314,700.00	11.7	159,565,735.00	20.5
10 YTL	1,205,215,040.00	4.4	120,521,504.00	15.5
5 YTL	554,624,920.00	2.0	110,924,984.00	14.2
1 YTL	28,251,647.00	0.1	28,251,647.00	3.6
TOTAL	27,247,995,232.00	100.0	779,775,636.00	100.0

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

In 2007, a total transaction of YTL 215.8 billion, (YTL 107.6 billion deposits vs. YTL 108.2 billion payments), was realized through 21 branches, 13 banknote depots and the cash center.

Moreover, in 2007, YTL 10.9 billion deposits and YTL 11.5 billion payment transactions were made in banknote depots, which are established (in 13 cities) where the CBRT does not have branches, in an objective to improve banknote quality and to meet the various cash demands of the market on time. In other words, almost 10.4 percent of the Bank's total transaction volume in 2007 was made through the banknote depots.

The Cash Center, which operates on the Anatolian side of Istanbul, had a share of 8.8 percent in total transaction volume with YTL 19 billion, and ranks fourth among all branches.

2.5. FOREIGN EXCHANGE RESERVE AND RISK MANAGEMENT

The Central Bank holds foreign exchange reserves in support of a range of objectives which include assisting the Turkish Government in meeting its foreign exchange denominated domestic and foreign debt obligations, maintaining foreign exchange liquidity against external shocks, supporting monetary and exchange rate policies and providing confidence to the markets. The legal basis for the Central Bank's reserve management practices derives from Central Bank Law No. 1211. (Law). Additionally, legislation, guidelines and decisions taken by the Board, which are based on the authority given by the Law, constitutes the other basis of the foreign exchange and gold reserve management practices.

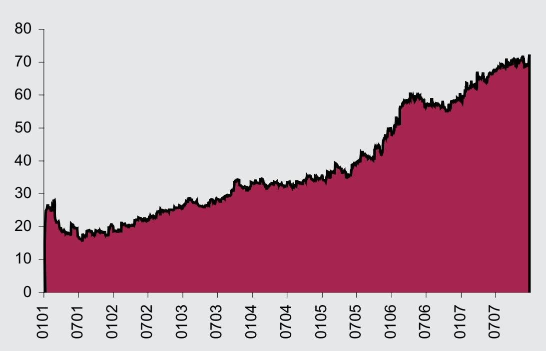
The institutional decision making framework of reserve management has a three-tier hierarchical structure. The Board, as the top decision making authority of the Central Bank, determines the general investment criteria for reserve management by approving the Guidelines for Foreign Exchange Reserve Management, which is prepared in accordance with the reserve management priorities set by the Law as security, liquidity and return, respectively and authorizes the Executive Committee and the Foreign Exchange Risk and Investment Committee (FXRIC) to take decisions regarding implementation. The decisions made by the Executive Committee and FXRIC in accordance with the Guidelines for Foreign Exchange Reserve Management approved by the Board constitute the second-tier of the institutional decision making process. At this stage, the Strategic Benchmark (SB), which reflects the general risk tolerance and investment strategy of the Bank, is determined and approved. According to the strategic asset allocation preferences of the Bank, the SB is determined by the FXRIC on each year-end to be implemented in the following year and becomes effective by the approval of the Executive Committee. The last tier of the institutional decision making process is the implementation of the reserve management practices within the limits specified by the Guidelines and the SB. The reserve management activities are carried out within an organizational structure formed in accordance with the separation of duties principle. Accordingly, reserve management activities are performed by the Foreign Exchange Transactions Division whereas risk management relating to reserve management operations is carried out by the Foreign Exchange Risk Management Division.

Based on the objectives and limits set by the Guidelines and the SB, reserve management operations are carried out through spot and forward purchases and sales of foreign exchange in international markets, time deposit transactions, purchase and sale of securities, repo and reverse repo transactions, securities lending transactions, derivative instruments for risk management purposes, export and import of foreign exchange banknotes, foreign exchange banknote shipments in the country among the local branches.

The gold reserves of the Central Bank, which are of international standards, are managed within the regulations and constraints stated in the Law and the Guidelines set by the Board. Pursuant to these Guidelines, the Central Bank may conduct outright purchase and sale transactions, demand or term gold deposit transactions and gold swap transactions.

The control of risks that the Central Bank is exposed to during reserve management operations starts

20 *Foreign Exchange Reserves of CBRT (Billion USD)*



Source: CBRT.

at the strategic assets allocation process; in other words, when defining the SB. Once the currencies and instruments to be used in reserve management and the duration target for the investments are set, it means that the expected return and financial risks involved in reserve management are, to a great extent, also determined. Reflecting the Bank's preferences regarding strategic asset allocation, the SB consists of the target currency composition, duration targets and related deviation limits from these targets, the size and number of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing permissible transaction types, countries and instruments to invest in. While determining the SB, the aim is to ensure that an adequate return is obtained while observing capital preservation and liquidity constraints to devote the utmost importance to the prudent management of foreign exchange reserves, hence the national wealth of the country. After the overall acceptable risk level is defined with respect to the Central Bank's risk tolerance through the SB, the existing risks are measured, recorded and monitored regularly.

In brief, reserve and risk management practices have been performed in line with contemporary practices by taking into account the Central Bank's own requirements, theoretical and technical progress in reserve and risk management practices together with the developments in international economic and financial markets.

2.6. EUROPEAN UNION HARMONIZATION ACTIVITIES

The "screening process", which is mainly oriented towards determining the extent of harmonization of national legislation with the legal arrangements of the EU and constitutes the first stage of the negotiation process embarked on with the European Union (EU) on 3 October 2005, was completed on 13 October 2006. The CBRT was directly and indirectly included in the screening studies of 12 chapters. (Table 7)

Following the screening process, within the scope of harmonization with the EU acquis, a study was launched to determine in detail the steps to be taken by the relevant institutions and establishments in the coming period. The study titled "Turkey's Program for Alignment with the Acquis (2007-2013)" includes information regarding the appropriate legal arrangements, the aim and scope thereof, the progress, which has been made, the timetable for execution and the institution in charge for every chapter. The Bank contributed to the "Free Movement of Capital", "Financial Services" and "Economic and Monetary Policy" chapters within the scope of the Alignment Program, which was made public on 17 April 2007.

At the Intergovernmental Conference, which was held on 29 March 2007, two criteria were introduced in order for the "Free Movement of Capital" chapter to be opened to de facto negotiations. These were "formulating a comprehensive strategy for the capacity to align with and implement the acquis" and "drawing up a detailed action plan for legal alignment and its implementation regarding the struggle against money laundering". The strategy

7 *CBRT-Attended Chapters of EU Screening Process*

Directly Related Chapters		Indirectly Related Chapters	
4	Free Movement of Capital	2	Free Movement of Workers
9	Financial Services	6	Company Law
17	Economic and Monetary Policy	16	Taxation
18	Statistics	19	Social Policy and Employment
32	Financial Control	28	Consumer and Health Protection
33	Financial and Budgetary Provisions	30	External Relations

and the action plan to be drawn up aim to determine, in a comprehensive and concrete way, which institutions will achieve the harmonization of Turkish legislation with the acquis via what kind of legal and administrative arrangements and within what timeframe. The CBRT also participated in efforts towards establishing a "Strategy and Action Plan for Turkey" within this context.

In the scope of alignment with the EU acquis, during the process of drafting the "position papers", which reveal the current status of Turkey and contain information about achieving full compliance, the Bank contributed to the preparation of the sections "Economic and Monetary Policy", "Statistics" and "Financial Control". Of these, the sections "Statistics" and "Financial Control" were opened to de facto negotiations at the Intergovernmental Conference held on 26 June 2007.

Council negotiations regarding "Financial and Budgetary Provisions", which directly concern the Bank, continued in 2007. The section "Financial Services" is among those which, at its meeting held on 14-15 December 2006, the Council of the European Union decided to "suspend de facto negotiations until Turkey fulfills her obligations regarding the Greek Republic of Southern Cyprus".

2.7. COMMUNICATIONS POLICY AND ACTIVITIES

The Central Bank of the Republic of Turkey (CBRT) considers an effective communications policy to be a sine qua non for its current policies. In this scope, the communication policy was implemented in 2007 with the aim of enhancing the effectiveness of monetary policy and managing expectations in accordance with the main principles of transparency, accountability, integrity, consistency and neutrality.

Pursuant to Article 42 of the Law on the Central Bank of the Republic of Turkey and as a requisite of the principle of accountability, Governor Durmuş Yılmaz gave presentations on economic outlook, and monetary and exchange rate policy implementations at the Council of Ministers on May 21 and November 12, 2007 and to the Planning and Budget Commission of the Turkish Grand National Assembly on May 22 and December 27, 2007.

With inflation reaching 9.65 percent in 2006, breaching the 7 percent-upper limit of the uncertainty band announced as the year-end inflation target, the CBRT, under the principle of accountability, provided the Government and the public with the reasons for the deviation and the evaluation of future developments on January 22, 2007 in an "open letter".

Since 2000, the balance sheet, and the income/expense statements of the CBRT have been subject to independent audit and the results of the audits have been announced to the public in a report. The said report, an important indicator of transparency, was published in March 2007 and disclosed to the general public on the CBRT website.

In 2007, within the framework of the inflation targeting regime, the CBRT continued to announce the decisions of the Monetary Policy Committee (MPC) on short-term interest rates and summaries of MPC meetings via press releases on its website in 2007. An important change to press releases in 2007 is that MPC decisions are published simultaneously with their English translations. Besides, from 2007 onwards, the texts, which were called "Summary of the Monetary Policy Committee Discussions", started to be published under the title of "Summary of the Monetary Policy Meeting" simultaneously with their English translations within the eight working days following the meeting.

The CBRT has continued to release the "Monthly Price Developments" report, which is published in order to ensure a better understanding of monthly inflation data in a press release within two working days following the announcement of Inflation figures.

Inflation Reports, which are among the main policy documents, were presented at press conferences by the Governor on January 29, April 27, July 27 and October 26, 2007. The medium term projections and numerical inflation forecasts, which were presented in the Report in such a way so as to cover inflation data for the next one and a half years throughout 2006, have been adjusted to cover the next two year-period. The change aims to provide economic agents with an opportunity to make decisions with a longer-term perspective, thus foreseeing future developments more clearly.

The CBRT, which also aims to maintain financial stability as an auxiliary objective along with its main objective of price stability, released the Financial Stability Report on May 31, 2007 and November 30, 2007 in accordance with its pre-announced calendar of data release and shared its opinions about the financial sector and banking sector with the general public.

In addition to the Inflation Report and the Financial Stability Report, the CBRT publishes various studies and reports.

In 2007, the CBRT published working papers relating to the profitability of the manufacturing industry, structure of public debt stock, exchange rates, monetary transmission mechanism, pass-through effect, financial structure of the real sector, and external shocks and monetary policies in high dollarization countries.

Meanwhile, with the aim of raising public awareness about banknote counterfeiting, the CBRT released a booklet titled "General Information on Banknote Counterfeiting" in cooperation with the related institutions. The Turkish version of the booklet is available on the CBRT website.

In 2007, the CBRT continued to inform the public about its policy implementations, its institutional structure and publications via the quarterly "Bulletin" which was first released in 2006. The Bulletin, which is distributed both in Turkey and abroad, is also accessible on the CBRT website.

In 2007, within the framework of the direct communications policy of the Bank, the Governor continued to give various speeches and presentations introducing the policies and implementations of the Bank and analyzing current economic developments, both within the country and abroad. Moreover, at conferences held by non-governmental organizations such as the chambers of commerce and industry of Bursa, Uşak, Gaziantep and Erzurum open to the press in the presence of non-governmental organizations, presentations were made on the economic outlook, and monetary and exchange rate policy. Likewise, briefings were given to media representatives and the economics editors of newspapers. Speeches delivered by the Governor and videos of some of his speeches are available on the CBRT website. In 2007, the presentations and speeches given by members of the Monetary Policy Committee and top executives of the Bank were also published on the CBRT website.

As in 2006, informative meetings were held within the bank and 215 students were informed about the history, policies and career opportunities and 1,345 students were accepted as trainees at the request of universities in 2007.

In addition, the CBRT continued the financial aid efforts within the context of the Financial Support Program for Academic Studies in 2007 and various universities and institutions were provided with financial support through 12 activities. Further information regarding the program is available on the CBRT website.

Similarly, presentations were made to central banks of other countries about the organizational structure, monetary policy implementations, the Turkish economy and the promotional campaign for the New Turkish lira and the mutual exchange of information was made.

The CBRT also continued to utilize its website as an efficient means of communication in 2007. In this context, the "Frequently Asked Questions" were updated. Besides, within the framework of studies on the Official Statistics Program (2007-2011) prepared by the Turkish Statistical Institute, the "Data Release Calendar" with dates of publication of the data by the CBRT was added to the website. Moreover, the "Housing Loans Index" was added to the quick links menu on the main page. Additionally, the link of "Human Resources" enabled users to access information regarding the training policy of the CBRT, terms of references and career opportunities, conditions to be accepted for training and details about applications for training.

In 2007 the CBRT also continued to respond to the requests for information, which were directed by BIMER (the Communication Center of the Prime Ministry) through the electronic mail address iletisimbilgi@tcmb.gov.tr, aimed at ensuring communication with persons, institutions and establishments outside the Bank pursuant to "the Law on access to Information".

Within the scope of the activities for the 75th anniversary of the Bank, Jean-Claude Trichet, the European Central Bank President, participated in the international conference, which was organized in Ankara on 1 June 2007 and delivered a speech titled "Charting a New Global Landscape: The Growing Impact of Emerging Markets on the World Economy". The conference hosted several central bank governors and top officials from various countries, foreign mission representatives, national and international think tanks, financial sector, mass media organizations and participants from universities.

Another activity among the 75th anniversary activities was the exhibition of "Republican Period Banknotes", arranged in cooperation with the Museum of Anatolian Civilizations. The exhibition was open to visitors from 23 May to 15 June 2007 and featured samples of banknote manufacturing techniques and preliminary drafts in addition to all banknotes published during the Republican Period. Some sections of the exhibition gave visitors the chance to examine features of banknotes in detail and several special and unique objects employed in banknote printing were presented, probably for the first time, to the public. Nearly 25,000 people visited the exhibition.

Furthermore, several meetings were held in order to enhance the efficiency of the CBRT on international platforms and to contribute to the promotion of its policy implementations. Within this scope, the European Summer Symposium in International Macroeconomics (ESSIM) was held between 14 and 19 May 2007 in İzmir, hosted by the CBRT with the participation of Turkish and foreign academicians along with CBRT officials. "Monetary Policy, Labor Markets and Growth" were addressed at the symposium. Meanwhile, issues of "Monetary Policy, Public Investments, Capital Flows and Values of Assets" were discussed by foreign academics and officials from the CBRT at the International Seminar on Macroeconomics (ISOM), which was held in İstanbul between 15 – 16 June 2007. Additionally, the G-20 Workshop regarding "Fiscal Policy and Growth" was organized in İstanbul from 1 – 2 July 2007.

In 2007, as in previous years, various publications, press releases and the governor's remarks and presentations were translated into English and published on the CBRT website in order to keep the international audience informed of policies implemented by the CBRT.

Nejad Melih Devrim
“Garden of Plants”
1948, Oil on Canvas, 145x115 cm.

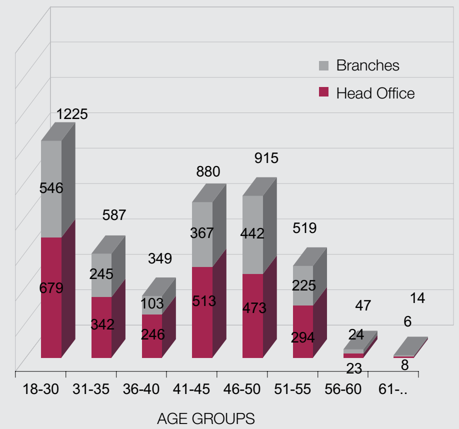
3. HUMAN RESOURCES AND ADMINISTRATIVE AND SOCIAL AFFAIRS

3.1. STAFFING

21 Number of Employees Between 1997-2007

Source: CBRT.

22 Age Distribution of Employees



Source: CBRT.

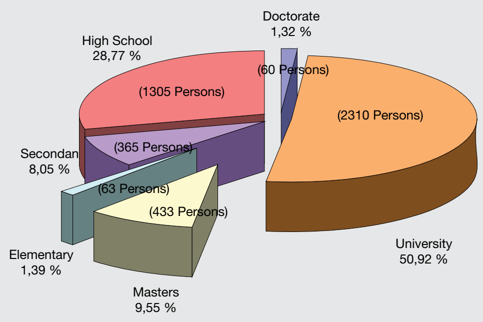
As at end-2007, the total number of CBRT staff positions stands at 5,179. The number of staff employed is 4,536 and the occupancy rate is 87.58 percent.

238 staff members have ceased employment due to retirement, resignation, dismissal, transfer or death, while 149 employees have been recruited as economists, engineers, visual designers, translators, assistant computer specialists, operators, cash processors, filing clerks, secretaries, security officers, counting operators, technicians, cooks due to the excess workload of some departments. Besides, 38 staff members, who had left the Bank for their military service, have returned. Consequently, the actual number of staff members by the end of the year was reduced by 46 to 4,536 compared to 2006 (Chart 21).

The distribution of the CBRT staff is as follows: 66.16 percent are represented by general administrative services, 8.31 percent by assistance services, 6.44 percent by support services (medical, technical, legal) and 19.09 percent by contract personnel.

56.83 percent of the CBRT staff work at the head office, while 43.17 percent work in the branches. Based on age distribution of the staff, 39.57 percent of our personnel fall in the age range of 41-50 years. On the other hand, the percentage of personnel with bachelors, masters and doctorate degrees equals 61.79 percent (Charts 22 and 23).

23 Educational Distribution of Employees



Source: CBRT.

3.2. TRAINING

In 2007, a total of 6,330 persons benefited from training activities organized by the CBRT.

The number of participations in the training activities held within the bank on “Banking and Central Banking Training”, “Job Training”, “Management Training”, “General Purpose Training”, was 3,998.

385 members of staff participated in short-term training activities of other institutions held in Turkey, while 279 participated in training activities abroad. 117 employees, 26 of whom had been newly enrolled, studied for Masters/PhD in Turkey, while 68 employees, including 21 newly enrolled, studied for Masters/PhD abroad.

Moreover, 20 members of staff were assigned as lecturers/speakers in training activities of other institutions. In 2007, 1,345 university students benefited from internship programs in related departments of the CBRT. In addition, 138 people from a variety of foreign institutions attended training activities organized by the Bank.

3.3. RECREATION, ART AND SPORTS

The Exhibition of “Contemporary Turkish Painting from the Art Collection of the Central Bank of the Republic of Turkey” was held from October 21, 2007 to January 18, 2008 at the Art Gallery of the Federal Reserve Bank in Washington, D.C, during the IMF/World Bank annual meetings. A special catalogue containing the development of Contemporary Turkish Painting, information about the exhibited works of art and biographies of the artists was published as a memento of the occasion.

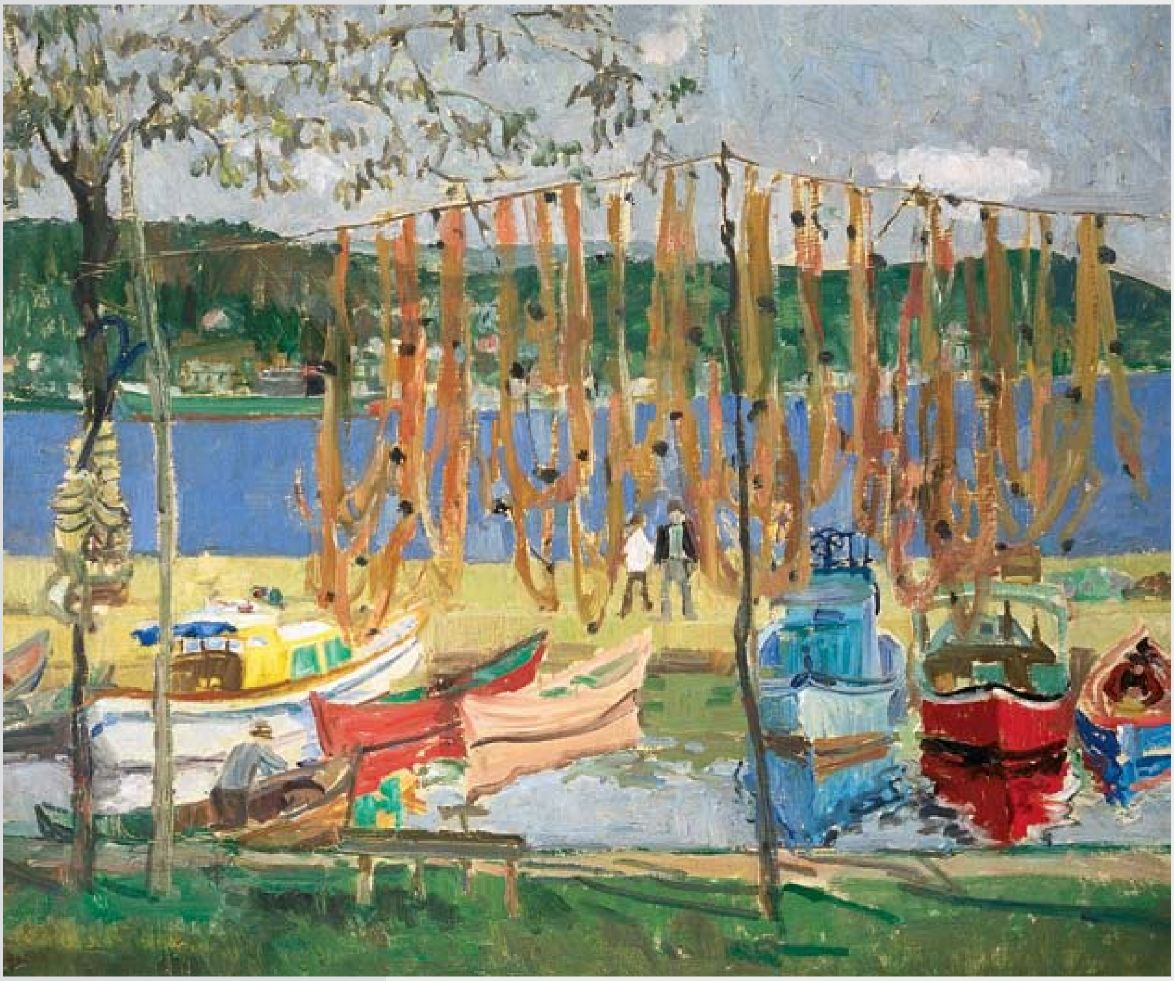
Governor Durmuş YILMAZ
Exhibition of “Contemporary Turkish Painting”

As UNESCO declared 2007 “the Year of Mevlana” to mark the 800th anniversary of his birth, within the scope of cultural activities, our Bank organized the concert “From the Heart of Mevlana” performed by the Symphonic Project and Turkish Music Orchestra with the soloist Ahmet Özhan, accompanied by whirling dervishes and realized the production of a single CD embracing the first eighteen couplets of the musical work “Return” translated into contemporary Turkish.

Apart from the exhibitions held at the CBRT’s Art Gallery, selected works of art from the Central Bank Art Collection were exhibited in Ankara and İzmir to celebrate the 75th anniversary of the bank and as part of a series of nationwide exhibitions.

In regards with sporting activities, the Central Bank of the Republic of Turkey hosted a Tennis Tournament in Antalya, which was attended by employees from European central banks and international organizations, and an Interbank Chess Tournament in Ankara, with the participations of local banks. Moreover, the CBRT teams attended tournaments in Germany (chess), Italy (bridge) and Hungary (football), which were organized by central banks that are members of the Sports and Cultural Associations of the European Central Banks. Also, the table tennis team attended the third Central Banks’ Tournament hosted by the Central Bank of Romania.

Furthermore, the Hasanoğlan Memorial Forest was afforested by the contribution of our employees and in cooperation with the Ministry of Environment and Forestry.



Hasan Hulusi Mercan
“Fishermen at Kireçburnu”
1979, Oil on Duralite, 75x90 cm.

4. FINANCIAL STATEMENTS

4.1. COMPARATIVE FINANCIAL STATEMENTS OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

4.1.1. Comparative Balance Sheets

ASSETS	31.12.2006 (YTL)	31.12.2007 (YTL)	Change (YTL)
I. Gold	3,427,102,716	3,736,492,002	309,389,286
A. International Standard	3,335,423,279	3,636,779,885	301,356,606
B. Non-International Standard	91,679,437	99,712,117	8,032,680
II. Foreign Exchange	85,618,500,266	85,392,445,374	(226,054,892)
A. Convertible	85,618,499,360	85,392,444,485	(226,054,875)
a. Foreign Banknotes	369,526,582	324,235,721	(45,290,861)
b. Correspondent Accounts	85,009,416,123	84,860,059,946	(149,356,177)
c. Reserve Tranche Position	239,556,655	208,148,818	(31,407,837)
B. Non-convertible	906	889	(17)
a. Foreign Banknotes	906	889	(17)
b. Correspondent Accounts	-	-	-
III. Coins	68,450,275	71,158,613	2,708,338
IV. Domestic Correspondents	-	-	-
V. Securities Portfolio	22,309,872,550	16,926,939,462	(5,382,933,088)
A. Government Securities	22,309,872,550	16,926,939,462	(5,382,933,088)
a. Bonds	20,638,673,549	16,926,939,462	(3,711,734,087)
b. Treasury Bills	1,671,199,001	-	(1,671,199,001)
B. Other	-	-	-
VI. Domestic Credit	755,447	374,247	(381,200)
A. Banking Sector	755,447	374,247	(381,200)
a. Rediscount	755,447	374,247	(381,200)
b. As per Art 40/c of Law No.1211	-	-	-
c. Other	-	-	-
B. Credit to SDIF	-	-	-
VII. Open Market Operations	3,514,337,947	-	(3,514,337,947)
A. Repurchase Agreements	3,514,337,947	-	(3,514,337,947)
a. Cash			
i. Foreign Exchange	-	-	-
ii. Securities	3,512,337,947	-	(3,512,337,947)
b. Securities	2,000,000	-	(2,000,000)
B. Other	-	-	-
VIII. Foreign Credit	43,350,368	32,621,431	(10,728,937)
IX. Share Participations	21,279,622	18,492,709	(2,786,913)
X. Fixed Assets	282,550,193	278,808,897	(3,741,296)
A. Buildings and Buildings Sites	313,988,975	316,361,074	2,372,099
Depreciation Allowance for Real Estate (-)	(45,957,955)	(52,297,139)	(6,339,184)
B. Furniture and Fixtures	78,107,299	83,159,989	5,052,690
Depreciation Allowance for Furniture and Fixtures (-)	(63,588,126)	(68,415,027)	(4,826,901)
XI. Claims under Legal Proceedings (Net)	-	-	-
A. Claims under Legal Proceedings	1,961,971,427	1,709,292,069	(252,679,358)
B. Provision for Past-Due Receivables (-)	(1,961,971,427)	(1,709,292,069)	252,679,358
XII. Treasury Liabilities Due to SDR Allocation	238,562,529	207,285,030	(31,277,499)
XIII. Revaluation Account	1,243,948,118	4,710,586,605	3,466,638,487
XIV. Accrued Interest and Income	12,508,294	9,359,149	(3,149,145)
XV. Miscellaneous Receivables	28,399,972	40,016,093	11,616,121
XVI. Other Assets	19,432,566	25,889,308	6,456,742
TOTAL	116,829,050,863	111,450,468,920	(5,378,581,943)
REGULATING ACCOUNTS	578,630,387,893	608,753,034,299	30,122,646,406

LIABILITIES	31.12.2006 (YTL)	31.12.2007 (YTL)	Change (YTL)
I. Currency Issued	26,815,150,603	27,429,388,907	614,238,304
II. Liabilities to Treasury	278,355,462	247,334,916	(31,020,546)
A. Gold	9,927,654	10,824,620	896,966
B. Reserve Tranche Means	239,556,655	208,148,818	(31,407,837)
C. Other (Net)	28,871,153	28,361,478	(509,675)
III. Foreign Correspondents	1,017,618	852,105	(165,513)
A. Convertible	1,017,618	852,105	(165,513)
B. Non-Convertible	-	-	-
IV. Deposits	76,442,368,880	74,006,065,587	(2,436,303,293)
A. Public Sector	19,349,803,743	14,880,394,463	(4,469,409,280)
a. Treasury, General and Special Budget Administrations	19,173,610,200	14,712,594,654	(4,461,015,546)
b. Public Economic Institutions	12,104	91	(12,013)
c. State Economic Enterprises	75,111,732	69,696,928	(5,414,804)
d. Other	101,069,707	98,102,790	(2,966,917)
B. Banking Sector	33,758,304,648	38,593,990,789	4,835,686,141
a. Free Deposits of Domestic Banks	20,890,224,385	25,453,523,968	4,563,299,583
b. Foreign Banks	7,555,706	8,529,253	973,547
c. Required Reserves (Central Bank's Law. Art 40)	12,860,344,528	13,131,517,999	271,173,471
i. Cash	12,860,344,528	13,131,517,999	271,173,471
ii. Gold (Net Grams)	-	-	-
d. Other	180,029	419,569	239,540
C. Miscellaneous	22,367,281,698	18,690,434,592	(3,676,847,106)
a. Foreign Exchange Deposits By Citizens Abroad	22,297,641,634	18,635,507,722	(3,662,133,912)
b. Other	69,640,064	54,926,870	(14,713,194)
D. International Institutions	5,802,113	6,046,296	244,183
E. Extrabudgetary Funds	961,176,678	1,835,199,447	874,022,769
a. Saving Deposit Insurance Fund	13,935,523	13,801,697	(133,826)
b. Other	947,241,155	1,821,397,750	874,156,595
V. Liquidity Bills	-	993,710,000	993,710,000
VI. Open Market Operations	5,913,955,754	2,917,500,000	(2,996,455,754)
A. Repurchase Agreements	3,502,005,754	-	(3,502,005,754)
a. Cash	-	-	-
i. Foreign Exchange	-	-	-
ii. Securities	-	-	-
b) Securities	3,502,005,754	-	(3,502,005,754)
B. Other	2,411,950,000	2,917,500,000	505,550,000
VII. Foreign Credit	12,526,464	10,905,914	(1,620,550)
A. Short-Term	-	-	-
B. Medium and Long-Term	12,526,464	10,905,914	(1,620,550)
VIII. Advances, Collateral and Deposits Collected Against Letters of Credit and Import	1,584,065,299	858,741,110	(725,324,189)
A. For Letters of Credit	1,584,061,175	858,736,986	(725,324,189)
B. For Imports	4,124	4,124	-
IX. Notes and Remittances Payable	24,362,879	73,477,268	49,114,389
X. SDR Allocation	238,562,529	207,285,030	(31,277,499)
XI. Capital	46,233,524	46,233,524	-
A. Paid-in Capital	25,000	25,000	-
B. Inflation Adjustment for Paid-in Capital	46,208,524	46,208,524	-
XII. Reserves	642,221,669	2,823,646,765	2,181,425,096
A. Ordinary and Extraordinary Reserves	288,418,619	2,469,384,817	2,180,966,198
B. Special Reserves (CBT's Law, Art. 59)	430,573	889,471	458,898
C. Inflation Adjustments for Reserves	353,372,477	353,372,477	-
XIII. Provisions	157,279,013	163,402,522	6,123,509
A. Provisions for Pension Commitments	73,522,973	79,844,758	6,321,785
B. Provision for Taxes	43,851,246	41,080,880	(2,770,366)
C. Other Provisions	39,904,794	42,476,884	2,572,090
XIV. Revaluation Account	-	-	-
XV. Accrued Interest and Expenses	1,468,425,721	1,318,655,062	(149,770,659)
XVI. Miscellaneous Payables	47,416,227	67,784,542	20,368,315
XVII. Other Liabilities	54,652,081	65,193,791	10,541,710
XVIII. Profit of the Period	3,102,457,140	220,291,877	(2,882,165,263)
TOTAL	116,829,050,863	111,450,468,920	(5,378,581,943)
REGULATING ACCOUNTS	578,630,387,893	608,753,034,299	30,122,646,406

4.1.2. Comparative Profit and Loss Statements (*)

	01.01.2006 - 31.12.2006 (YTL)	01.01.2007 - 31.12.2007 (YTL)	CHANGE (YTL)
Interest Income	4,888,085,839	5,235,710,274	347,624,435
Interest Expense	(5,105,208,538)	(4,610,870,444)	(494,338,094)
I - Net Interest Income (Expense)	(217,122,699)	624,839,830	841,962,529
Fee and Commission Income	39,895,566	52,164,266	12,268,700
Fee and Commission Expense	(154,145,859)	(170,520,789)	16,374,930
II - Net Fee and Commission Income (Expense)	(114,250,293)	(118,356,523)	(4,106,230)
Non - Interest Income	4,067,021,599	1,270,429,809	(2,796,591,790)
Non - Interest Expense	(589,340,222)	(1,515,540,359)	926,200,137
III - Net Non - Interest Income (Expense)	3,477,681,377	(245,110,550)	(3,722,791,927)
Net Profit / (Loss) (I + II + III)	3,146,308,386	261,372,757	(2,884,935,629)

(*) In 2007, for compliance with IFRS, Interest Income/Expense and Non-Interest Income/Expense items of the Profit and Loss Statement are reclassified and Fee and Commission Income and Expense are started to be presented separately.

Besides, the operating expenses are started to be presented in Non-Interest Expense and the banknote printing expenses, which were presented in other operating expenses as a whole in previous years, are decomposed according to their natures and shown in the relevant operating expenses items.

Within this framework, the profit and loss figures for 2006 were rearranged for purposes of comparison.

4.2. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2007, AND THE PROFIT AND LOSS STATEMENT FOR THE 01.01.2007- 31.12.2007 PERIOD

4.2.1 The Central Bank of the Republic of Turkey Accounting Principles and Policies

4.2.1.a. Fundamental Principles for Accounting Practices

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

4.2.1.b. Accounting Policies

The Basis for Recognition

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

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

Since inflation adjustment conditions were realized as of December 31, 2003 and as of December 31, 2004, non-monetary items on the financial statements of the Bank were restated. As the conditions for inflation adjustment have disappeared, the adjustment was not executed between the years 2005 - 2007.

Gold and Foreign Currency Transactions

Gold reserves are revalued quarterly using the average of gold prices quoted at 10.30 and at 15.00 on the London Exchange by taking 1 ounce of gold = 31,1035 grams. Assets and liabilities denominated in foreign currency are valued at the foreign currency purchase rate of the Bank on the balance sheet date. Differences arising from the currency revaluation of assets and liabilities denominated in foreign currency as well as differences arising from price and currency revaluation of gold are recorded as unrealised gains and losses in the "Revaluation Account" as per Article 61 of the Bank's Law.

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

Securities

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

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

The differences between the acquisition cost and fair value of the securities that are purchased directly and sold under reverse repurchase agreements are reflected in the income statement.

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

Liquidity Bills

The item “Liquidity Bills” consists of issues of the Bank’s liquidity bills whose maturity do not exceed 91 days and that are tradable in the secondary markets for the Bank’s own account and on its behalf with an aim to efficiently regulate the money supply and liquidity in the economy within the framework of monetary policy targets pursuant to Article 52 of the Bank’s Law. The Bank recognizes liquidity bills at the issuing amount and revalues at fair value at month ends. Differences between the fair value and issuing amount are reflected in the income statement at month ends.

Income Recognition

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

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

Repurchase and Reverse Repurchase Transactions of the Securities

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

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

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

Fixed Assets

Fixed assets (land, property and equipment) are recognized at acquisition cost; while land is shown on the balance sheet at cost, properties and equipments are shown at their net value after deducting their depreciation.

Provisions

According to Article 59 of the Bank’s Law, provisions in amounts deemed appropriate by the Board may be set aside from the gross annual profit of the Bank in order to meet contingent risks, which may occur in the following years due to the operations exlusive to the Bank. As of year-end, provisions are set for employee termination benefits, tax and internal insurance funds.

Employee Termination Benefits

The Bank maintains provisions for retirement pay and employee termination benefits, which it is obliged to pay for its employees in the coming years. For the obligations of the current year provisions are maintained in respect of services of employees up to the balance sheet date.

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

Taxation

The Bank, established as a “joint stock company”, as per Article 1 of the Bank’s Law, is a corporate taxpayer. Moreover, the Bank is responsible for withholding tax, as per Article 94 of the Individual Income Tax Law, on wages, outsourcing payments, interest on deposits, etc. and as per Article 30 of the Corporate Income Tax Law, on the payments made to firms subject to limited tax liability except for commercial, agricultural and other earnings; and on payments made for the transfer or sale of intangible rights.

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

Participations

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

4.2.2. Detailed Balance Sheet Dated 31.12.2007

	AMOUNT IN TURKISH CURRENCY ACCOUNTS YTL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL IN TURKISH CURRENCY ACCOUNTS YTL	TOTAL IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL YTL
ASSETS					
I. Gold					
A. International Standard (Net Gram)...116,103,752.76				3,636,779,885	
B. Non-International Standard (Net Gram) ...3,191,297.12			99,712,117		3,736,492,002
II. Foreign Exchange					
A. Convertible					
a. Foreign Banknotes..		324,235,721			
b. Correspondent Accounts...		84,860,059,946			
c. Reserve Tranche Position...		208,148,818		85,392,444,485	
B. Non-Convertible					
a. Foreign Banknotes..		889			
b. Correspondent Accounts...		-		889	85,392,445,374
III. Coins			71,158,613		71,158,613
IV. Domestic Correspondents			-	-	-
V. Securities Portfolio					
A. Government Securities					
a. Bonds..	16,926,939,462				
b. Treasury Bills	-		16,926,939,462		
B. Other					16,926,939,462
VI. Domestic Credit					
A. Banking Sector					
a. Rediscount		374,247			
b. As per Art 40/c of Law No.1211					
c. Other...				374,247	
B. Credit of SDIF			-		374,247
VII. Open Market Operations					
A. Repurchase Agreements...					
a. Cash..					
i. Foreign Exchange					
ii. Securities	-				
b. Securities	-		-		
B. Other...					-
VIII. Foreign Credits				32,621,431	32,621,431
IX. Share Participations				18,492,709	18,492,709
X. Fixed Assets					
A. Buildings and Building Sites	316,361,074				
Depreciation Allowance for Real Estate (-)	(52,297,139)		264,063,935		
B. Furniture and Fixtures...	83,159,989				
Depreciation Allowance for Furniture and Fixtures (-).....	(68,415,027)		14,744,962		278,808,897
XI. Claims under Legal Proceedings (Net)					
A. Claims under Legal Proceedings				1,709,292,069	
B. Provision for Past –Due Receivables (-).........................			(1,709,292,069)		-
XII. Treasury Liabilities Due to SDR Allocation				207,285,030	207,285,030
XIII. Revaluation Account			4,710,586,605		4,710,586,605
XIV- Accrued Interest and Income			9,359,149		9,359,149
XV- Miscellaneous Receivables			38,272,602	1,743,491	40,016,093
XVI- Other Assets			25,889,308	-	25,889,308
T O TAL..			20,451,434,684	90,999,034,236	111,450,468,920
REGULATING ACCOUNTS..					608,753,034,299

Buildings Insured for YTL 283,248,927
Furniture and Fixtures Insured for YTL 81,318,066

Prevailing rediscount and advance rates:
Against bills to mature in maximum 3 months:
-Rediscount rate…………………% 25,00
-Advance rate……………………% 27,00

	AMOUNT IN TURKISH CURRENCY ACCOUNTS YTL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL IN TURKISH CURRENCY ACCOUNTS YTL	TOTAL IN FOREIGN CURRENCY ACCOUNTS YTL	TOTAL YTL
LIABILITIES					
I. Currency Issued			27,429,388,907		27,429,388,907
II. Liabilities to Treasury					
A. Gold (Net Gram) 345,574.68			10,824,620		
B. Reserve Tranche Means				208,148,818	
C. Other (Net)			28,331,196	30,282	247,334,916
III. Foreign Correspondents					
A. Convertible				852,105	
B. Non-Convertible				-	852,105
IV. Deposits					
A. Public Sector					
a. Treasury, General and Special Budget Administrations	4,331,229,957	10,381,364,697			
b. Public Economic Institutions	91				
c. State Economic Enterprises	10,542	69,686,386			
d. Other	98,102,790		4,429,343,380	10,451,051,083	
B. Banking Sector					
a. Free Deposits of Domestic Banks	18,911,635,147	6,541,888,821			
b. Foreign Banks	8,529,253				
c. Required Reserves (Central Bank Law art. 40)					
i. Cash	-	13,131,517,999			
ii. Gold (Net Grams)					
d. Other	419,569		18,920,583,969	19,673,406,820	
C. Miscellaneous					
a. Foreign Exchange Deposits By Citizens Abroad		18,635,507,722			
b. Other	1,444,151	53,482,719	1,444,151	18,688,990,441	
D. International Institutions			6,046,296		
E. Extrabudgetary Funds					
a. Savings Deposit Insurance Fund	289,898	13,511,799			
b. Other	92,119,900	1,729,277,850	92,409,798	1,742,789,649	74,006,065,587
V. Liquidity Bills			993,710,000		993,710,000
VI. Open Market Operations					
A. Repurchase Agreements					
a. Cash					
i. Foreign Exchange					
ii. Securities	-				
b. Securities	-		-		
B. Other			2,917,500,000		2,917,500,000
VII. Foreign Credit					
A. Short-Term					
B. Medium and Long-Term				10,905,914	10,905,914
VIII. Advances, Collateral and Deposits Collected Against letters of Credit and Imports					
A. For Letters of Credit				858,736,986	
B. For Imports			4,124		858,741,110
IX. Notes and Remittances Payable			-	73,477,268	73,477,268
X. SDR Allocation				207,285,030	207,285,030
XI. Capital					
A. Paid-in Capital			25,000		
B. Inflation Adjustment for Paid-in Capital			46,208,524		46,233,524
XII. Reserves					
A. Ordinary and Extraordinary Reserves			2,469,384,817		
B. Special Reserves (CBTR Law Art. 59)			889,471		
C. Inflation Adjustment for Reserves			353,372,477		2,823,646,765
XIII. Provisions					
A. Provisions for Pension Commitments			79,844,758		
B. Provisions for Taxes			41,080,880		
C. Other Provisions			42,476,884		163,402,522
XIV. Revaluation Account			-		-
XV. Accrued Interest and Expenses			1,318,655,062		1,318,655,062
XVI. Miscellaneous Payables			1,707,300	66,077,242	67,784,542
XVII. Other Liabilities			5,284,086	59,909,705	65,193,791
XVII. Profit of the Period			220,291,877		220,291,877
TOTAL			59,408,807,577	52,041,661,343	111,450,468,920
REGULATING ACCOUNTS					608,753,034,299

4.2.3. Changes In Balance Sheet Items

Article 52 of the Bank's Law, with an aim to efficiently regulate the money supply and liquidity in the economy within the framework of monetary policy targets, empowers the Bank to issue Liquidity Bills whose maturity do not exceed 91 days and that are tradable in the secondary markets, for its own account and on its behalf. Within the legal framework of this authorization, the Bank set the legal outline for issuing liquidity bills with "The Communiqué Related to Liquidity Bills", published in the Official Gazette numbered 26310 and dated October 5, 2006. The first group of liquidity bills was issued on July 20, 2007.

Liquidity bills have been presented under the "V- Liquidity Bills" item on the liability side of the balance sheet since July 20, 2007, pursuant to Bank Board decision numbered 8482/18081, dated November 6, 2003, and numbers of the following liabilities items were rearranged accordingly.

4.2.4. Explanations Related To The Balance Sheet Dated 31.12.2007

ASSETS:

1. Gold

Gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is YTL 3,736,492,002 in total, equivalent to 119,287,049.88 net grams. The gold holdings on the balance sheet are valued using 1 net gram of gold = YTL 31,32353433 calculated as 1 ounce of gold = USD 836.50, based on prices quoted on the London stock exchange as of December 31, 2007.

	Net Grams	YTL
International Standard	116,103,752.76	3,636,779,885
Non-International Standard	3,183,297.12	99,712,117
Total	119,287,049.88	3,736,492,002

While the value of gold holdings of international standards, which was YTL 3,335,423,279 equivalent to 116,103,752.76 net grams as of the end of the year 2006, shows a decrease of YTL 752,211,105 due to the depreciation of USD against New Turkish Lira during the year, it increases by YTL 1,053,567,711 due to an increase in the price of 1 ounce of gold from USD 615,70 in 2006 to USD 836,50 in 2007. It amounts to YTL 3,636,779,885 showing a total increase of YTL 301,356,606 at the end of the year 2007.

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

The value of gold holdings of non-international standards, which was equal to YTL 91,679,437 and 3,191,297.12 net grams as of the end of the year 2006, increased by YTL 8,032,679 reaching YTL 99,712,117 at the end of 2007. Despite a decrease of YTL 226,766 equivalent to 8 kg due to the minting of service medals to be distributed to Bank personnel who had completed their 20th year of service and YTL 20,626,951 due to the depreciation of USD against New Turkish Lira, the gold holdings of non-international standards increased by YTL 28,886,397 due to the increase in the price of 1 ounce of gold.

2. Foreign Exchange

This item consists of the accounts opened by the Bank with foreign correspondents against convertible and non-convertible foreign exchange, the Reserve Tranche Position held with the IMF, as well as foreign banknotes available in the Bank's vaults. The balance of this account, evaluated at year-end buying rates, amounts to YTL 85,392,445,374, of which YTL 85,392,444,485 and YTL 889 are convertible and non-convertible amounts, respectively.

A) Convertible

This item includes the convertible foreign exchange accounts with the Foreign Correspondents amounting to YTL 84,860,059,946, the Reserve Tranche Position amounting to YTL 208,148,818, and foreign banknotes in the vaults of the Bank's branches amounting to YTL 324,235,721 as of the end of the year.

B) Non-Convertible

While the Foreign Correspondents Accounts, which were opened in accordance with bilateral agreements, have no balance as of December 31, 2007, the balance of non-convertible foreign banknotes available in the vaults of the Bank's branches amounts to YTL 889 as of the end of the year.

3. Coins

This item consists of the coins available in the Bank's vaults, amounting to YTL 71,158,613 at the end of the year.

4. Domestic Correspondents

This item, which consists of both the Correspondents Accounts that were opened in accordance with the domestic correspondence agreement and the foreign exchange deposit operations held in the Foreign Exchange Market, has had balance since the year 2006.

5. Securities Portfolio

Government Debt Securities, which equaled YTL 22,309,872,550 as of the end of 2006, include government securities bought from public banks and banks under the Savings Deposits Insurance Fund in 2001, which were later exchanged for long term securities in October of the same year, as well as securities bought in the secondary market under repurchase agreements. While the repurchase of securities sold under reverse repurchase agreements increased the item by YTL 2,000,000, the securities item decreased by YTL 5,382,933,088 amounting to YTL 16,926,939,462 due to the fair value adjustment of YTL 45,371,670, the resale of YTL 3,500,000,001 bought under repurchase agreements, the redemption of YTL 1,738,869,253 and the decrease in the portfolio cost of the securities of amount YTL 100,692,164 from repurchases under reverse repurchase agreements.

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

6. Domestic Credit

This item includes credit extended to the Banking Sector and the Savings Deposit Insurance Fund.

The year-end balance of rediscounted credits extended against FX securities was YTL 374,247 equivalent to EUR 218,832.

As the total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities on 2004 was redeemed early on 9 May 2005, this item has no balance as of the end of 2007.

	YTL
A) Banking Sector	374,227
a) Rediscount Credit	374,227
b) As per Art, 40/c of Law No 1211	-
c) Other	-
B) Credit to Savings Deposit Insurance Fund	-
TOTAL	374,227

7. Open Market Operations

This item, which represents the cash debts of the banks from repurchase agreements and money market operations and the security debts of the banks from reverse repurchase agreements; has no balance as of the year-end.

8. Foreign Credit

This item consists of the credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Sudan and the credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Albania concerning claims on non-performing loans due to the Banking Regulation terminated on December 31, 1990. The balance of this item decreased to YTL 32,621,431 equivalent of USD 28,008,441.21 in 2007, from YTL 43,350,368 equivalent of USD 30,841,183.58, in 2006, as a principal installment of USD 2,832,742.37 was received from the Central Bank of Sudan.

9. Share Participations

The balance of this account is YTL 18,492,709 at the end of the year. In accordance with Article 3 of the Bank's Law, this item consists of the Bank's accounts of SDR 10,000,000 in the Bank for International Settlements in Basle and EUR 20,880 held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The value of these participations is calculated at the rate of 1 SDR = YTL 1.8457 and 1 Euro = YTL 1.7102.

10. Fixed Assets

This item, which had a balance of YTL 278,808,897 as of the year-end, consists of the net values of buildings, land, furniture and fixtures owned by the Bank less their allowance for depreciation.

The value of real estate which was YTL 313,988,975 in the previous year, reached YTL 316,361,074 after the additions of YTL 2,372,099 this year. The net value of real estate is YTL 264,063,935, after deducting the accumulated depreciation of buildings totaling YTL 52,297,139.

The net value of furniture and fixtures is YTL 14,744,962, after deducting the accumulated depreciation totaling YTL 68,415,027 from the value of furniture and fixtures, totaling YTL 83,159,989. The value of furniture and fixtures increased by YTL 5,052,690 compared to the previous year.

11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was YTL 1,601,470,577 (equivalent of USD 1,375,006,935), as well as the claims arising from credit amounting to YTL 107,821,492 (equivalent of USD 92,574,475.48), which was extended against bills bought by the Bank from the Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of YTL 1,709,292,069 was set for these claims as an offsetting item, this account has no balance as of the end of the year.

12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 112,307,000 (equivalent to YTL 207,285,030), which was allocated by the IMF to Turkey and used by the Treasury. It is recorded reciprocally with the "SDR Allocation" on the liability side.

13. Revaluation Account

This item consists of unrealized losses arising from the revaluation of gold and foreign exchange in both assets and liabilities. The year-end balance of this account is YTL 4,710,586,605.

14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2007 is YTL 9,359,149.

15. Miscellaneous Receivables

This item, which shows a balance amounting to YTL 40,016,003 at the end of the year, consists of YTL 38,272,602 in Turkish currency and YTL 1,743,491 in foreign currencies, the breakdown of which is as follows:

	YTL
- YTL Deposits Accounts with National Banks Abroad	21,861,488
- Provisional Tax to be Deducted From The Corporate Tax Payable	12,857,250
- Income Tax to be Deducted From The Corporate Tax Payable	360,973
- Letters of Credit of the Banknote Printing Plant	2,243,674
- Advances and Deposits	778,651
- Banknotes Sent Abroad for the Test of Cash Counter Machines to be Imported	64,595
- Other	105,971
TOTAL	38,272,602

16. Other Assets

This item shows various claims of the Bank, all in Turkish currency, amounting to 25,889,308 at the year-end.

LIABILITIES:

1. Currency Issued

The year-end balance of currency in circulation, issued in accordance with Article 36 of the Bank's Law, amounts to YTL 27,429,388,907, an increase of YTL 614,238,304 compared to the previous year.

2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounts to YTL 247,334,916, a decrease of YTL 31,020,546 compared to the previous year.

A- Gold

The value of the gold claims of the Treasury, which amounts to YTL 10,824,620 and 345,574.68 net grams, increased by YTL 896,966 over the previous year, due to the increase in the price of 1 ounce of gold.

B- Reserve Tranche Means

Due to the portion of Turkey's IMF quota of SDR 1,191.3 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000 presented reciprocally with the "Reserve Tranche Position" in the assets. The year-end balance of this item is YTL 208,148,818.

C- Other

This item, which shows the net liabilities to the Treasury resulting from various transactions, amounts to YTL 28,361,478 at the end of 2007.

3. Foreign Correspondents

This account shows the Bank's debt to correspondents abroad and has a balance of YTL 852,105 in convertible foreign exchange.

A- Convertible

Convertible foreign exchange liabilities consist of foreign correspondents accounts and accounts of foreign central banks with the Bank. The year-end balance of this item is YTL 852,105, which indicates a decrease of YTL 165,513 compared to the previous year.

B- Non-Convertible

This item consists of the accounts opened in accordance with bilateral agreements and has no balance since 2005.

4. Deposits

The year-end balance of this account is YTL 74,006,065,587, the breakdown of which is as follows:

	Turkish Currency (YTL)	Foreign Currency (YTL)
A) Public Sector	4,429,343,380	10,451,051,083
a) Treasury, General and Special Budget Administrations	4,331,229,957	10,381,364,697
i) Treasury	4,164,197,197	9,290,056,127
ii) General Budget Administrations	154,656,793	1,091,308,570
iii) Special Budget Administrations	12,375,967	-
b) Public Economic Institutions	91	-
c) State Economic Enterprises	10,542	69,686,386
d) Other	98,102,790	-
B) Banking Sector	18,920,583,969	19,673,406,820
a) Free Deposits of Domestic Banks	18,911,635,147	6,541,888,821
b) Foreign Banks	8,529,253	-
c) Required Reserves (Article 40 of the Central Bank Law)	-	13,131,517,999
i) Cash	-	13,131,517,999
ii) Gold (Net grams)	-	-
d) Other	419,569	-
C) Miscellaneous	1,444,151	18,688,990,441
a) Foreign Exchange Deposits by Citizens Abroad	-	18,635,507,722
b) Other	1,444,151	53,482,719
D) International Institutions	6,046,296	-
E) Extra-budgetary Funds	92,409,798	1,742,789,649
a) Savings Deposit Insurance Fund	289,898	13,511,799
b) Other	92,119,900	1,729,277,850
Total	23,449,827,594	50,556,237,993

5. Liquidity Bills

Liquidity bills, issued in accordance with Article 52 of the Bank’s Law, pursuant to Bank Board decision no. 8482/18081, dated November 6, 2003, have been started to be presented in “V- Liquidity Bills” in the liabilities since July 20, 2007. The fair value of the liquidity bills, which were issued at YTL 973,613,480 with a nominal value of YTL 1,000,000,000, is YTL 993,710,000 at year-end.

6. Open Market Operations

This item, which shows the cash claims of the banks from reverse repurchase agreements and money market operations, as well as the security claims of the banks from repurchase agreements, has a balance of YTL 2,917,500,000 at the end of the year. As the repurchase agreements are not realised at year-end, the total balance of this item represents the cash claims of the banks from Money Market Operations.

7. Foreign Credit

This item shows the non-guaranteed trade arrears, amounting to YTL 10,905,914 equivalent of USD 9,363,710.82 at the end of 2007.

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

The balance of this item is YTL 858,741,110 at the end of 2007. Of this total, YTL 858,736,986 represents credit transactions of foreign exchange sales and YTL 4,124 represents goods, equivalents and guarantees deposited at the Bank pursuant to import regulations.

9. Notes and Remittances Payable

The year-end balance of this account amounting to YTL 73,477,268 consists of payment orders to be made to beneficiaries.

10. SDR Allocation

This account, presented reciprocally with the "Treasury's Liabilities due to SDR Allocation" in the assets, shows the liability to the IMF, amounting to YTL 207,285,030 -the equivalent of SDR 112,307,000- allocated to Turkey by the IMF and used by the Treasury.

11. Capital

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

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

Category	Number of Shares	Percent of Total	YTL
A	136,800	54.72	13,680
B	63,769	25.51	6,377
C	625	0.25	63
D (*)	48,806	19.52	4,880
Paid-in capital	250,000	100.00	25,000
Inflation adjustment for paid-in capital			46,208,524
TOTAL			46,233,524

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

12. Reserves

This item includes both reserve funds retained in accordance with Articles 59 and 60 of the Bank's Law and inflation adjustment differences as per Law No. 5024, which came into effect after being published in the Official Gazette No. 25332 on December 30, 2003. The year-end balance of this item is YTL 2,823,646,765.

	YTL
A. Ordinary and Extraordinary Reserves	2,469,384,817
B. Special Reserves (Article 59 of Law No. 1211)	889,471
C. Inflation Adjustment Difference for Reserves	353,372,477
TOTAL	2,823,646,765

The balance of Ordinary Reserves, which amounted to YTL 288,418,619 in 2006, increased to YTL 917,680,296 at the end of 2007 due to the allocation of the 20% of the net profit of 2006 to ordinary reserves amounting to YTL 629,261,677.

Extraordinary reserves consist of YTL 251,704,521, which was 10% of the remaining amount of the net profit of 2006 after deductions specified in Article 60 of the Bank's Law and YTL 1,300,000,000, which was retained in accordance with Article 469 of the Turkish Commercial Code. The year-end balance of extraordinary reserves is YTL 1,551,704,521.

13. Provisions

This item, with a balance of YTL 163,402,522 at year-end, consists of provisions retained out of the Bank's gross profit to meet various risks, for transport insurance of valuables, for pension commitments and for tax pursuant to Article 59 of the Bank's Law.

	YTL
A. Provisions for Pension Commitments	79,844,758
B. Tax Provisions	41,080,880
C. Other Provisions	42,476,884
TOTAL	163,402,522

14. Revaluation Account

This item consists of unrealized gains arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides. As the revaluation differences are on the assets side as of the end of 2007, this item shows no balance since 2003.

15. Interest and Expense Accruals

The year-end balance of this item, which is YTL 1,318,655,062, mainly comprises interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

16. Miscellaneous Payables

This account amounts to YTL 67,784,542 at the end of the year and consists of the Bank's debts of YTL 1,707,300 in Turkish currency and YTL 66,077,242 in foreign currencies.

17. Other Liabilities

This item, amounting to YTL 65,193,791 at the end of the year, consists of the Bank's debts of YTL 5,284,086 in Turkish currency and YTL 59,909,705 in foreign currencies.

4.2.5. DETAILED PROFIT AND LOSS ACCOUNT FOR 01.01.2007- 31.12.2007 PERIOD

PROFIT AND LOSS ACCOUNT OF THE CENTRAL BANK	01.01.2007-31.12.2007 (YTL)
I- NET PROFIT / (LOSS) FROM YTL TRANSACTIONS	**(1,585,670,712)**
1- Net Profit / (Loss) from YTL Securities Portfolio	1,646,898,853
2- Net Profit / (Loss) from Open Market Operations, Liquidity Bills and Money Market Operations	(1,377,230,366)
a- Net Profit / (Loss) from Open Market Operations	(310,392,265)
b- Interest Expense of Liquidity Bills	(54,548,290)
c- Net Profit / (Loss) from Money Market Operations	(1,012,289,811)
3- Interest Paid to YTL Required Reserves	(1,699,871,123)
4- Other	(155,468,076)
a – Provision Expense for Past-Due Receivables	252,679,358
b – Operating Expenses	(383,324,406)
c – Other	(24,823,028)
II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS	**1,847,043,469**
1- Net Profit / (Loss) from FX Reserves	1,856,156,647
a- FX Portfolio and Deposit Revenues	3,924,036,879
b- Interest Paid to FX Deposits by Citizens Abroad	(590,240,927)
c- Interest Paid to FX Deposits and Required Reserves	(354,246,757)
d- Gold and FX Net Profit	(1,123,392,548)
2- IMF Use of Fund Credit and Charges	(9,113,179)
III- NET PROFIT (LOSS) (I + II)	**261,372,757**

The distribution of the Bank's net profit, pursuant to Article 60 of Bank's Law and Article 469 of the Turkish Commercial Code, is specified as follows:

			YTL
Net Profit of 2007			261,372,757
1. Reserves			(213,570,668)
Ordinary Reserves (Article 60 of Law No.1211)		52,274,551	
Extraordinary Reserves		161,296,117	
- Article 60 of Law No. 1211	20,909,671		
- Article 469 of TCC	140,386,446		
2. Shareholders			3,000
First Dividends		1,500	
Second Dividends		1,500	
3. Bonus to Personnel		6,718,209	(6,718,209)
4. Tax Provisions			(41,080,880)
Corporate Tax		41,080,880	
Remainder			-

4.2.6. EXPLANATIONS OF PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.01.2007-31.12.2007

The net loss of the Bank from YTL transactions is YTL 1,585,670,712. As of the end of 2007, the Bank has an interest income of YTL 1,646,898,853 from its New Turkish lira government securities portfolio. The net loss from open market operations is YTL 310,392,265, an interest of YTL 54,548,290 is paid to the liquidity bills, the net loss from money market operations is YTL 1,012,289,811 and an interest of YTL 1,699,871,123 is paid to the New Turkish Lira required reserves.

The Bank has a net profit of YTL 1,847,043,469 from foreign currency operations. As of the end of 2007, a revenue of YTL 3,924,036,879 is gained from the foreign currency portfolio and deposit accounts. The net loss of gold and foreign exchange operations is YTL 1,123,392,548, interest of YTL 1,058,419,391 is incurred for foreign exchange deposits by citizens abroad, YTL 354,246,757 for foreign exchange deposits and required reserves by banks and YTL 9,113,179 for the resources from the IMF.

The distribution of operating expenses incurred for the operational activities of the Bank in the last two years is shown below on the basis of expenditure items at 2003 prices:

At 2003 prices, YTL	2006	2007	% Change
I- Personnel Expenses	236,305,497	230,231,163	-3
II- Other Expenses	36,043,691	30,891,365	-14
III-Banknote Printing Expenses	19,332,402	12,620,337	-35
TOTAL	291,681,590	273,742,865	-6

Note: Within the framework of the explanations in Section 4.1.2, the figures for 2006 were recalculated purposes of comparison.

In 2007, a decrease is observed in personnel and other expenses, and in banknote printing expenses, compared to 2006.

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

  Within the framework of the policy of reducing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing up-to-date technology, the number of personnel decreased by 34 percent from 6,910 in 1996 to 4,552 in 2007.

  As compared to the previous year, there is a decrease of 3 percent in personnel expenses. There is also a 3 percent decrease in salaries and fringe benefits, which constitutes a significant portion of personnel expenses, compared to 2006. In 2007, the amount of gross salaries paid to members of the Board, the Executive Committee and the Auditing Committee of the Bank was YTL 2,237,710. This amount accounts for 0.8 percent of the total salaries and fringe benefits paid to personnel in 2007.

- ✓ Other expenses; a decrease of 14 percent in 2007 with respect to the previous year. This decrease results from the decrease in heating, lightning and water expenses, insurance expenditures, provisions for internal insurance of value dispatch, expenditures of value dispatch and expenditures related to social activities with respect to the year 2006.

  There are no significant changes in other expenditure items.

- ✓ Banknote printing expenses; a 35 percent decrease in banknote printing expenses in 2007, as compared to the previous year, is due to the decrease of purchasing of printing supplies because of stopping printing for a while.

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

4.3. FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

BALANCE SHEET AT 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

	Notes	2007 (Thousand YTL)	2006 (Thousand YTL)	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 YTL for convenience purposes only, at the official YTL 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 80 to 120 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

	Notes	2007 (Thousand YTL)	2006 (Thousand YTL)	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 YTL for convenience purposes only, at the official YTL bid rate announced by the Bank at 31 December 2007, and therefore do not form part of these financial statements

The notes on pages 80 to 120 are an integral part of these financial statements.

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

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

	Share capital					
	Share capital	Adjustment to share capital	Total paid-in share capital	Other reserves	Retained earnings/ (accumulated deficit)	Total
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 80 to 120 are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") 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 80 to 120 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in thousands of New Turkish Lira ("YTL") 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 ("YTL") and to establish the exchange rate policy in determining the parity of YTL against gold and foreign currencies jointly with the government; to execute transactions such as spot and forward purchases and sales of foreign exchange and banknotes, foreign exchange swaps and other derivatives transactions in order to determine the value of YTL against other currencies,

c) to determine the procedures and conditions of reserve requirements by taking into consideration the liabilities of banks and other financial institutions to be deemed appropriate by the Bank,

d) to conduct rediscount and advance transactions,

e) to manage the gold and foreign exchange reserves of the counYTL,

f) to regulate the volume and circulation of the YTL, to establish payment, securities transfer and settlement systems and to set forth regulations to ensure the uninterrupted operation and supervision of the existing or future systems, to determine the methods and instruments including electronic environment for payments,

g) to take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets,

h) to monitor the financial markets, and

i) to determine the terms and types of deposits in banks and the terms of participation funds in special finance houses.

NOTE 2 - BASIS OF PRESENTATION

(a) New Turkish Lira financial statements

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

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

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

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.

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 YTL for convenience purposes only, at official bid rates announced by the Bank on 31 December 2007 of YTL1.1647 = 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 YTL, which is the Bank’s functional and presentation currency.

(ii) Foreign currency transactions and balances

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

(iii) Exchange rates

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

	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 YTL157,311 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.

(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$, converted to YTL at the spot YTL/US$ exchange rate.

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

The exchange rate of gold bullion to YTL as at 31 December 2007 was YTL 974 per troy ounce (2006: YTL 894 per troy ounce).

(ii) Gold coins

Gold coins which are no longer legal tender typically have an artistic or collectors' premium such that they are bought and sold at prices which are higher than the intrinsic value of the metal from which they are formed. However, it is unlikely that such a premium could be 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.

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.

(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 YTL 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 expect 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.

(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 YTL and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The sub-unit of the YTL is the YKr (1 YTL=100 YKr). The prior currency, Turkish Lira, values are converted into YTL, one million TL is equivalent to 1 YTL. Accordingly, the currency of the Republic of Turkey is simplified by removing six zeroes from the TL.

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

(ii) 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 YTL 459 thousand (2006: YTL 256 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).

(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.

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.

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	
	YTL	Share (%)	YTL	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: YTL 3,505,288 thousand). The fair value of the security collaterals taken against the placed deposit as of 31 December 2006 is YTL 4,237,103 thousand.

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

	31 December 2006					
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
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 YTL and reserve currencies, foreign exchange rates and gold prices. The Bank, in its capacity as the monetary authority of Turkey, does not actively manage YTL interest rate risk stemming from government domestic borrowing securities, which the Bank utilizes mainly for open market operations. Putting aside this YTL 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.

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 YTL 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 polices 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										
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	YTL	Total
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)	-

31 December 2006										
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	YTL	Total
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 YTL appreciated by 10% against all foreign currencies. The hypothetic 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										
	Foreing currency								YTL	Total
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total		
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 YTL	(2,693,125)	(682,871)	(118,367)	(3,982)	(142,375)	(29,838)	(917)	(3,671,475)	-	(3,671,475)

31 December 2006										
	Foreing currency								YTL	Total
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total		
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 YTL	(2,482,665)	212,807	(105,087)	(3,424)	(188,173)	(27,321)	(16,680)	(2,610,543)	-	(2,610,543)

(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 YTL 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							YTL							
	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)	-

31 December 2006	Foreign currency							YTL							
	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	-	-	-	-	-	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)	-

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

(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 YTL 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 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 YTL and foreign currency denominated assets and liabilities;

31 December 2007	Foreign Currency								YTL								
	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	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 liabilites 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)	-

31 December 2006																	
	Foreign Currency								YTL								
	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 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	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
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	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
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.

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.

	Carrying value		Fair value	
Financial assets	2007	2006	2007	2006
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	2007	2006	2007	2006
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 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.

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 YTL 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 YTL 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, indusYTL 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.

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 YTL10,825 thousand (2006: YTL9,928 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.

3The breakdown of carrying values of foreign government bonds, corporate bonds and treasury bills by counYTL 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

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 YTL 27,206 thousand (2006: YTL 43,453 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent YTL 5,489 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 Bank owns shares issued by the Bank for International Settlements ("BIS"). The shares have a par value of SDR 5,000 each and are paid up to SDR 1,250 each. The balance of SDR 3,750 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 YTL at the year end YTL/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:

		Ownership (%)		Amount	
Name	Nature of business	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

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

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.

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 YTL 17,321 thousand (2006: YTL 68,562 thousand).

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

	2007		2006	
	Interest rate (*)	YTL amount	Interest rate (*)	YTL 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 SDR 227,300,000 reaching SDR 1,191,300,000. 25 % of the quota increase in the amount of SDR 56,825,000 has been paid in cash denominated in reserve money and the rest of the increase in the amount of SDR 170,475,000 has been paid in securities issued by the Turkish Treasury denominated in YTL.

NOTE 18 - 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 YTL 1,000,000 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
Taxes on income	(12,857)	-
Income taxes payable - net	28,224	43,851

Through the enactment of Corporate Tax Law No.5520 (“New Corporate Tax Law”) published in the Official Gazette No.26205 dated 21 June 2006, corporation tax is payable at the rate of 20% (31 December 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)	777,176
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

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:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2007	2006	2007	2006
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 YTL 1,960.69 (31 December 2006: YTL 1,857.44) 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.

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 YTL 2,087.92 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 YTL 2,087.92 effective from 1 January 2008 (1 January 2007: YTL 1,960.69), 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

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.

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 YTL 157,311 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 YTL 429 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 YTL 80,204 thousand, US$ 410,099 and EUR 352,652 (2006: YTL 80,548 thousand, US$ 397,357, EUR 800,867). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

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	
	YTL	Share %	YTL	Share %
T.C. Başbakanlık Hazine Müsteşarlığı	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
Güvenlik Yard. Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	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 YTL 25 thousand and is divided into 250,000 shares, with a value of YTL 0.1 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.

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	-

4.4 AUDIT AT THE BANK AND AUDITS REPORTS

4.4 AUDIT AT THE BANK AND AUDITS REPORTS

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

Audits Conducted by the Internal Organs of the Bank

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

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

According to Articles no 63 and 121 of the Main Regulations on Organization and Duties of the Central Bank, the Internal Audit Department and the Inspection Unit of the Bank are entrusted with the authority of and responsibility for auditing the Bank's transactions. Both the Internal Audit Department and Inspection Unit perform their responsibilities in compliance with their own Regulations.

The Inspection Unit is authorised to inspect all operations of Head Office, branches and representative offices abroad to ensure that they are executed in compliance with the Bank's various regulations. The Inspection Unit also conducts examinations and inquiries whenever considered necessary within the limits of the powers and responsibilities granted by the Bank's Law and other related regulations.

The Internal Audit Department was established at the end of 2002 in an effort to restructure the Bank's internal control framework and internal auditing activities in conjunction with internationally accepted standards and professional best practices. Internal auditing aims to give reasonable assurance and provide an independent and objective assessment of the management of business processes and operations, systems and built-in controls, and promote the efficient and effective use of resources, integrity of information and reporting, and compliance with organizational policies and procedures.

Internal audit activities of the Bank play an important role in the development of the corporate governance framework based on sound practices transparency and accountability principles. The Bank sets out its three-year rolling Strategic Plan in order to identify its vision and main objectives developed in accordance with its mission, and to provide measurable performance indicators with respect to its objectives. One of the main objectives of the Bank as defined in its Strategic Plan is improving the corporate governance process. In this context, audit activities developed and conducted in accordance with international standards are emphasized as an integral part of the Bank's main objective of improving corporate governance.

The Internal Audit Department conducts its activities through a risk-based annual plan, which is endorsed by the Governor. In accordance with the mandate described in the Internal Audit Regulation, the Bank's internal auditors define and assess risks that could impede the fulfillment of the Bank's objectives, and evaluate the adequacy and effectiveness of the controls designed to mitigate those risks.

The Internal Audit Department aims to help the management improve the effectiveness and efficiency of the Bank's operations in order to build sound governance. The Bank's internal auditors are guided by the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics published by the Institute of Internal Auditors (IIA) in providing services for evaluating the effectiveness of the Bank's risk management, control, and governance activities. Furthermore, internal auditors act as internal consultants by continuously interacting with the management in order to improve the Bank's operations. In order to further strengthen the practical utility of audit reports, and ensure that the necessary action is taken, follow-up procedures have recently been devised through interaction with the senior management.

Training internal auditors in accordance with international standards, providing them with up-to-date information about the auditing field, and maintaining appropriate skills necessary to perform engagements are significant elements of effective audit performance. Currently, 10 auditors hold Certified Internal Auditor (CIA) certificates; of all these CIAs, 4 hold Certified Information Systems Auditor (CISA) certificates, and 2 have both CISA and Certification in Control Self-Assessment Program (CCSA) certificates.

Audits Conducted by External Auditors

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

In accordance with the second paragraph of the same Article, the Bank may assign external auditors to audit the balance sheet and profit and loss statement of the Bank. The independent external review of the Bank's accounts has been deemed vital to the corporate governance of the Bank, and was conducted for first time in 2000. As part of the transparency and accountability principles adopted, the reports prepared following audit engagements each year are made public via the Bank's website. To ensure that the objectives of engagements conducted by both external and internal auditors are fully realized, and to avoid duplication of efforts, it is essential that the Chief Audit Executive coordinates the activities of internal and external auditors. Thus, recently, regular meetings have been conducted to facilitate information sharing and data exchange between internal and external auditors.

4.4.2. Report Of The Auditing Committee For 2007

THE SEVENTY SIXTH-ACCOUNTING YEAR

OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditing Committee has thoroughly examined the activities and the resulting statements of the 2007 Accounting Year of the Central Bank of the Republic of Turkey, within the framework of the provisions of the related legislation, and concluded that:

1. The cash, goldholdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were inspected at random, are in conformity with the records as well as the legal books and these values are kept and administrated in accordance with the regulations,

2. The legal books and the books relating to the Bank's accounts that are subject to declaration are in good order and in conformity with Central Bank Law and the Articles of Association, Furthermore, the domestic loans extended by the Bank, either directly or indirectly, are within the limits set forth;

3. "The Balance Sheet" compiled as of December 31, 2007 and "the Profit Loss Statement" created for the period between 01/01/2007 and 31/12/2007 are in compliance with the systematic principles of accounting and the rules of assessment stipulated by the Turkish Commercial Code, Central Bank Law and Tax Laws,

4. Financial Tables are compiled to present the financial situation of the Central Bank of the Republic of Turkey as of 31 December 2007 and the results of activities relating to the year that ended on the same date is in an accurate, correct and clear manner pursuant to the Legislation in force in Turkey and Central Bank Law;

5. A lawsuit regarding the legal liability, which was filed by the Bank, has not yet been concluded.

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

Ankara, 03/04/2008

Auditing Committee Member
Mustafa Saim UYSAL

Auditing Committee Member
Abdullah YALÇIN

Auditing Committee Member
Mehmet TÜFEKÇİ

Auditing Committee Member
Prof. Ekrem YILDIZ

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

To the Central Bank of the Republic of Turkey

1 We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the balance sheet as of 31 December 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 the Law of the Central Bank of the Republic of Turkey (the "Central bank law") and related legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Republic of Turkey as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the Central Bank Law and related legislation.

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

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

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

Haluk Yalçın, SMMM
Istanbul, 29 February 2008

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

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

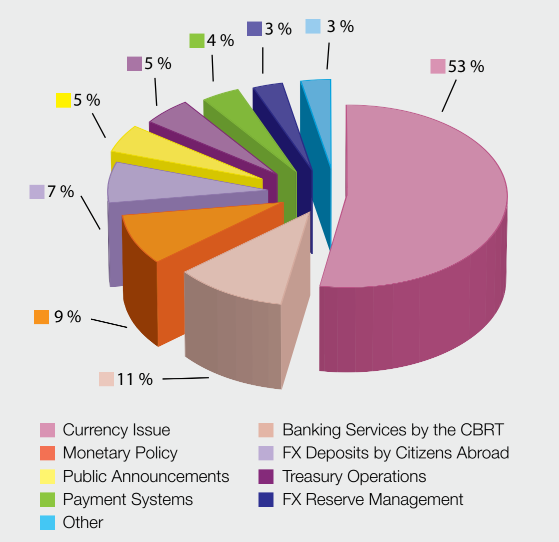
Haluk Yalçın, SMMM

Istanbul, 7 March 2008

4.5. ACTIVITY BASED COST ACCOUNTING AT THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

By analyzing the Bank's expenditures in 2007 according to activity based cost accounting data, it can be seen that currency issue activity at 53 percent was ranked first among the share of 12 primary activities in the total general cost. The share of the other activities are as follows: Banking services supplied by the Bank 11 percent, monetary policy 9 percent, FX deposits by citizens abroad 7 percent, public announcements and treasury operations 5 percent, payment systems 4 percent and management of foreign exchange reserves 3 percent.

24



Source: CBRT

4.6. TURKEY-IMF MONEY RELATIONS

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

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

Turkey's quota in the IMF represents its capital subscription and amounts to SDR 1,191.3 million as of 31 December 2007. SDR 112 million of the quota is Turkey's, reserve tranche position, which is paid in cash as foreign exchange.

The Bank's liability to the IMF has no balance as of December 31, 2005. While the direct use of credit by the Treasury from the IMF was SDR 7,154 million as of the end of 2006, it decreased to SDR 4,350 million as of the end of 2007 due to the redemption of SDR 3,373 million, despite the new use of credit of SDR 749 million in 2007. The details of the resources provided by the Fund in 2006 and 2007 are presented below:

		(SDR)
	2006	**2007**
Use of Credit	7,153,697,000	4,529,959,000
Direct use of credit by the Treasury	7,153,697,000	4,529,959,000

As of December 31, 2007, the IMF's holdings of New Turkish Lira amount to YTL 11,374 million, equivalent of SDR 5,608 million, converted at the rate of YTL/SDR parity determined by the IMF on April 30, 2007.

	YTL	SDR
Number 1 account	6,040,119	2,978,250
Number 2 account	6,786	3,346
Securities account	11,368,395,567	5,605,505,750
	11,374,442,472	5,608,487,346

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

Within the framework of the relations between Turkey and the IMF, for quarterly

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

ISBN 978 - 605 - 5758 - 02 - 8